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BY THE COMPTROLLER GENERAL

Report To The Chairman, House Committee On Government Operations United States House Of Representatives OF THE UNITED STATES

RELEASED

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Budget Formulation: Many Approaches Work But Some Improvements Are Needed

This report describes and compares the budget formulation process in 10 Federal programs in the Departments of Defense; Interior; and Health, Education, and Welfare.

GAO found a wide range of budget development "styles." No single approach appeared most suitable for all programs. Variations in program objectives and methods led to different budget formulation procedures.

GAO identified several areas where budget formulation processes and information could be improved. For example:

- The Congress should have Interior develop an overall land acquisition plan for Federal outdoor recreation and wildlife refuge areas.
- OMB should make sure that agency streamlining of zero-base budgeting does not eliminate analysis of program priorities and funding alternatives.
- OMB should provide better information in the President's budget concerning the proposed spending increases and decreases that are contingent upon congressional action in passing or amending basic legislation.



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The Honorable Jack Brooks
Chairman, House Committee
On Government Operations

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Dear Mr. Chairman:

This report, containing budget-related recommendations to agencies and the Congress, is in response to your letter of August 4, 1978, in which you asked us to undertake a series of case studies tracing agencies' planning, programming, and budgeting steps. You suggested that a military agency and a large and small civil agency might offer some interesting comparisons. Furthermore, you asked us to do work at various agency sites.

The 10 case study programs on which we focused were the following:

--Department of Health, Education and Welfare (HEW) programs (see appendix VII):

- . Office of Education's grants for the disadvantaged;
- . Health Care Financing Administration's Medicare benefit payments;

--Department of the Interior (DOI) programs (see appendix VIII):

- . Bureau of Land Management's range, coal, fire management, and emergency fire programs; and
- . Heritage Conservation and Recreation Service's Land and Water Conservation Fund "Federal" and "State" programs.

--Department of Defense (DOD) programs (see appendix IX):

- . Air Force's general purpose forces operation and maintenance;
- . Army's general purpose forces operation and maintenance;

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(974500)

This letter mainly summarizes the principal findings and recommendations of our review, while the appendices contain program descriptions (appendix II), comparisons (appendices III-VI), case study material tracing the sequence of steps in formulating the budget proposals for fiscal year 1980 (appendices VII-IX), and noncase study organizations we visited for some special added work (appendix X). The appendices also identify the field offices we visited.

In our work we noted a wide variety of budget formulation styles. In some cases, budget requests were developed through a process that involved field offices and no prior dollar guidance from higher levels ("bottom-up"), while in other cases the request amount was set in advance by top levels and entailed little or no field office work ("top-down"). Often, the approach followed related to the kind of program, and no one approach appeared the best for all programs (see appendix III).

There were several areas in which we identified budget formulation weaknesses and potential problems requiring action. The following are the key points:

--Budget formulation should be part of a planning process that, based upon an adequate assessment of needs and congressional actions, identifies for a multiyear period annual program priorities and realistic budget objectives. We found, however, that planning-budgeting linkages were weak in the DOI cases, the cases where we appraised these linkages (see appendix IV). We could not, within the limits of this review, evaluate the extensive and complex Army and Air Force planning-programming-budgeting processes. We likewise did not appraise planning and budgeting in the HEW cases because their multiyear planning is being developed.

--Agency actions to streamline zero-base budgeting (ZBB) procedures are occurring and are to be strongly encouraged. This process should allow agencies to give greater emphasis to needed analysis. Our case study work observed two key methods of streamlining: use of percentage-based "minimum" levels, and use of "cores" in ZBB rankings. Under these modifications, there could be inadequate analysis of program priorities and funding alternatives unless a special effort is made to subject the affected programs to detailed analysis every few years. Such analysis is needed under any budget system. The Office of Management and

Budget (OMB) should have a role in selecting the programs for detailed reviews (see appendix V).

> --Adequate congressional control over the budget depends heavily upon a full and accurate reporting of key program and budget amounts. Our case study work identified ways of improving congressional understanding of, and control over, certain budget amounts and totals. This would involve revised budget reporting on the following: the budgetary consequences of the executive branch's proposed changes to legislation, Medicare's accounts and alternative benefit payments levels, and the appropriations for the Bureau of Land Management's emergency fire program (see appendix VI).

A discussion of these matters follows:

IMPROVEMENTS NEEDED IN PLANNING-
BUDGETING LINKAGES IN THE DOI CASES

Systematic planning is a key to sound budget formulation. Without adequate planning and program evaluation, budget development may become a haphazard exercise that directs funds to areas of lesser need or programs of lesser effectiveness. Furthermore, planning processes need to produce plans that can be used in budget formulation. These plans, when based upon an assessment of needs and congressional actions, identify for a multiyear period annual program priorities and realistic budget objectives.

Our work on the DOI case study programs identified planning and budgeting weaknesses that warrant corrective action.

Improvements needed in the
Bureau of Land Management's
planning-budgeting process

The Bureau of Land Management's (BLM) planning-budgeting linkages can be improved at both the field office and headquarters levels. Bureau officials at both levels are improving the linkages, but possibly, their efforts will result in different sets of planning and budgeting categories for use by different congressional committees. Bureau officials should work more to develop a common set of categories to avoid the added paperwork, expense, and confusion that would result from divergent categories (see page 34).

Bureau officials and outside observers have noted that BLM's existing "multiple use plans," which address land management needs on Bureau-administered lands, are not designed for direct use in annual budget formulation. The plans do not identify priorities among programs or outline annual program and budget objectives. Budget formulation, therefore, reflects ad hoc judgments about budget priorities, and some confusion exists in field offices concerning national priorities.

Officials of BLM are developing a new planning and budgeting process aimed at overcoming this problem. This process will entail development of a 4-year plan coinciding with BLM's 4-year authorization period (BLM's current authorization expires in 1980) and will present information and budget amounts by traditional program categories (range, coal, etc.) and new management categories ("service, operations, and maintenance," "inventory," "planning," and "implementation"). Bureau officials, however, have not yet consulted and fully briefed all interested congressional committees, notably the appropriations committees, about developing common planning and budgeting categories for use in both authorizing and appropriations actions. It would be desirable to avoid a process in which the authorizing committees authorize BLM's activities and funding in terms of the new management categories, while the appropriations committees act upon the traditional BLM program categories.

Improvements needed in Heritage
Conservation and Recreation Service
planning and budgeting

Currently, the executive branch and the Congress use funds of the Land and Water Conservation Fund to buy tracts for Federal outdoor recreation and wildlife refuge purposes in the absence of an overall plan that, based upon a comprehensive needs assessment and congressional actions, identifies priorities on the geographic areas and kinds of land (national parks, forests, wildlife refuges, etc.) to be acquired. Therefore, there is little or no basis for supposing that these "Federal" program authorizing and budget actions result in the most needed land acquisitions (see page 41).

Planning for land acquisitions is largely decentralized and occurs mainly in the four agencies that are allocated the funds for making purchases: the Department of Agriculture's Forest Service, and the Interior Department's

National Park Service, Fish and Wildlife Service, and Bureau of Land Management. There is no overall planning that weighs the needs for, say, national park expansions in regions of the West against more wildlife refuges in areas of the South.

The role of the Heritage Conservation and Recreation Service (HCERS), which oversees and administers the allocations to the four participating agencies, is limited essentially to developing computer rankings of the agencies' proposed acquisitions reflecting certain criteria. Projects are ranked high if there is a high probability of immediate private conversion of the tract to permanent nonrecreational or nonwildlife use (e.g., construction of a factory), and if expected price escalation is high. This ranking exercise does not reflect an overall HCERS plan that would identify priorities on the geographic areas and kinds of land (parks, forests, etc.) to be acquired in the "Federal" program.

Officials of HCERS state that they hope to develop an overall plan of this type, but add that they do not have the necessary staff resources. They also have concerns about the usefulness of such planning given the Congress' heavy involvement in the program through project-specific authorization and funding actions. They stress that the program is "highly political."

We believe that the Congress would be aided if a plan were developed and made a part of the annual budget process. When the Congress considers proposals to authorize and fund specific land acquisitions, it should find such a plan helpful, and the plan should be adjusted as needed to reflect congressional actions.

ZERO-BASE BUDGETING PROCEDURES CAN BE STREAMLINED

Zero-base budgeting (ZBB) procedures are, by most accounts, more expensive and cumbersome than traditional budgeting, and we strongly encourage attempts to streamline the ZBB process. ^{1/} However, safeguards are needed to insure that modifications do not eliminate the analytical

^{1/}See "Streamlining Zero-Base Budgeting Will Benefit Decisionmaking" (PAD-79-45, Sept. 25, 1979).

benefits that derive from ZBB's periodic, detailed reviews of program priorities and alternative funding levels for individual programs.

Our case study work observed certain modifications of ZBB procedures in HEW, DOI, and DOD that ease the task of preparing ZBB materials, but have the potential for impairing the analysis of budget requirements.

Percentage-based minimum levels

One modification uses percentages to determine "minimum" levels, something that was done in various degrees by HEW, DOD, and DOI during budget development for fiscal years 1979 or 1980. In these instances, budget officers developed some minimum level amounts using percentage reductions from current year levels or other base amounts. Such a procedure eased the preparation of ZBB materials, but did not require analyses of what constituted real minimum levels--an analysis that is sometimes needed (see page 70).

The percentage approach did, however, permit analysis and ranking of various amounts representing reduced funding levels. It did not, therefore, prevent consideration of alternative funding levels, including reductions.

We think that OMB monitoring and action is needed to insure that agency use of percentage-based minimum levels does not seriously impair periodic consideration and analysis of reduced funding levels, including real minimum levels.

Use of "cores" in rankings

Another modification includes in the ZBB rankings of programs and activities an aggregate or "core" dollar entry covering many items of importance for which a certain level of funding is assumed, regardless of budgetary constraints. The Air Force, Army, and DOI utilized the core approach in the case study areas for fiscal year 1980 budget development (see page 74).

We believe that the core approach is a way to streamline ZBB, but, as with percentage-based minimums, is subject to potential misuse. Steps by OMB are needed to insure that programs and activities requiring periodic, comprehensive analysis of their relative priorities and

alternative funding levels are not shielded for excessively long periods by inclusion in a ZBB core.

BETTER REPORTING OF BUDGET
AMOUNTS WOULD IMPROVE
CONGRESSIONAL BUDGET CONTROL

We have stated on several occasions that adequate congressional control over budget amounts and totals may be impaired if there is incomplete, inaccurate, or confusing reporting on budget requirements and related matters. The Congress requires informative and accurate budget information for purposes of comparing programs, setting budget priorities, and exercising fiscal control. Our case study work identified areas where reporting improvements are needed.

Need for better budget information
on executive branch proposed legislation

Better disclosure is needed in the President's budget of executive branch proposed legislation with budgetary consequences, whether increases or decreases. At this time, key information is scattered among several sections and tables of the budget (see page 90).

The President's budget each year contains some proposed funding increases or decreases that are contingent upon the enactment of new legislation. For example, the budgets for fiscal years 1980 and 1981 contained totals that were based upon the assumed enactment of proposed legislation--Medicare hospital cost containment, etc.--that would permit outlay reductions totalling about \$4.2 billion and \$5.6 billion, respectively. There were other legislative proposals that would result in increased spending in selected areas.

The budget's projected overall totals for the coming fiscal year, including the estimated deficit, assume congressional passage of such legislation in time to permit implementing budget action by the executive branch. However, the enactment of such legislation is often uncertain. Furthermore, if and when the legislation is passed, specific provisions may well differ substantially from those that were proposed. An example of proposed legislation (with significant budgetary implications) that has not passed is the President's proposed Medicare hospital cost containment legislation. The budget, therefore, must provide a full and readily understood disclosure of the budget amounts that are

contingent upon the passage of legislation. This would permit users of the budget to assess better the budget's assumptions and totals.

At this time, though, the budget lacks a budget table and discussion that provides, by agency and account, a comprehensive reporting of the budget authority and outlay increases and decrease (with subtotals for each) that are tied to executive branch proposed legislation. The inclusion of such a presentation would greatly enhance the budget's usefulness.

Need for better Medicare
summary information in
budget material

There is inadequate budget summary information in the Budget Appendix, and in the related budget justifications provided to the appropriations committees, on the complex Medicare activities, which entail yearly outlays in excess of \$30 billion. This lack of information would impair congressional and public understanding of Medicare's key financial and budgetary features. Understanding Medicare is made difficult by current budget treatment that involves scattered reporting on three Medicare budget accounts (two trust funds and a general fund account), various sources of income including insurance premiums and an annual congressional appropriation, and extensive legislative proposals that affect benefit payment levels and other costs (see page 91).

We think that understanding this very large program would be greatly enhanced by including in the Budget Appendix and related justifications a Medicare summary table that would fully disclose, in one place, the key funding and legislative proposals. Such a table would resemble the sample presented in appendix VI (see page 93).

Need for full-funding
reporting and action on the
DOI emergency fire program

We have consistently believed that congressional understanding and control over budget amounts is facilitated when the executive branch requests, and the Congress provides, at the beginning of a program commitment period, funding covering the total estimated costs. This "up-front" disclosure and action on total estimated costs

puts programs on a comparable basis and facilitates the setting of budget priorities. 1/ This practice, however, is not being followed by the emergency fire program of DOI's Bureau of Land Management (see page 97).

In most recent budgets, the executive branch has requested and the Congress has initially appropriated a token appropriation of about \$5 million for the program, and followed up with later supplemental appropriation requests and actions to cover actual emergency fire fighting expenses. The supplemental funds are used to reimburse budget accounts from which funds are borrowed as needed to conduct emergency fire fighting operations. The supplementals over fiscal years 1976-79 have ranged from about \$21 million to \$53 million.

There was a one-time partial deviation from this general practice when the budget for fiscal year 1979, adopting a full-funding approach, requested about \$30 million for the program. The Congress, however, again provided a token amount in initial appropriation action. Following this, the executive branch reverted to the former procedure of initially requesting token amounts.

We think that the approach proposed for fiscal year 1979 represents sound budgeting. The approach more accurately presents, at the time in the budget cycle when programs are being compared and budget priorities are being set, the full estimated costs of the program for the coming year. We think that the historic pattern of emergency fire program budget requirements is sufficiently stable and predictable to permit larger "up-front" requests and appropriations than the customary \$5 million.

CONCLUSIONS

Sound budget formulation requires adequate planning and the use of plans in budget formulation. Our case study work identified some problems in this area. While BLM officials are taking needed steps to develop a comprehensive plan (with two sets of categories) for use in annual budget formulation, they have not consulted with all

1/See "Further Implementation of Full Funding in the Federal Government" (PAD-78-80, Sept. 7, 1978).

cognizant congressional committees with a view toward developing common planning and budgeting categories for use in both authorizing and appropriation actions. A risk exists that different committees will emphasize and act upon different categories, resulting in added paperwork, expense, and confusion.

In the HCRS there is no overall plan that, based upon congressional actions and a general assessment of land acquisition needs in the "Federal" program, identifies priorities on the geographic areas and kinds of land (national parks, forests, etc.,) to be acquired. Therefore, there is no basis for knowing whether the "Federal" program's acquisitions best serve the country's outdoor recreation and wildlife refuge needs.

Officials of HCRS hope to move in the direction of such planning, but state that they don't have the required staff resources, and have doubts about the usefulness of more planning for such a "highly political" program. We believe that improved planning is needed, consistent with continued congressional project-specific authorizations and funding actions.

We strongly encourage steps to streamline ZBB procedures to reduce their expense and cumbersome features. However, OMB needs to monitor agency modifications of ZBB and take any necessary actions to insure that agency modifications do not eliminate periodic detailed reviews of program priorities and alternative funding levels for individual programs and activities. Two modifications that have potential for misuse are percentaged-based minimum levels and ranking "cores."

The Congress needs informative and accurate budget information to adequately compare programs, set budget priorities, and exercise fiscal control. Our case study work identified areas where improvements are needed. Better disclosure is needed in the budget of the President's proposed legislation with budgetary consequences, whether increases or decreases are involved. At this time, such information is scattered among several budget tables and discussions. There is need for a single table and discussion with a reporting by agency and account of the budget authority and outlay increases/decreases (with subtotals for each) associated with executive branch proposed legislation.

Similarly, there is a need for a Medicare summary table that would fully disclose, in the Budget Appendix and related justifications, the key funding and legislative proposals. Finally, executive and congressional action is needed to put BLM's emergency fire program on a full funding basis in initial appropriation action each year. Such a move would show better the full costs of the program and facilitate comparisons with other programs.

RECOMMENDATIONS TO THE EXECUTIVE BRANCH

We accordingly make the following recommendations to executive branch officials:

- We recommend that the Secretary of the Department of the Interior direct Bureau of Land Management officials, as they develop a comprehensive multi-year plan for use in budget formulation, to consult with cognizant congressional committees to achieve agreement on a common set of planning and budgeting categories for use in both authorizing and appropriations processes. Efforts should be devoted to develop a single set of categories as the principal ones of authorizing and appropriations control.
- We reiterate our earlier recommendation to the Director of the Office of Management and Budget that "* * * OMB and the agencies [achieve agreement] during the spring on what programs/activities will receive comprehensive zero-base budgeting treatment during the upcoming zero-base budget cycle." In the meetings with agencies, OMB should monitor and review agency plans for ZBB and provide guidance on, among other matters:
 - the programs and activities on which agencies should perform full analyses of minimum levels, as opposed to using percentage-based minimums; and
 - the programs and activities that should be pulled from ZBB ranking "core" treatment and subjected to detailed analyses.

The Director of OMB also should consider establishing with individual agencies rotating schedules for full ZBB analyses of selected programs and activities. The schedules could be linked to cycles of executive branch or congressional reviews.

--We further recommend that the Director of OMB take the following steps to improve budget reporting:

- Include in the budget, in a single table and discussion, a comprehensive reporting by agency and account of the budget authority and outlay increases/decreases (with subtotals for each) associated with executive proposed legislation.
- Include in the Budget Appendix and related justifications provided to the appropriations committees a Medicare summary table that would fully disclose the key funding and legislative proposals. The table would resemble the sample presented in appendix VI of this report.
- Revise budget request procedures for BLM's emergency fire program to provide for initial appropriation requests that fully reflect the total estimated yearly funding requirements of the program.

RECOMMENDATIONS TO THE CONGRESS

We also recommend that the Congress take the following actions:

- Direct the Secretary of the Department of the Interior to, in consultation with the Secretary of the Department of Agriculture, develop for executive branch and congressional budget use an overall "Federal" program (Land and Water Conservation Fund) land acquisition plan that identifies priorities on the geographic areas and kinds of land (parks, forests, etc.) to be acquired.
- Appropriate initial funding each year for BLM's emergency fire program that covers the total estimated funding requirement of the program for the year.

SCOPE OF REVIEW

The review primarily examined budget formulation processes in 10 programs during the fiscal year 1980 budget development cycle. Unless otherwise indicated, the report's descriptions, comparisons, and analyses pertain to 1980

processes in those programs. Furthermore, our discussions of agency field office budget work in the 10 programs are based upon our visits to only a limited number of field offices (see appendices VII-X), and we cannot conclude that any problems found in those offices are also found in other offices.

The material contained in the report is based upon unverified information made available by the agencies. We did not examine case study budget execution against prior budget projections and estimates, and did not attempt to determine whether an agency's accounting system served as a basis for preparation and support of the agency's budget requests.

AGENCY COMMENTS AND REPORT DISTRIBUTION

At your request, we did not obtain agency comments on the report's conclusions and recommendations. Agency officials did, however, informally review the included dollar amounts and factual descriptions.

As arranged with your office, we shall not distribute copies of this report for a period of 30 days to other interested parties, unless you publicly release contents of the report during this period. Copies of the report, after its release, will also be provided to the case study agencies, the Director of OMB, the Director of the Congressional Budget Office, and interested congressional authorizing and appropriations committees.

We hope that this report will assist you and the Committee in your work, and we shall be happy to answer any questions you may have.

Sincerely yours,



Comptroller General
of the United States



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ABBREVIATIONS

APDM	Amended Program Decision Memoranda
BEG	Budget Estimate Guidance
BLM	Bureau of Land Management
CG	Consolidated Guidance
DOD	Department of Defense
DOI	Department of the Interior
F&FP	Force and Financial Program
FORSCOM	Forces Command

ABBREVIATIONS

FS	Forest Service
FWS	Fish and Wildlife Service
FY	Fiscal Year
FYDP	Five Year Defense Plan
GAO	General Accounting Office
HCFA	Health Care Financing Administration
HCRS	Heritage Conservation and Recreation Service
HEW	Health, Education, and Welfare
JCS	Joint Chiefs of Staff
LPG	Land Planning Group
LWCF	Land and Water Conservation Fund
MBO	Management by Objectives
MFP	Management Framework Plan
NORP	Nationwide Outdoor Recreation Plan
NPS	National Park Service
NRDC	National Resource Defense Council
O&M	Operations and Maintenance
OMB	Office of Management and Budget
O&M/P-2	Operations and Maintenance/General Purpose Forces
PAPPGM	Preliminary Army Planning and Program Guidance Memorandum
PARR	Programming Analysis and Resource Review
PBA	Policy, Budget and Administration
PBG	Program Budget Guidance

ABBREVIATIONS

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POC	Principle Operating Component	
POM	Program Objective Memorandum	
PPBS	Planning, Programming and Budgeting System	
TAC	Tactical Air Command	
TOA	Total Obligational Authority	
ZBB	Zero-base Budgeting	

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The Honorable Elmer B. Staats
 The Comptroller General
 U. S. General Accounting Office
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Dear General:

The Legislation and National Security Subcommittee has just concluded a lengthy investigation and hearing regarding military health care and medical research activities. In the course of that review, it became evident that many of the most important decisions surrounding the management of health care and research facilities, as well as manpower levels and other resources, evolve from planning, programming, and budgeting decisions occurring within an agency over a three to five year budget cycle. In fact, it clearly appeared that a majority of the more important decisions may be made within that framework rather than after the President submits his budget to Congress.

In order to assist Congress in fully understanding the impact that PPB decisions, made within an agency or between an agency and OMB, have upon the ultimate course of Federal operations, I propose that the GAO initiate a series of case studies which would trace the actual sequence of steps between initial development of agency planning, programming, and budgetary decisions and the subsequent budgetary submission to Congress by the President. In selecting agencies for case studies, I suggest that a military agency, a large civilian agency and a small civilian agency might offer interesting comparisons. Similarly, it would seem desirable that those personnel assigned to the studies engage in on-site observation with the understanding, of course, that executive confidences be safeguarded. Naturally, the most desirable means of conducting such case studies are for you to decide.

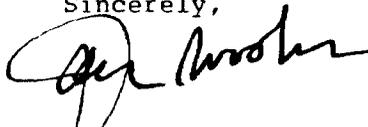
2-The Honorable Elmer B. Staats

August 4, 1978

I believe a report of this nature could significantly contribute to Congress' discharging its legislative responsibilities. If you wish to discuss this idea more fully, do not hesitate to contact me.

With best wishes, I am

Sincerely,

A handwritten signature in black ink, appearing to read "Jack Brooks". The signature is written in a cursive, flowing style with a large initial "J".

JACK BROOKS
Chairman

CAPSULE DESCRIPTIONS OF THE
CASE STUDY PROGRAMS

The 10 programs selected are identified and briefly described below (see subsequent appendixes for fuller descriptions). The appropriation estimate (request) amounts shown are the amounts contained in the President's fiscal year 1980 budget (submitted in January 1979).

DEPARTMENT OF DEFENSE CASE STUDY PROGRAMS

We selected for study two DOD "operations and maintenance" programs. The two selected are the following:

Fiscal year 1980 budget's appropriation
estimate for fiscal year 1980

(dollars in billions)

Air Force's operation and maintenance for general purpose forces-----	\$1.9
Army's operation and maintenance for general purpose forces-----	\$3.2

Both DOD programs operate and maintain "general purpose forces," which are military forces that help deter or counter aggression below the threshold of strategic nuclear conflict. These forces are sometimes referred to as the nation's "conventional" forces. They include in the Air Force 26 wings of tactical aircraft (F-15s, F-16s, etc.) and 16 divisions in the Army.

The Air Force program pays for the fuel, replacement parts, and equipment needed to operate these tactical aircraft (including training flights), and the real property upkeep, repair, and utilities at the tactical Air Force bases. The Army program basically pays for the same kinds of day-to-day expenses associated with the Army's divisions and installations.

Although these Army and Air Force operation and maintenance programs have similar purposes, the two services have historically followed somewhat different procedures in formulating their budgets for the programs. The Air Force procedure in recent years has been more centralized and "top-down" (less involvement by subordinate field organizations).

DEPARTMENT OF HEALTH, EDUCATION,
AND WELFARE CASE STUDY PROGRAMS

We also chose two HEW 1/ programs for case study work:

Fiscal year 1980 budget's estimate
for fiscal year 1980

(dollars in billions)

Health Care Financing Administration's Medicare benefit payments-----	\$31.0 <u>2/</u>
Office of Education's grants for the disadvantaged-----	\$3.5

The Medicare benefit payments program makes claims payments for hospital and medical costs insured under the Federal Government's general medical insurance program for the elderly and disabled. This is the one case study program classified by the Office of Management and Budget (OMB) as "relatively uncontrollable," because of the program's "entitlement" feature.

The Office of Education's grants for the disadvantaged program provides financial assistance to local educational agencies in support of special education for economically disadvantaged pupils. One of its special features is its "forward funding" aspect, entailing the appropriation of funds in advance of its period of need and availability for expenditure. Another feature is the authorizing legislation's "hold-harmless" provision specifying that each year's appropriation should be not less than 85 percent of the preceding year's.

1/During the review, legislation was enacted providing for the establishment of a separate Department of Education. This report will refer to HEW as the case study department because the focus of the review was on the budget formulation cycle for fiscal year 1980, before the creation of a Department of Education.

2/Estimated outlay amount (not appropriation) required from a permanent appropriation to cover projected benefit levels. Reflects President's legislative proposals and regulatory changes to reduce Medicare benefit payments. The "current law" base program estimate was \$33.1 billion.

DEPARTMENT OF THE INTERIOR CASE
STUDY PROGRAMS

The six case study programs in DOI include four in the Bureau of Land Management (BLM) and two in the Heritage Conservation and Recreation Service (HCRS):

Fiscal year 1980 budget's appropriation
estimate for fiscal year 1980

(dollars in millions)

BLM's range	\$ 36.5
BLM's coal	21.1
BLM's fire management	8.8
BLM's emergency fire	4.75
HCRS's Land and Water Conservation Fund "States" program	359.3 <u>1/</u>
HCRS's Land and Water Conservation Fund "Federal" program	242.9 <u>1/</u>

The BLM case study programs, unlike the HCRS programs, are "personnel intensive" (i.e., at least half the dollars are for the salaries of BLM employees and contract personnel) and involve varying degrees of field office participation in budget formulation. The range program of BLM provides funds for managing the uses of federally owned range lands under BLM jurisdiction, including private grazing on public lands, the control of wild horses and burros, and similar activities. The coal program pays the salaries and expenses of managing BLM's coal mining leases with private companies. The Bureau's fire management program pays for the salaries, expenses, and equipment associated with routine fire suppression and detection on BLM-administered land. The emergency program covers the added expenses of fighting fires.

The HCRS Land and Water Conservation Fund's "States" program, on the other hand, is a grant program, with no

1/Excludes portion of \$7.8 million estimated as needed to administer the "States" and "Federal" programs.

program dollars being spent for HCRS salaries. ^{1/} The program provides grants to States, cities, and counties on a cost-sharing basis to assist them in purchasing and developing land for public recreational uses. The "Federal" program similarly allocates funds to four participating Federal services--DOI's Fish and Wildlife Service, National Park Service, and Bureau of Land Management; and the Department of Agriculture's Forest Service--for their use in purchasing land for authorized recreational and wildlife preservation purposes. The two Land and Water Conservation Fund programs are sometimes designated by executive branch officials as being among the most easily controllable (appropriation level easily changed from year to year) in the Department of the Interior.

^{1/}The Land and Water Conservation Fund separately provides for administrative amounts.

RELATIONS AMONG ORGANIZATIONAL LEVELSIN BUDGET FORMULATIONSUMMARY

- Our review found the operation of a wide variety of fiscal year 1980 budget formulation "styles." Each had its own merits and weaknesses, and no single approach appeared best suited for all programs.
- The direction of budget formulation in the case study programs--"top-down," "bottom-up," or a mixture of the two--related to the kind of program.
 - Where the field offices had no regular and direct program planning and implementation responsibilities, they did not participate systematically and formally in budget formulation. This applied to the Heritage Conservation and Recreation Service's "State" program, the Office of Education's grants for the disadvantaged program, and the Health Care Financing Administration's Medicare benefit payments program.
 - The clearest case of "top-down" budget development for fiscal year 1980 occurred in the Heritage Conservation and Recreation Service's "State" program, where field offices did not formally participate and where, additionally, DOI headquarters officials were given a set dollar figure on the program's appropriation account by OMB officials.
 - The clearest case of "bottom-up" budget development took place in the Bureau of Land Management's programs, where there was systematic field office involvement, and where the principal field offices were not given dollar targets or guidance for each of the programs.
- Our work noted the need for continued agency efforts to insure the best use of field offices in budget formulation. It was apparent that there were cases in which the field budget submissions were of limited value to the higher levels.
- Officials at the departmental and OMB levels generally reduced the appropriation requests of the lower levels.

NO SINGLE BUDGET FORMULATION
APPROACH IS THE BEST

One of the most striking things about budget formulation that came to our attention was the wide variety of budget development approaches or "styles." Each had its strengths and weaknesses, and no single budget development approach appeared as the most appropriate for all programs. A principal task facing agency officials is to adopt the systems and procedures that "suit" their programs. All too often, as we have pointed out in a prior report, budget procedures are mechanically applied without sufficient consideration being given to the peculiar needs of the organization, resulting in inefficiencies and related problems. 1/

Budget development differences among Federal organizations occur in many areas. The principal subject of this chapter concerns relations among organizational levels (bureau, office of the secretary, etc.) during budget formulation in the 10 case study programs, including the direction of budget formulation ("top-down," "bottom-up") and the roles of top departmental and OMB officials in changing request amounts.

DIRECTION OF BUDGET FORMULATION VARIES
ACCORDING TO TYPE OF PROGRAM

The Director of OMB provides to agency heads each year dollar targets to guide each agency in its budget formulation. For the fiscal year 1980 cycle, preliminary budget authority and outlay totals for each agency as a whole were provided in a January 1978 Director's letter and updated around July 1978, following OMB's "spring review" of each agency's activities.

Therefore, in broad terms, budget formulation for 1980 began in a "top-down" manner. However, there was latitude for varying degrees of "bottom-up" participation and influence by lower level officials on specific programs and program areas. In addition, of course, the OMB guidance may change as conditions and priorities evolve during the budget formulation process, partly in response to agency proposals and supporting justifications.

1/See GAO's report, "Streamlining Zero-base Budgeting Will Benefit Decisionmaking" (PAD-79-45, Sept. 25, 1979).

The budget formulation direction in the case study programs ranged from top-down to bottom-up. Our work shows that the degree of participation by lower offices, particularly field offices, was not a happenstance matter, but related in general to the kind of programs involved (discussed further below).

Furthermore, the introduction of ZBB, one of whose aims is to bring about more involvement in budget formulation by lower level officials, did not in most cases fundamentally change the direction of formulation (discussed further in appendix V).

It should be noted that OMB and agency officials make potentially far-reaching decisions when they establish organizational roles for budget formulation. Certain "trade-offs" are implicit in these decisions. A top-down budget formulation process can be the quickest and least expensive way to put together a budget. At the same time, however, a top-down approach runs the risk that important lower level information on problems and alternatives may not be adequately considered (ZBB theory explicitly states the need for lower level involvement and analysis--see appendix V).

A discussion of budget formulation direction in the case study programs must consider two matters: the role of field offices and what kind of dollar guidance was provided by higher officials. 1/ Figure 1 displays the relevant findings of our case study work. Column headings on "dollar guidance" refer to any OMB, departmental (including Departments of the Air Force and Army), or assistant secretary dollar guidance at the program or parent appropriation account level 2/ to the lower organizations responsible for assembling the budget submission.

No systematic, formal field participation in three "formula" programs

The key factor generally influencing whether field offices are systematically and formally used in budget

1/Policy guidance sometimes was provided by higher officials to guide budget formulation.

2/Each case study program was funded through an "appropriation account(s)." The congressional appropriation was at the appropriation account level, and in each case provided funding to the case study program plus other programs or activities in the account.

Figure 1

Aspects of Budget Formulation
Direction in the Case Study Programs

	Dollar guidance given	No dollar guidance
No systematic, formal participation by field offices	-Heritage Conservation and Recreation Service's "State" program TOP-DOWN	-Office of Education's grants for the disadvantaged -Health Care Financing Administration's Medicare benefit payments
Systematic, formal participation by field offices	-Heritage Conservation and Recreation Service's "Federal" program <u>a/</u> -Air Force's general purpose forces operation and maintenance -Army's general purpose forces operation and maintenance	-Bureau of Land Management's range, coal, fire management, and emergency fire programs. BOTTOM-UP

a/Dollar guidance was provided by OMB to the Heritage Conservation and Recreation Service, and by the latter to the four participating agencies' headquarters. Participating agencies' field offices were, however, not constrained in their submissions by prior dollar guidance.

formulation is the presence or absence of program planning and implementation responsibilities in the field. The case study programs identified in figure 1 as involving no such field office participation all entail the delivery of cash benefits to program recipients through processes that place responsibilities for operating the programs, including identifying recipients, making expenditures, etc., outside the field offices. The cash benefits in these programs consist of grants to State, county, and municipal governments for park land acquisition and development, grants to local educational agencies for educating disadvantaged students, or Medicare insurance benefit payments.

These are essentially "national" or "headquarters" programs in which, it should be added, even headquarters officials are limited in their discretionary actions by statutes that contain grant distribution formulae or entitlement provisions. 1/ The program administrators are of the opinion that it would be a waste of time to enlist field offices in regular budget preparation work on these programs.

One would expect to find the clearest cases of top-down budget formulation in programs such as these where systematic field participation is lacking. As seen in figure 1 (cell labeled "TOP-DOWN"), we identified the DOI Heritage Conservation and Recreation Service's "State" program as a top-down program. The Service's headquarters officials (Washington, D.C.) not only assembled the budget material without systematic and formal field inputs, but they themselves were eventually constrained by an OMB dollar control total on the parent Land and Water Conservation Fund and, in effect, on the "State" program itself. 2/ This case study account was the only case study account singled out in OMB budget preparation guidance and assigned a dollar

1/Statutory formulae, incorporating population, economic, and/or other measures, govern the distribution of grants in the two case study grant programs. See appendixes VII and VIII. Also, the relevant Medicare legislation establishes the program as an entitlement program in which eligible participants are entitled to be paid the benefits. See appendix VII.

2/The July 1978 guidance letter from OMB Director McIntyre to Interior's Secretary Andrus, reflecting OMB "spring review" decisions, set the total request level for the Land and Water Conservation Fund at \$610 million. Traditionally, Heritage Conservation and Recreation Service officials set the split of the total request at about 40 percent for the "Federal" and 60 percent for the "State" programs. The relevant statutory provision (16 U.S.C. 4601-7) stated that a minimum of 40 percent of the Land and Water Conservation Fund total had to be distributed to the "Federal" side. The same basic percentage distribution was reflected in submissions at all levels in the fiscal year 1980 budget development cycle. The OMB guidance came after HCRS's initial budget submission to DOI's secretarial level, necessitating a revised submission.

request level for later inclusion in the President's fiscal year 1980 budget. 1/

The Land and Water Conservation Fund was the only DOI account receiving a specific dollar control from OMB, and DOI officials noted that the account, given its high degree of controllability (see appendix VI), is sometimes treated by OMB as a "balancing" account to keep the DOI totals within desired levels.

This does not mean, however, that the field offices of HEW's Office of Education and Health Care Financing Administration had no budget formulation responsibilities at all. They made fiscal year 1980 budget submissions for their "salaries and expenses" accounts covering essentially the compensation, office supplies and equipment, and business travel of the regional office personnel.

Systematic, formal field participation
in seven field-administered programs

As seen in figure 1, there were seven case study programs in which the field offices we visited engaged in systematic, formal budget formulation. These field offices included certain Air Force and Army commands and lower organizations, 2/ selected State and district offices in Interior's Bureau of Land Management, 3/ and some field offices of the organizations that received "Federal" program allocations from Interior's Heritage Conservation

1/The guidance given by the Air Force to TAC, and by the Army to FORSCOM, also was at the parent account (rather than program) level--i.e., all operation and maintenance programs. In each case, the command-submitted budget amount for the general purpose forces operation and maintenance program comprised 90 percent-plus of the account total.

2/In our case study work, these were the Air Force's Tactical Air Command ("TAC," headquartered at Langley Air Force Base, Va.), and the subordinate Langley Air Force Base with attached F-15 units; and the Army's Forces Command ("FORSCOM," headquartered at Ft. McPherson, Ga.), and the subordinate Ft. Campbell, in Kentucky, with the attached 101st Air Assault Division.

3/In our case study, these were State and district offices in Colorado, Idaho, and Wyoming.

and Recreation Service. 1/ Field offices of the service itself have not formally and systematically participated in budget formulation, except (as noted previously) for salaries and expenses budget development for 1981.

Unlike the cases involving no formalized field office participation, field office employees and contract personnel in these instances plan and implement the programs in their geographic, or functional (Army and Air Force commands) areas. For example, the National Park Service (recipient of "Federal" program allocations from DOI's Heritage Conservation and Recreation Service) regional personnel participate in program operations by identifying land purchase needs and opportunities, making recommendations for purchases in their areas, conducting negotiations with local land owners, etc.

It is among such programs with field participation that one would look for the most bottom-up examples of budget formulation. We identified the four Bureau of Land Management programs as bottom-up in budget formulation (see cell labeled "BOTTOM-UP" in figure 1). Bureau headquarters officials not only built their budget through a percolating process entailing the feeding of field submissions into the headquarters, but they also were not given dollar guidance on the programs or parent account by the secretarial or OMB levels. 2/ Bureau headquarters officials thus had the opportunity to fully consider the field requests when arriving at the bureau's requests that were submitted to Interior's Office of the Secretary.

This absence of program or account dollar guidance from higher levels separates the Bureau of Land Management cases from the other DOI and DOD cases with field participation. For example, officers in the Air Force's Tactical Air Command headquarters at Langley Air Force Base, Virginia, and in the Army's Forces Command headquarters at Ft. McPherson,

1/In our case study, these were the Forest Service's Region 2 offices in Denver and Region 6 offices in Portland; the Fish and Wildlife Service's Region 1 offices in Portland and Region 6 offices in Lakewood, Colorado; and the National Park Service's Rocky Mountain Region offices in Denver and Pacific Northwest Region offices in Seattle.

2/Likewise, the Bureau's State offices were not given program or account specific dollar guidance by Bureau headquarters officials. The State offices were given target totals covering all State activities, at two ZBB levels.

Georgia, treated here as bureau-type organizations though headquartered in the field, 1/ formulated their general purpose forces operation and maintenance budget submissions in processes that entailed systematic, formal input from subordinate wings or divisions at scattered locations, but did so under account dollar guidance received, respectively, from the Departments of the Air Force and Army. The guidance amounts were adhered to in the submissions from the command levels. 2/

Budget formulation under dollar guidance from higher levels cannot be seen as bottom-up budgeting in the clearest sense. The budget submissions were used at higher levels partly as support for assembling budget documents and as vehicles for establishing priorities within the guidance amounts.

It should be added that while the Army's FORSCOM and the Air Force's TAC adhered to guidance amounts in developing their budget submissions, they had opportunity to affect those guidance amounts through their prior inputs to the two services' "programming" exercises for fiscal year 1980 (see appendix IV for a description of the

1/Although field organizations, these commands function much as bureaus do in many civilian agencies. They have U.S.-wide responsibilities and are the subdepartmental focal points for first accumulating budget inputs from various field offices (Army installations, Air Force bases).

2/Army headquarters specified for Forces Command an operation and maintenance account control of \$1.3 billion, representing Department of the Army programmed funding availability for FORSCOM for fiscal year 1980. This was to be used by FORSCOM officials in their ZBB submission as the "basic" level amount--i.e., funding for the approved fiscal year 1980 program at the current year level adjusted by force-related changes identified in Army programming documents. The later FORSCOM submission was for a \$1.3 billion basic level budget, of which \$1.2 billion were for the case study general purpose forces program. "Minimum," and "enhanced" level amounts were also submitted. A similar pattern was seen in the Air Force, with the exception that the control amount for the Tactical Air Command was at the ZBB "minimum" level.

programming part of DOD's "Planning, Programming, and Budgeting System"). 1/

Some uncertainty and issues in the use of field offices in the case study programs

It is apparent from our case study work that the roles and procedures of the visited field offices in budget preparation are in flux in some instances, particularly at the lowest field locations, and that the bureaus and offices, as well as the two DOD services covered, should continue to work toward the optimum use of the field offices.

In DOI's Bureau of Land Management a principal matter concerns the role of the district offices that report to the State offices. For example, in the Bureau's range program, the district we visited in Wyoming (Rawlins) made no written budget submission for fiscal year 1980; the visited districts in Idaho (six districts 2/) made ad hoc written submissions in response to specific inquiries from the Idaho State office, including inquiries on desired funding levels; and the visited district in Colorado (Canon City) made a formal submission with decision unit packages on three funding levels, but the submitted dollar amounts reflected prior State office dollar guidance amounts and not the unconstrained desire of the district.

The fiscal year 1981 cycle saw similar differences, as well as some changes from 1980 procedures.

In the DOI Heritage Conservation and Recreation Service's "Federal" program, similar kinds of variations occurred in the 1980 and 1981 cycles among the field offices we visited of the participating DOI Fish and Wildlife Service. These were the Region 6 office in Lakewood, Colorado and the Region 1 office in Portland, Oregon.

Such variations may reflect a desirable degree of flexibility and decentralization, but they may also reflect inadequately developed organizational policy and procedures concerning the uses of the field offices. Indeed,

1/However, the Forces Command's formal programming submission to the Department of the Army for 1980 was of limited usefulness because of timing and formatting problems; and the Tactical Air Command made only informal programming inputs to the Air Staff level. See appendix IV.

2/Boise, Burley, Coeur d'Alene, Idaho Falls, Salmon, Shoshone.

we found some indications that headquarters and field officials should continue to address this matter (discussed below).

We were struck by the fact that in those case study programs involving systematic, formal field office submissions to higher levels, there were instances in the 1980 cycle when this fieldwork, or parts thereof, appeared to be of limited value to the highest levels.

The items below are isolated examples of this matter. We cannot infer from the examples that it is normally a waste of time and effort to involve these organizations' field offices in budget formulation. Rather, the examples, and the possibility of their occurrence, point to a need for the organizations to continue to assess and modify their procedures (as needed) to minimize the potential for wasted efforts and unnecessary expenses.

--DOI Bureau of Land Management State officials in Idaho had essentially determined program request levels before district request amounts were received. The seemingly limited value of district submissions under such circumstances is indicated by the fact that district formal inputs were discontinued for the 1981 cycle. Colorado similarly curtailed district involvement for 1981.

--Field offices of the agencies participating in DOI Heritage Conservation and Recreation Service's "Federal" program developed budget requests and documentation unconstrained by dollar guidance, but DOI later was constrained by the July 1978 OMB decision that the 1980 budget request for the Land and Water Conservation Fund would be limited to \$610 million. These partially negated the usefulness of some project level budget documentation developed earlier. There was a similar effect later, in November 1978, when the Congress passed the Omnibus Parks Bill, leading to last minute deletions and additions of projects and documentation in the budget materials.

--The Department of Agriculture Forest Service's (participant in the "Federal" program) Region 2 office in Denver, Colorado has put together ZBB documentation for proposed acquisitions and amounts far in excess of its funding. In fiscal year 1980 it received funding for one project which was not on the region's list of submitted projects.

- The Army FORSCOM's programming phase submission in February 1978 to Army headquarters, containing budget-related FORSCOM input on program levels and dollar amounts, was of limited use at the headquarters level because of formatting, size, and congruency problems. The FORSCOM program was partly incongruent with the program specified one month later in the Office of the Secretary's final "Consolidated Guidance" for fiscal year 1980.
- The Air Force TAC's program-budget development work for fiscal year 1980 did not use the Langley Air Force Base budget submission for 1980, including material developed by the 1st Fighter Wing (F-15s), except to obtain some impact statements and minor cost amounts. One reason was that the base submission, because of its early development and delivery (transmitted in January 1978) was not congruent with later Office of the Secretary and Air Force headquarters programming and budget guidance.

Similar patterns in
non-case study organizations

To add to our case study examples concerning the budget preparation roles of field offices, we visited several HEW and DOI first level field offices beyond our case study ones. Contacts were made in 30 field locations of eight additional subdepartmental level organizations (bureaus, etc.). We also contacted headquarters officials in these additional organizations (see appendix X for listing).

This work supported our case study results showing that the role of field offices generally relates to the offices' program planning and implementation responsibilities (if any). Where the principal offices have had direct planning and implementation responsibilities, they generally had in the 1980 cycle systematic and formal budget preparation roles. With few or no such responsibilities, the offices made no formal budget submissions for programs.

HIGHER OFFICIALS OFTEN REDUCE
REQUEST AMOUNTS

It is sometimes stated in the literature on budget formulation that budget support for individual programs normally is the strongest at the level of the first-line administering organization--e.g., the bureau level in many departments--and progressively decreases through the departmental and OMB levels. The theory is that it is natural for the immediate program managers to develop

a vested interest in growth of "their" programs, and for the highest officials to be more willing to support cuts in order to achieve balance among programs and meet broad fiscal objectives and budget constraints. 1/

The following charts and discussion show that in the case study programs, the degree of budget support at the Presidential level was the same as, or lower than, the budget support at lower levels during budget development for fiscal year 1980.

DOI's Bureau of Land Management
cases--OMB reduction in the
fire program

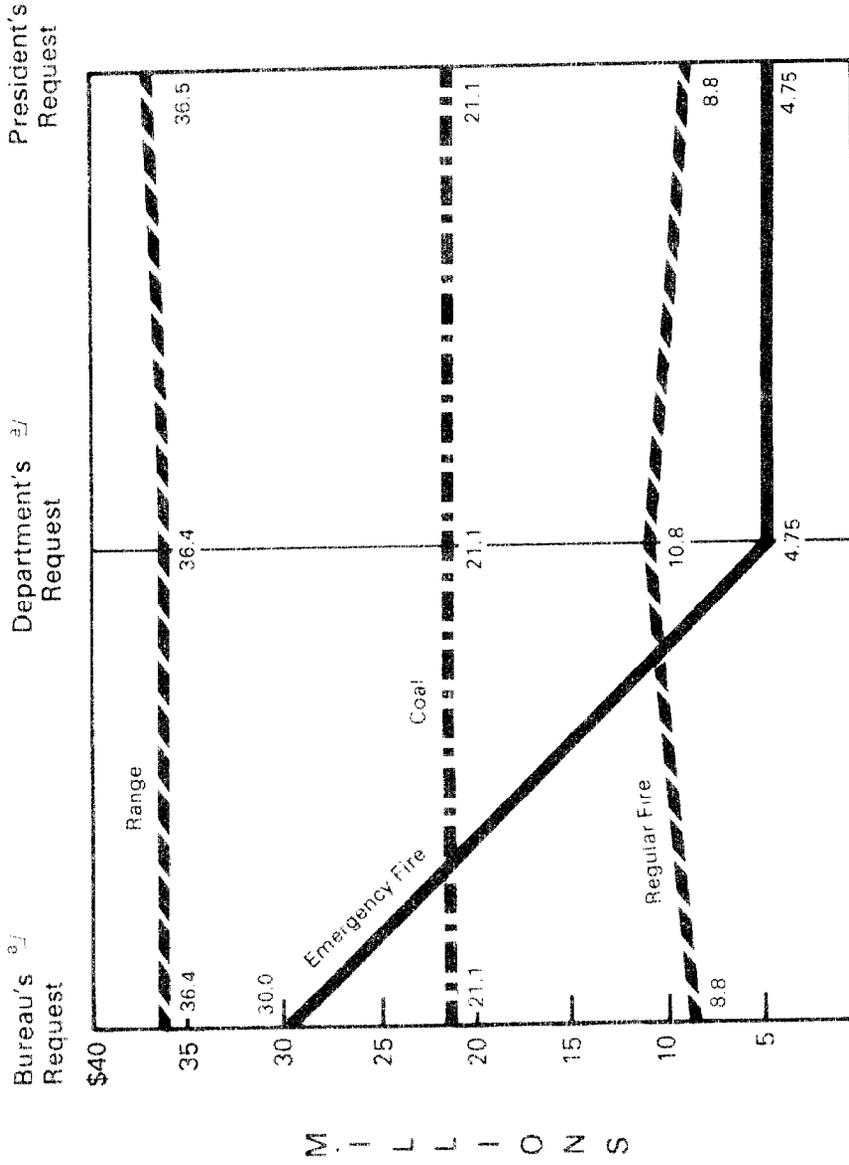
The patterns seen in figure 2 show that organizational level differences in the Bureau of Land Management's case study programs centered on the Bureau's regular fire activities, notwithstanding the seeming differences between the Bureau and the Department of the Interior on the emergency fire part. The drop at the departmental level to about \$5 million for emergency fire activities reflected a budget concepts change and reversion to the former practice of requesting in the President's budget only a token amount, usually around \$5 million, with any additional requirements being met through later supplemental requests. 2/

The request action within the executive branch on the regular fire part related to 1979 congressional appropriation action on that part. Following a congressional \$4 million "add-on" (an amount provided in excess of the President's budget request) for 1979, for the purchase of firefighting equipment, departmental level officials increased the 1980 request over the Bureau-submitted request. Officials at OMB cut the request back to the original Bureau amount, citing the "one-time" nature of the firefighting equipment purchase for 1979, and deferrable training.

1/This theory of decreasing budget support at higher levels is discussed in A. Wildavsky, The Politics of the Budgetary Process, chapter 2.

2/The Congress in its 1979 Interior Department and Related Agencies Appropriation Act continued its usual practice of initially appropriating about \$5 million as a token amount. This prompted DOI departmental level reversion to the usual request pattern. See appendix VI herein for further discussion.

Figure 2
DOI's Bureau of Land Management Cases



a/ ZBB "Enhancement" level requests.

DOI's Heritage Conservation and
Recreation Service Cases--OMB
guidance to cut the "Federal"
and "State" programs

The request lines in figure 3 for the Heritage Conservation and Recreation Service's two Land and Water Conservation Fund programs show significant differences among organizational levels. 1/ The sharp decrease at the departmental level reflected, as noted earlier, OMB guidance to the Department, received after the Service's submission, limiting the 1980 total for the Land and Water Conservation Fund to \$610 million. The Service and the Department previously had assumed \$850 and \$900 million total in their budget formulation steps. The \$900 million level was the maximum amount authorized by statute. 2/

As noted previously, the fund is sometimes used by OMB as a relatively controllable "balancing" account.

HEW's Health Care Financing
Administration's case--HEW
budget strategy seen

The amounts tracked in figure 4 for the Health Care Financing Administration's Medicare benefit payments program pertain to projected 1980 payments (outlays) under three conditions: under current law base (top line), under current law with proposed regulatory changes (middle line), and under proposed regulatory changes plus proposed legislative amendments designed to produce cost savings (bottom line). The latter pertained mainly to the hospital cost containment proposal.

The current law base line dropped at the OMB level by \$753 million because of a reestimate (reflecting changed economic conditions) of entitlement payments by HCFA actuaries.

1/There was, however, agreement at the various levels on the 60 percent/40 percent split of the total funds between the two programs.

2/The authorizing total reached \$900 million first effective for fiscal year 1978. The total Presidential request for 1979 was \$725 million, covering the two programs plus administrative expenses.

Figure 3

DOI's Heritage Conservation and Recreation Service Cases

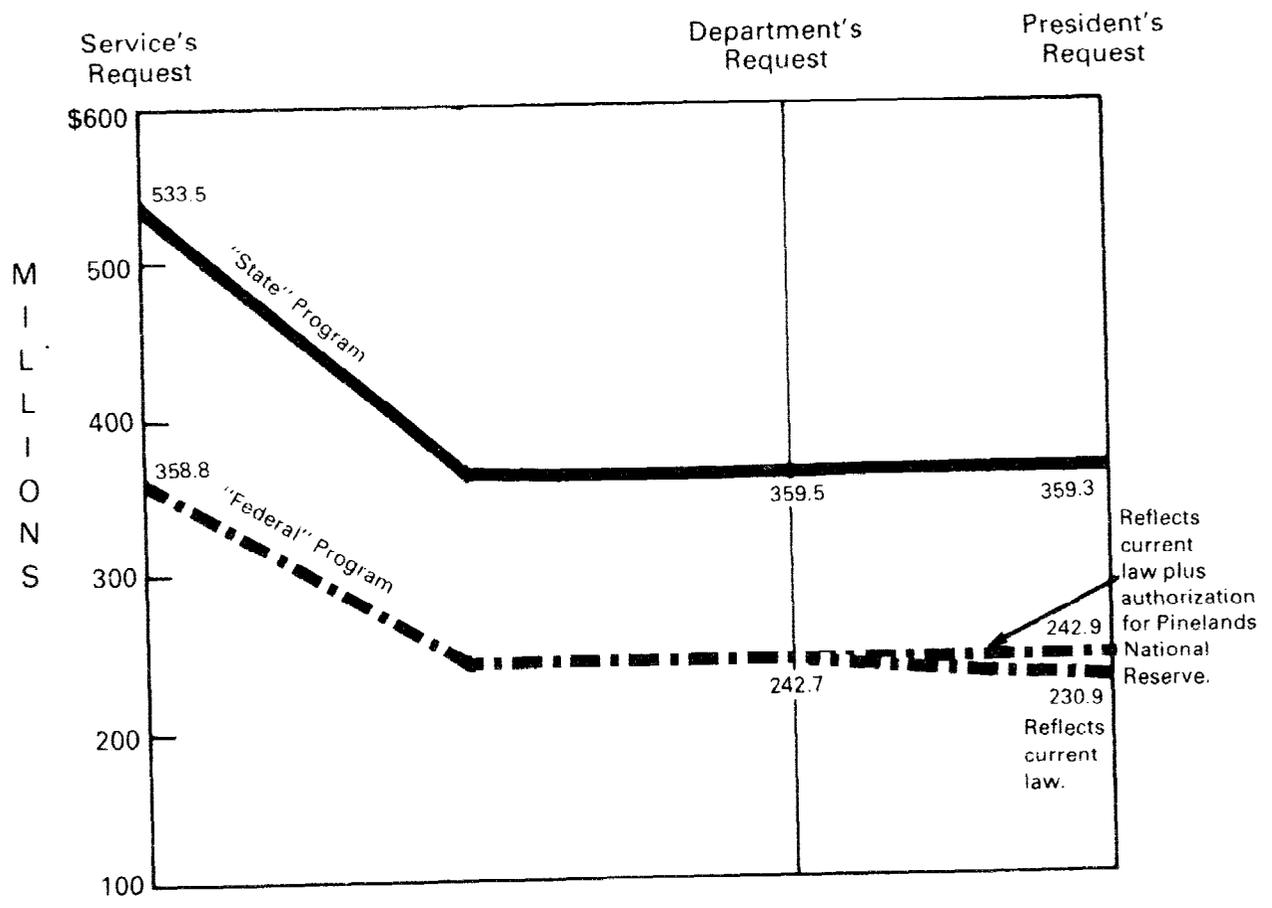
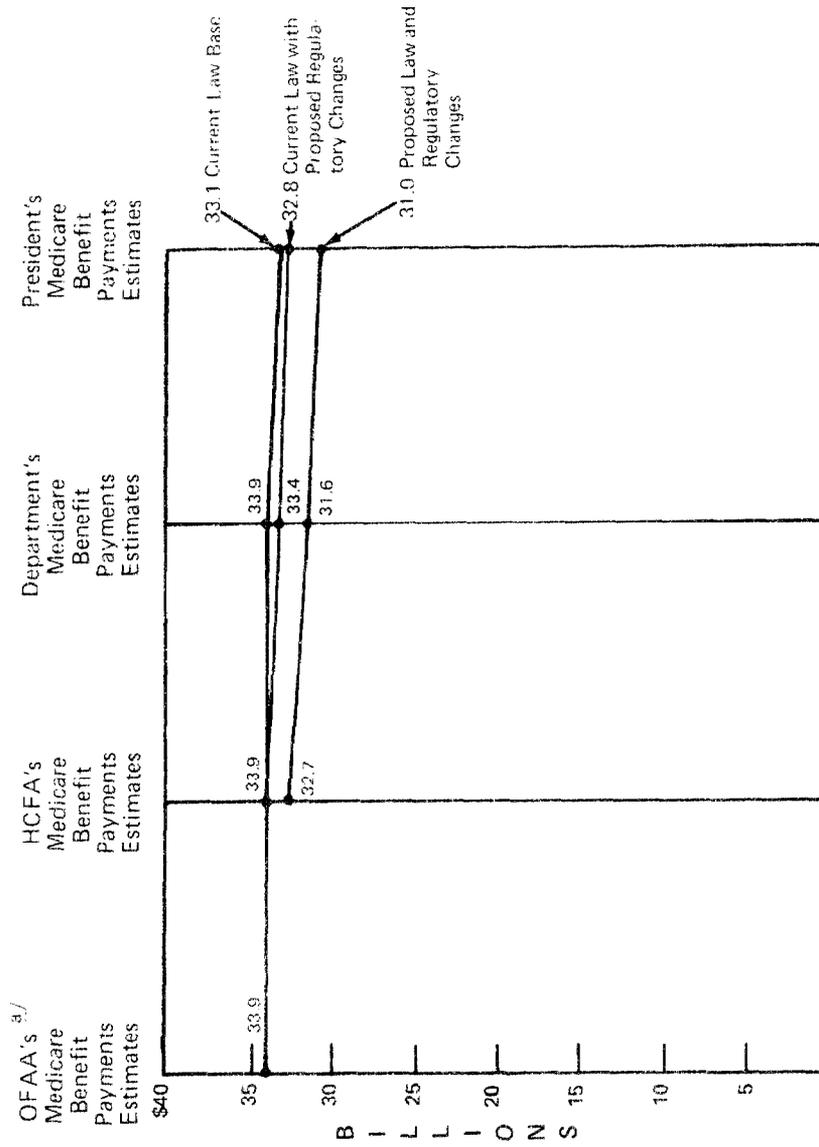


Figure 4
HEW's Health Care Financing Administration (HCFA) Case



^a/Office of Financial and Actuarial Analysis

The arena of budget control and possible differences among organizational levels pertains to the executive branch's legislative proposals that would affect benefit payment totals. In the 1980 cycle, HEW's budget package sent to OMB contained \$1.8 billion in proposed "legislative savings." 1/

According to HEW officials, the large (about \$1.8 billion) proposed "legislative savings" was partially motivated by budget strategy considerations. A large reduction in their OMB submission "freed up" a large amount within the OMB guidance total for HEW for new or expanded initiatives and other controllable activities. They did not necessarily believe that the large legislative savings would be accepted by the Congress.

Office of Education case--declining support at higher levels

As seen in figure 5, the Office of Education's grants for the disadvantaged case for fiscal year 1980 represents a straightforward matter of declining budget request support at higher levels. The final OMB action totally eliminated the "State incentives" part of the program--a piece it initially favored but later opposed because of certain features written into the authorizing legislation. 2/

Army case--declining amounts at higher levels

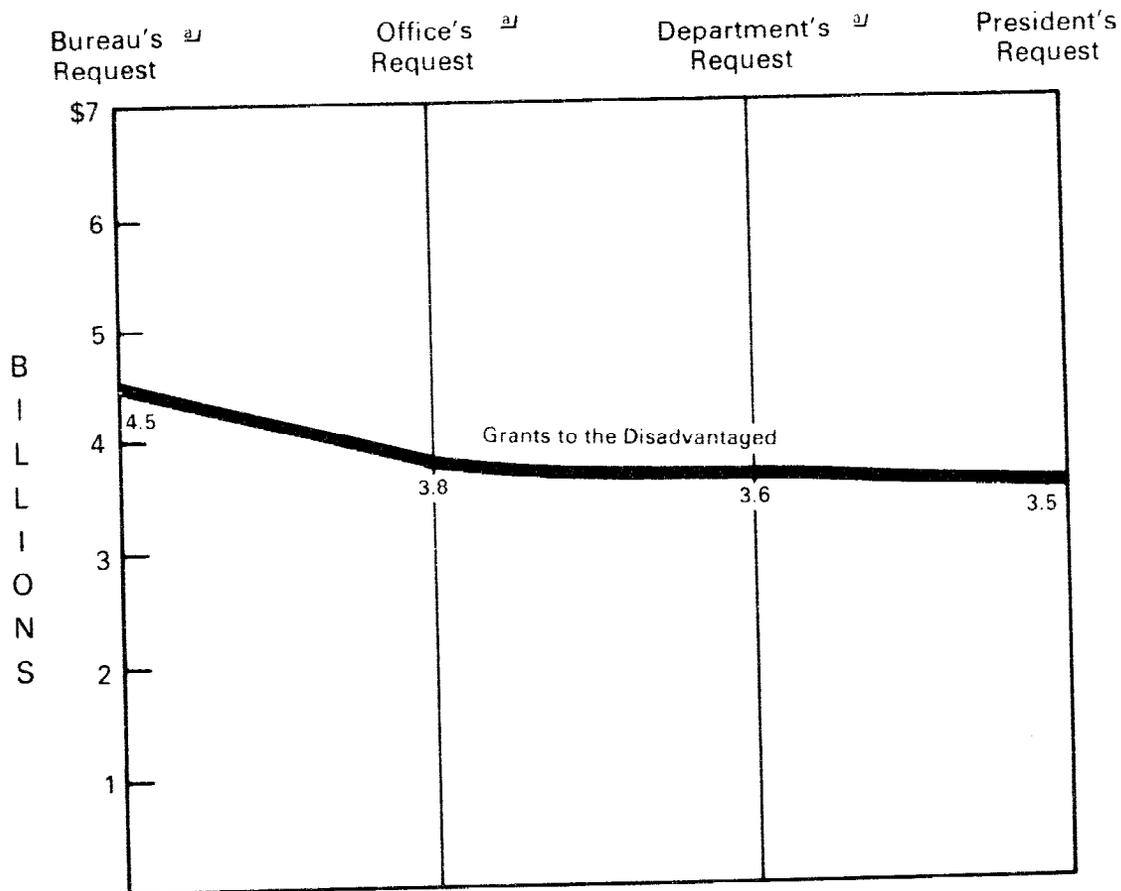
The evolution of the budget request for the Army's general purpose forces operation and maintenance shows a pattern of declining amounts at the highest levels. This is seen in figure 6.

It should be noted that in the DOD services' Planning, Programming, and Budgeting Systems ("PPBS"--see appendix IV for more details), budget amounts are developed to support identified "program requirements"--for example, certain base realignments, Panama Canal Treaty implementation, etc.--and that program requirements normally undergo change during budget development. We could not readily determine within

1/The Congress had not passed the President's hospital cost containment proposal as of this printing. This repeated the Congress' similar disinclination the year before.

2/OMB felt that the formula governing distribution of the State incentive funds inequitably favored certain States.

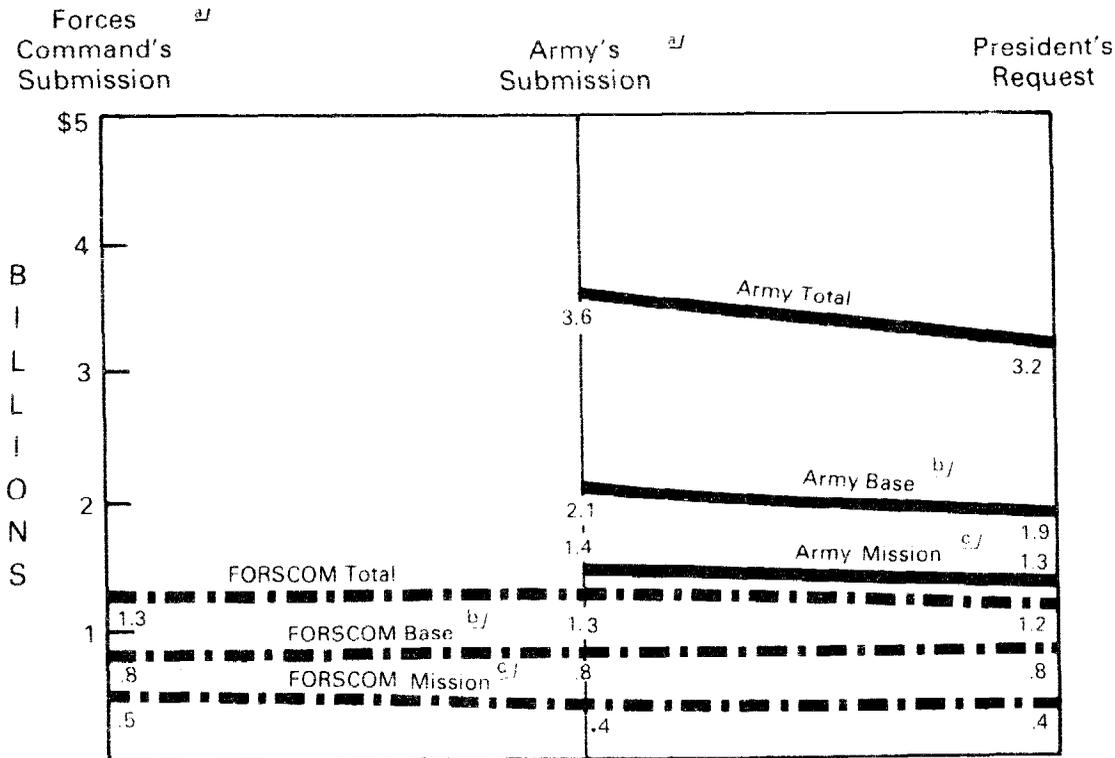
Figure 5
HEW Office of Education Case



^{a/} ZBB maximum "improvement" level.

Figure 6

DOD Army General Purpose Forces Operation and Maintenance



NOTE: No separate departmental level amounts shown given the joint nature of the Office of the Secretary and OMB review of the Army's submission.

^{a/} ZBB "enhanced" level amount.

^{b/} Includes funds to cover such matters as real property maintenance (utilities, contractual services, etc.).

^{c/} Includes funds for fuel, equipment, etc. used in on-post training, off-post training, aviation training, etc.

the limits of this review of Army general purpose forces operation and maintenance whether the reduced budget dollars at the Department of the Army and Presidential levels were tied to lesser program requirements.

Air Force case--mixed pattern
of higher level support

The progression of budget amounts for 1980 in the Air Force case shows the same basic decline from the service to Presidential levels, as seen in figure 7. Service level action on the command's (Tactical Air Command) submission, however, unlike the Army case, saw the higher level increasing some budget dollars. Officials at the Air Force headquarters level note that the TAC 1980 budget submission (March 1978), unlike FORSCOM's (July 1978), was made before the services finalized their "programming" for 1980 (the May 1978 "Program Objective Memorandum"), and that this could have made the TAC submission more likely to be changed. They also state that headquarters personnel in April 1978 "re-priced" the TAC program to reflect revised cost estimates, and this required changes in the TAC budget amounts.

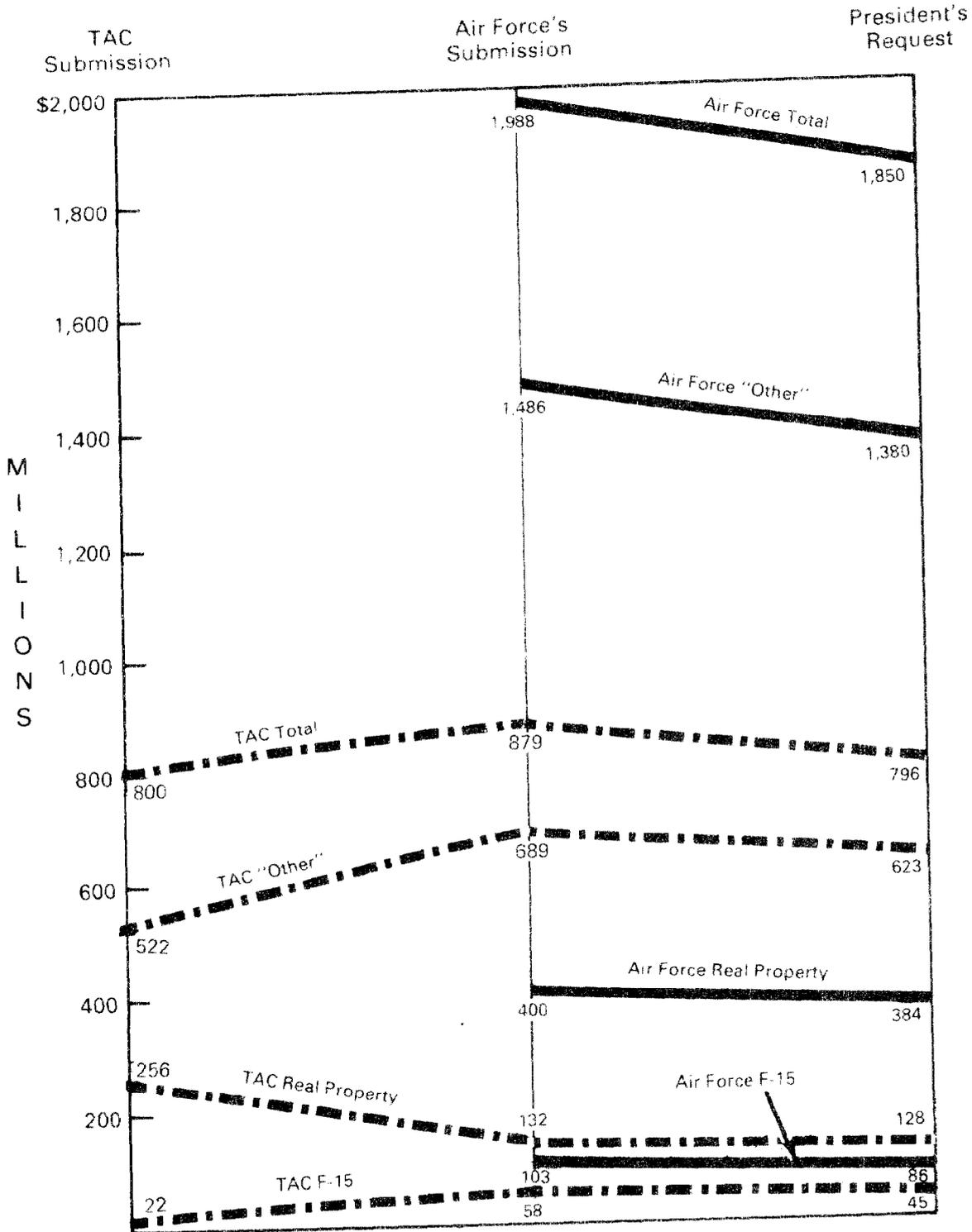
A feature of the relations between TAC and the Air Force headquarters level concerning TAC's fiscal year 1980 budget was their frequent communication concerning TAC's repeated assertion that insufficient funding was being provided to TAC. ^{1/} Tactical Air Command officials stressed that the budget guidance they operated under in formulating their fiscal year 1980 budget resulted in a TAC budget submission that did not contain sufficient dollars to permit an adequate and orderly execution of parts of the TAC general purpose forces operation and maintenance program, and new requirements that could develop.

Some potential funding shortfalls may have been eliminated by later Air Force level add-ons to the TAC submission (see figure 7). However, any such add-ons did not alleviate TAC concerns, stated after the President's budget for fiscal year 1980 was transmitted to the Congress, that the Air Force-approved funding for TAC's 1980 operation and maintenance activities was insufficient to permit TAC to meet its programmed responsibilities (flying hour program, etc.). For example, in March and April of 1979, TAC informed the Air

^{1/}We did not examine or verify the accuracy of TAC's statements that it had insufficient funds for its programmed requirements.

Figure 7

Air Force General Purpose Forces Operation and Maintenance



Force headquarters that there would be about a \$150 million shortage in 1980, and that there would probably be a "stand-down" of aircraft in the last quarter of 1980 owing to a lack of supplies.

Furthermore, in the fiscal years 1978 and 1979 budget execution periods, TAC repeatedly advised Air Staff officials that TAC was being asked to meet programmed operation and maintenance requirements without assured funding, and that reprogramming to TAC would be needed to avoid standdowns. TAC asked the Air Force headquarters either to provide additional funds or instruct TAC on ways TAC's program could be reduced to produce a program-funding balance.

TAC officials told us that reprogrammings have become a way of budget execution life, and that such actions, while partially alleviating program-budgeting imbalances, sometimes led to a less than optimum use of the funds.

The officials at TAC received for their general purpose forces operation and maintenance program the following funds reprogrammed from appropriation accounts outside of the Air Force's operation and maintenance account: about \$14 million in fiscal year 1978 and \$17 million in fiscal year 1979. 1/

Air Force headquarters officials stated to us that TAC's assertions about insufficient funding partly represent normal and expected budget complaints from lower levels, and that it is simply a fact of budget life that commands cannot get the funds they need for all program requirements. They also state, however, that they are instituting new procedures (affecting formulation for fiscal year 1982) that will reduce program-funding imbalances in field offices.

CONCLUSIONS

There was a wide variety of budget formulation "styles" among the case study programs. The Heritage Conservation and Recreation Service's "State" program was the most "top-down" in budget development given the fact that there was no formal and systematic field office involvement, and that DOI was constrained by OMB dollar guidance on the program's parent account (Land and Water Conservation Fund).

1/The total amounts reprogrammed to the Air Force's operation and maintenance account were about \$152 million in 1978 and about \$132 million in 1979.

The most "bottom-up" formulation occurred in the Bureau of Land Management's programs, where there was formal and systematic field office involvement, and where there were no prior dollar targets or controls to limit discretion.

Our work noted the need for continued agency efforts to insure the best use of field offices.

There was a general pattern of officials at the departmental and OMB levels reducing the appropriation requests of the lower levels.

PLANNING AND BUDGETINGSUMMARY

- The various budget reform movements in the Federal Government over the past three decades have generally had the implicit or stated objective of facilitating the linkage between planning and budget formulation. The movements have included:
- "Performance budgeting" in the early 1950s;
 - "Planning-programming-budgeting system" (PPBS, or PPB) in the 1960s;
 - "Management by objectives" (MBO) in the early 1970s; and
 - "Zero-base budgeting" (ZBB) in the late 1970s.
- Our case study work identified a wide range of planning-budgeting relationships. Linkage attempts appear the most systematic and formal in the DOD operation and maintenance programs, and the least in the HEW Medicare benefit payments and grants for the disadvantaged programs. The DOI programs--the two Heritage Conservation and Recreation Service programs and four Bureau of Land Management programs--fall somewhere between the DOD and HEW cases.
- Budget formulation should be part of a planning process that, based upon an adequate assessment of needs and congressional actions, identifies for a multiyear period annual program priorities and realistic budget objectives. We found, however, that planning-budgeting linkages are weak in the DOI cases, the cases where we appraised planning-budgeting linkages. We could not within the limits of the review evaluate the very complex and sizable DOD planning-programming system. Formal multiyear planning in the HEW case study areas is in the developmental stage.
- The DOI Bureau of Land Management planning-budgeting linkages can be improved, at both the field office and headquarters levels. Bureau officials at both levels are moving to improve the linkages, but need to take steps toward the development of a common set of plan and budget categories that can serve the

needs of congressional authorizing and appropriations committees.

--The DOI Heritage Conservation and Recreation Service's own planning--budgeting linkages for its "Federal" program (Land and Water Conservation Fund) can also be improved. Planning-related activities for the Service's "Federal" program budget requests occur both within the Service and in the four participating Federal organizations that actually expend the funds of the program. However, the planning that takes place is mostly decentralized and focused within the four participating organizations, and occurs in the absence of an overall, national land acquisitions plan (for recreation and wildlife refuges) that, based on a comprehensive needs assessment, sets priorities on the kinds of needed acquisitions. Therefore, there is no way of knowing whether executive and congressional budget actions for the program result in the purchase of the right kinds of land, in the geographic areas of greatest need, for recreational and wildlife refuge purposes.

--In the absence of an overall assessment of "Federal" program land acquisition needs and the setting of national priorities based upon the needs assessment, it is likely that future allocations of funds to the four participating agencies will continue to reflect the historic allocations that have remained fairly stable in recent years (for example, the National Park Service was allocated 60, 61, and 60 percent in the fiscal years 1978, 1979, and 1980 budget requests, respectively).

THE GENERAL NEED TO LINK BUDGET FORMULATION TO PLANNING

In Federal organizations, there normally is a need for officials to systematically analyze program needs and alternatives, and formally set goals, priorities, and objectives for use in budget formulation. Without such "planned" budget formulation, Federal organizations run the increased risk that their annual budget development actions will turn into haphazard exercises that direct funds into areas of lesser need or program effectiveness.

Managers in some organizations develop plans that identify actions and expenditures beyond the coming fiscal year. These multiyear plans may be distinguished from plans developed anew each year as part of that year's budget formulation process. The latter efforts may be seen as

short-term plans or budget strategy exercises for the coming year. Our case study work includes examples of multi-year planning as well as short-term budget strategy exercises.

Budget formulation ideally should stem from a systematic planning process entailing multiyear plans adjusted periodically to reflect congressional actions, program evaluations ^{1/} and changed conditions. There are indications that many Federal agencies and organizations have fallen short of developing this linkage between planning and budgeting. One indication in our opinion of the continuing problem is the periodic budget reform movements that aim in part at enhancing the planning component in budget formulation. The regularity with which such movements arise seems to indicate a continuing problem in the view of managers and outside observers. Some of the more publicized innovations have been the following:

- "performance budgeting," a movement of the early 1950s that stemmed from the 1949 Hoover Commission call for casting the budget principally in functional, activity, and project terms;
- "planning-programming-budgeting" (PPB), a movement that crystalized first in the Defense Department in the 1960s and that had the explicit aim of systematically linking budgeting to planning;
- "management by objectives" (MBO), an effort initiated by OMB in the early 1970's to emphasize participatory management and a planning-results orientation in all areas of decisionmaking, including budget formulation (but without the detailed procedural requirements of PPB); and
- "zero-base budgeting" (ZBB), the current budget reform movement aiming at, among other things, enhancing the planning component in budget formulation (see chapter 5).

Furthermore, our case study work shows a continuing need to improve the linkages between planning and budgeting (discussed in subsequent pages).

^{1/}See GAO's "Evaluation and Analysis to Support Decision-making" (PAD-76-9, Sept. 1, 1976), and "Assessing Social Program Impact Evaluation: A Checklist Approach" (PAD-79-2, Oct. 1978).

Office of Management and
Budget multiyear planning

Although not recognized as a budget reform movement, OMB's continuing effort over the last 10 years to include more multiyear numbers in the budget, and, very recently, to attach planning meaning to them should also be mentioned.

Since the 1971 budget, the annual budgets of the President have contained projections of certain amounts beyond the year in question, with the projections gradually extending to more detailed amounts. The 1971 budget started by projecting aggregate outlays and receipts for 4 years beyond the budget year (i.e. through fiscal year 1975); and shortly thereafter, as a result of a Legislative Reorganization Act (Public Law 91-510, section 221 (a)) requirement, the annual budgets began to include 5-year budget authority and outlay projections for the executive branch's legislative proposals for major new or expanded programs.

The budget for fiscal year 1979 announced a change for future budgets, noting that the President had asked each agency to prepare subsequent budget requests within the context of a "planning period" extending 3 years beyond the request year. Agency officials each year would have to make explicit decisions not only for the request year, but also for the three following years. The 1979 budget explained that the new approach "* * *" will expand the Government's planning horizon to 3 years beyond the budget year and fully integrate long-range planning into the executive budget cycle."

The fiscal year 1980 budget was the first one developed by the agencies under this multiyear planning approach, although, it should be noted, OMB officials themselves reportedly had done some earlier multiyear planning. 1/

Although Federal agencies were supposed to make multi-year budget decisions in formulating their submissions to

1/The OMB review of the fiscal year 1978 budget proposals of the agencies was made while considering 1979 implications. OMB did the same concerning its review for the 1979 budget, and, furthermore, used its decisions then for 1980 as planning decisions to guide the agencies in their initial budget formulation for 1980. For the first time, with the issuance of the 1979 budget, OMB provided at budget issuance time dollar targets to each agency to guide agency budget development for the coming year.

OMB for 1980, some probably did not rely upon well developed planning-budgeting processes. Our case study work showed a wide variation in the degree to which planning and budgeting have been linked.

DOI'S BUREAU OF LAND MANAGEMENT
PLANNING

The Bureau of Land Management's (BLM) planning occurs at both the headquarters and field levels. Our work has shown that there are planning weaknesses at both levels making it difficult for BLM officials to use the plans in their annual budget formulation exercises.

The disconnection between planning
and budget formulation in
BLM field offices

The bureau uses its state offices and subsidiary district and area offices in the annual budget formulation process. State offices make formal budget request submissions to BLM headquarters. Given the fact that the State and district offices are heavily involved in making "multiple use plans" (discussed below) for the Federal lands under their jurisdiction, the opportunity exists for the field offices to develop plans that can be used significantly during the budget formulation period. However, such plans do not exist, or are in the early stages of development, in the BLM field offices we visited--Colorado, Wyoming, and Idaho.

A feature of the main weaknesses of the existing plans in the BLM field offices, that makes them only marginally useful in budget formulation, is that they do not set budget priorities and objectives. This concerns the principal multiple-use plans developed by BLM field officials: the "Management Framework Plans" ^{1/} and the subsidiary "Activity Plans." These address the uses of various resources on federally owned lands.

The nature of BLM's Management Framework Plans (MFPs) and Activity Plans are not conducive to direct linkage with the budget process. These are, essentially, localized plans developed in the absence of an overall national plan. An

^{1/}The new BLM planning regulations, issued August 1979, changed the name of these plans to "Resource Management Plans."

MFP establishes for a given area land use allocations (e.g., grazing leases, public recreation, coal leases), coordination guidelines for multiple use, and management objectives to be achieved for each class of land use or protection. Such a planning document covers 5 to 10 years in the future but is not linked to any budget cycle nor contains any cost data. Officials of BLM stress that MFPs are not designed to be linked with any specific budget cycle.

An MFP is a statement of broad, long-term goals rather than an operational plan that sets priorities among competing land uses, and identifies short-term (1-2 years) or medium-term (3-5 years) stages of work that can be budgeted for. Thus, the general nature of the MFP does not serve to facilitate a linkage with budgeting: the characteristic long-term goals cannot be tied readily to any specific budget cycle; the absence of cost data eliminates the opportunity to assess budgeting for short- or medium-term goals; and the lack of priorities among competing land uses leads to uncertainty in land use and budgetary decisionmaking.

Although the Activity Plans do come closer to being operational plans than the MFPs, they still fall short of having the characteristics needed for good linkage with the budget process. Activity Plans are prepared in the field locally after MFP decisions have been made regarding a certain course of action. The Activity Plan outlines that course of action (e.g., installation of fences) in detail, and specifies staffing and funding requirements. These plans can cover from 6 months to 10 years.

Activity Plans suffer some of the same weaknesses of the MFPs. If the MFP decision represented by the Activity Plan was based upon an imperfect field office understanding of BLM headquarters priorities (our field work shows that this sometimes happens) the plan may lack the needed budgetary support from higher management. Furthermore, although the staffing and cost data in Activity Plans give a better picture of the proposed action, the timetable may be too long to be realistically budgeted for. There normally is no breakdown of the plan into year-by-year objectives and costs that can serve as the basis for budget proposals.

Our audit work in Colorado, Wyoming, and Idaho State and district offices bore out these planning weaknesses. Officials there stated that there is no systematic link between planning and budget formulation. Budgeting is an ad hoc exercise in which they try to read the national scene in setting priorities. A sense of futility sometimes exists regarding planning when often only about 5 percent

of their MFP work receives funding. ^{1/} Moreover, some officials stated, the frequent shifting of national priorities provides little incentive for more operational planning.

Many of the planning shortcomings uncovered in our review are not new to BLM, but have been pointed out in previous studies. A 1975 DOI audit report found that known conditions of resource deterioration were allowed to continue because some MFP decisions could not be carried out due to lack of authority, shortages of personnel, or limited funding. To correct this situation, the report recommended that priorities be set up among competing land uses and that short-term or medium-term management procedures be developed to protect resources from deterioration. Two years later a GAO study concluded that these priorities still had not been established, possibly contributing to further resource deterioration. ^{2/}

In 1978, an American Society of Planning Officials report found that BLM district managers were confused as to what kind of MFP decisions required further approval through the budget process. Not only were the managers uncertain about the necessity of budget approval for MFP decisions, but they were also unclear about national priorities. The study found that the managers were planning without a clear sense of national priorities or policy guidance. Instead, they were relying on their own judgment as to the best use of the resources.

The findings of these studies, coupled with those of our own audit work, point to the need for BLM to establish clear national budget priorities to guide its field officials and to develop shorter-term planning objectives which can more realistically be budgeted. It is recalled that in some states only about 5 percent of the MFP work is funded each year.

^{1/}BLM officials in Colorado stated that often DOI and OMB do not fund their budget requests, resulting in less than 5 percent of their MFP work receiving funding. Most of their funding goes for day-to-day activities (routine office expenses, etc.). BLM headquarters officials state that this is a pattern seen on other states.

^{2/}Letter to the Honorable George Turcott, Acting Director of BLM, October 6, 1977.

Some steps are being taken to improve
planning and budgeting at the field level

Our audit work in Wyoming and Idaho revealed that these States are moving on their own toward developing plans that are intended to be used in budget formulation. One of the objectives of Wyoming's new 5-year planning system is to provide a process for prioritizing work needs as well as short and medium-range programs. District officials feel this new system will provide a better information base and a more timely budget submission.

Idaho is taking an approach similar to Wyoming in developing 5-year goals. Idaho has started incorporating its 5-year goals into its ZBB submissions, thereby formally reflecting State priority needs in funding and manpower. The State office's guidance stressed that these goals should be realistic and obtainable, and should provide direction for the State requests to BLM headquarters for increased funding and manpower.

Although Wyoming's and Idaho's efforts are in the right direction, they run the risk of being isolated efforts that still will not have the benefit of a national plan with national priorities.

In addition, BLM headquarters officials are moving to improve planning and budgeting at the field level. These officials, realizing that the field office multiple-use planning needed improvements, issued new planning regulations in August 1979. These regulations address many areas for improvement within the BLM planning process, some of which relate to linking policies to plans to budgets. The regulations stipulate that national policy guidance for planning responsibilities will be provided to field offices by the director of BLM, with more detailed guidance to be provided by directors of the State offices. Furthermore, national, State and local issues will be identified and local plans will be developed according to criteria which will insure that these issues are addressed. Field officials will have to develop "general implementation sequences" indicating the order of actions to be taken on the MFPs. Lastly, once a plan had been approved, all future field budget proposals to higher levels "shall conform to the plan."

Although these envisaged improvements in the BLM planning system are positive steps, we feel they fall short of establishing a continuing process for setting national priorities. Effective field planning depends partly on sound national plans.

BLM is acting to improve national level planning

The bureau is also working on developing more systematic planning for national BLM objectives, and better linkage with the budget. Two kinds of efforts are underway: (1) selected program plans and (2) comprehensive planning.

Program-specific plans were developed on an ad hoc basis for three case study programs: range, coal and fire management. The program plan for range, issued in draft in June 1979, represents a national plan containing budget data for the range program for the next 20 years. BLM officials have told us that it was used first in fiscal year 1981 formulation.

A program plan was developed for the coal program, containing a national coal plan and budget for 3 years. A second plan was developed a spin-off from the first and covered a 4-year period. According to BLM officials they were able to make use of these plans in the fiscal years 1980 and 1981 budget formulation processes. Lastly, a program plan for the fire management program (the second such plan), representing a compendium of headquarters-approved State plans, was completed in June 1979 and will be in effect for about 5 years. The plan was not ready for use, however, during budget formulation for fiscal year 1980.

While these programmatic plans represent a step in the right direction, they stop short of addressing the needed trade-offs among programs, as well as the interrelatedness of multiple-use resource programs. There still is no comprehensive plan that addresses all programs, establishes priorities, and sets realistic budget objectives.

In this regard, in the course of our review, BLM took steps toward a comprehensive plan. These relate in part to a Presidential message.

In August 1979, in his Second Environmental Message to the Congress (developed with the assistance of the Council on Environmental Quality), the President requested the Department of the Interior:

" * * * to establish a comprehensive program development process for managing all the lands under BLM stewardship, which will, for the first time, set long range goals to ensure balance protection and use of the resources and develop and analyze alternative programs and investment strategies to meet these goals."

This program development process, according to the fact sheet accompanying the message, is supposed to

" * * * establish similar overall program development and planning processes for the two agencies (BLM and Forest Service) which administer most of our Nation's public lands." 1/

In an effort to meet most of the requirements of the President's request, BLM reportedly is incorporating many requirements into its current 4-year authorization report process. 2/ The key features will be a plan spanning 4 years that express goals and yearly budget requirements in new "management" categories as well as the traditional programmatic categories. The management categories are expected to include the following: service, operations, and maintenance; inventory; planning; and implementation.

This plan would largely meet the needs for a comprehensive plan that could be used directly in the budget formulation process.

Unresolved issues--There are, however, some additional matters requiring BLM attention. Officials of BLM have not yet consulted and fully briefed all interested congressional committees (notably the appropriations committees), although they intend to do so. We feel that it is important for BLM to ascertain the needs and desires of all the cognizant committees in a timely manner with a view toward

1/We have underway another GAO study addressing the Forest Service's and BLM's planning processes, and the possible need for similar program development and planning processes.

2/In 1976 the Federal Land Policy and Management Act (FLPMA) was enacted. Not only did this act provide additional guidance in terms of program priorities, but it changed BLM's authorization status from permanent to one requiring enactment every 4 years. The Congress wanted a better knowledge of BLM operations and program priorities, and had expectations that the BLM 4-year authorization document would provide this knowledge. The first 4-year authorization report covered fiscal years 1979-82. The second 4-year authorization report, covering fiscal years 1982-85, is due to the Congress by May 15, 1980, and the BLM field offices began assembling information for it in the fall of 1979.

developing common planning and budgeting categories for use in both authorizing and appropriations actions.

It would be desirable to avoid the confusion and added paperwork that would result if the authorizing and appropriations committees decided to emphasize and act upon different sets of categories concerning BLM's operations. This could happen, for example, if the authorizing committees chose to authorize BLM's activities and funding in terms of the new management categories, while the appropriations committees continued to act upon the traditional BLM program categories.

We have addressed in a prior report the general need for various executive and congressional bodies to make more use of common budget-related categories. In that report, we stated:

" * * * the budget presentation needs are frequently different for each of the following: (1) agency managers, (2) OMB officials, (3) the President, (4) the appropriations committees, and (5) the authorization committees. The resulting process is not only costly and cumbersome from a budget presentation standpoint, but it makes it impossible to have an accounting system that can support all of the four or five variations of budget structure without being overly complex and exceedingly costly." 1/

We should add that we have not been able to evaluate the bureau's new goal-setting process, still under development, nor determine whether it is, as requested by the President, similar to the Forest Service's program developed and planning process. Officials of BLM have expressed doubt that the two organizations planning processes can be similar.

Conclusions on BLM planning

BLM budgeting currently reflects the year-to-year program priorities and policies rather than the conscious and systematic implementation of a multiyear, comprehensive, programmatic plan with realistic budget objectives. Budgeting should not occur in a vacuum, but in accordance with such a plan, revised periodically as appropriate to reflect

1/"Streamlining Zero-Base Budgeting Will Benefit Decision-making" (PAD-79-45, Sept. 25, 1979), p. 40.

congressional actions, program reassessments, and changed conditions.

While BLM officials are taking needed steps to develop a comprehensive plan (with two sets of categories) for use in annual budget formulation, they have not consulted with all cognizant congressional committees with a view toward developing common planning and budgeting categories for use in both authorizing and appropriation actions. There is a risk that different committees will emphasize and act upon different categories, resulting in added paperwork, expense, and confusion.

DOI'S HERITAGE CONSERVATION AND RECREATION SERVICE PLANNING

Planning-related activities for the Heritage Conservation and Recreational Service's (HCRS) "Federal" program budget requests occur both within HCRS and in the four participating Federal agencies that actually expend the funds of the program. The planning is mostly decentralized and focused within the four participating agencies, and occurs in the absence of an overall, multiyear land acquisition plan (for recreation and wildlife refuges) that, based upon a comprehensive needs assessment, sets priorities on geographic areas and the kinds of land (national park, forest, wildlife refuge, etc.) to be acquired.

Such priorities are not to be confused with the existing priority ranking system discussed later. However, in recognition of this planning need, HCRS is taking some steps which may lead to the development of such a plan.

HCRS's limited role in the "Federal" program

In the "Federal" program funded by congressional appropriations from the Interior Department's "Land and Water Conservation Fund," ¹/ the HCRS is responsible for coordinating the development of the President's annual budget request. The request covers the funds to be allocated to four participating Federal agencies (not including HCRS) for their use in acquiring land for recreational and wildlife refuge purposes. HCRS itself does not acquire or administer the land. The participating agencies are the

¹/A "special" fund into which are deposited receipts from off-shore oil leases and other revenue producing activities.

Interior Department's National Park Service, Fish and Wildlife Service, and Bureau of Land Management; and the Department of Agriculture's Forest Service.

In its capacity as coordinator for the "Federal" program's budget formulation, HCRS issues certain budget preparation guidelines to the participating agencies (discussed below), receives budget submissions from the agencies, and functions as the staff of the interagency "Land and Water Conservation Fund Policy Group," a committee chaired by an Interior Department official at the Deputy Assistant Secretary level and comprised of representatives from the participating agencies and HCRS. This committee makes the recommendations on the land acquisitions to be submitted to OMB.

The justification materials provided to the appropriations committees concerning the annual budget request of the "Federal" program identify how much the executive branch is requesting for allocation to each participating agency, and, within that figure, the allocation for each project to be funded. The project-by-project feature of the annual budget request reflects the close involvement of the Congress in the program at the project level (the planning implications of this are discussed further on subsequent pages). Most of the land purchases by the participating Federal agencies are currently funded by the Congress on a project-by-project basis for each service, similar to the procedure followed in funding Army Corps of Engineers public works projects.

The projects making up the "Federal" program budget request are based on general and "specific" congressional authority. Generally, the number of projects based on "specific" authority is higher than those based on general authority, illustrating still further the extent of congressional involvement. In some cases, these "specific" authorizations go so far as to direct that the land purchases be made within a certain period of time. Officials of HCRS stress that this heavy congressional involvement limits HCRS discretion.

Separate planning in the four participating agencies

Each participating agency, in the absence of an HCRS "Federal" program acquisition plan, formulates its own 5-year plan and priority ranking of projects for submission to HCRS. These plans and priority rankings are designed to support each agency's mission. In addition, the four agencies have independently formulated, or are in the process of formulating internal, detailed files on each

project (for use in planning). These planning-related activities within the agencies are briefly discussed below.

Each of the four services is required by HCRS to submit a "Five Year Acquisition Plan." A significant feature of these plans is that they are statements of desired tracts rather than "realistic" projections of year-by-year purchases based upon recent and expected funding levels. For example, when the National Park Service formulated its 1980 request to HCRS, its plan projected buys for fiscal year 1980 of \$360 million, which was 100 percent of the expected "Federal" program total to be shared by all four agencies (the National Park Service's appropriated allocation in 1979 was about \$254 million, or 70 percent).

More directly related to budget formulation is each agency's annual priority ranking of its proposed land acquisitions. In making its ranking, which is submitted to HCRS as part of its budget request materials, each agency is guided by certain HCRS guidelines. These require the agency to assign weights to tracts based upon the "criteria" of "degree of threat" to recreational and wild-life needs from continued private ownership and control, 1/ and expected "price escalation" from postponed acquisition. Furthermore, each agency is to modify its ranking by the application, as appropriate, of certain "constraints" on the setting of priorities, including the need to give priority to projects in which the Congress had shown special interest (e.g. "specific" authorizations). 2/

These guidelines are designed to permit each of the four agencies to rank its own desired acquisitions according to a standard set of criteria, i.e., "degree of threat," etc. However, it should be noted that these HCRS guidelines do not constitute an HCRS plan that sets priorities for purchases among different areas and kinds of land purchases--

1/"Degree of threat" for 1980 was comprised of nature of threat, probability of an adverse occurrence within 2 years (e.g. use of the land for private industrial construction and activities), severity of impact, permanence of change, and cost of conversion.

2/Other constraints included the need to give priority to projects on which funds could be obligated in a timely fashion (avoiding the buildup of unobligated balances), and the need to maintain program continuity.

e.g., purchases of forest land to expand existing national forests in the West, compared with purchases to establish new parks near large metropolitan areas in the East.

Additionally, each participating agency has either implemented, or is in the process of starting, "planning" for potential project entailing the development of agency-specific, standardized information on the projects. However, the information is standardized only within each agency's planning effort.

This file on each project, known variously as a "composite plan," "concept plan," or "land acquisition plan," is to be used by agency officials in making their priority rankings. It is expected that these "plans" will be retained in the agencies' field offices.

In summary, planning for the "Federal" program by the participating agencies reflects the objectives and interests of each service--not an overall "Federal" program land acquisition plan. Furthermore, as discussed below, HCRS itself does not have a national plan that sets priorities within the nation's various recreation and wildlife refuge needs.

Budgeting reflects historic trends
and congressional desires

There has developed a pattern of relatively stable percentage allocations to the participating agencies, in the budget requests submitted to the Congress. Some officials of the participating agencies perceive that the request for the "Federal" program is being divided among the agencies on a percentage basis. An HCRS official believes that the new system HCRS is developing (see page 46) should change the basic percentage allocations, even if only marginally. The percentages are shown in table 1.

It is noted that over the past three fiscal years, the percentage of the fund being requested for any one agency has not varied by more than six percentage points (Forest Service). Requests for both National Park Service and the Bureau of Land Management have not varied by more than one percentage point during the same period.

Officials of HCRS minimize the influence of historic allocations on annual budget formulation for the "Federal" program. They state that the relatively stable percentage allocations to the agencies reflects the relatively stable capabilities of the agencies to efficiently absorb and expend funds. Another factor leading to the consistently

large percentage for the National Park Service is the fact that many of the "specific" authorizations concern National Park Service projects--such authorizations are given high priority in budgeting.

Table 1

Each Agency's Percentage of
"Federal" Request in
President's Budget

<u>Fiscal Year</u>	<u>National Park Service</u>	<u>Forest Service</u>	<u>Fish and Wildlife Service</u>	<u>Bureau of Land Management</u>
1980 <u>1/</u>	60%	23%	10%	2%
1979 <u>2/</u>	61	22	15	1
1978	60	28	11	1

HCRS officials, in commenting on allocations to the various agencies, stress the importance of the participating agencies' rankings of prospective land acquisitions according to the HCRS criteria of "degree of threat," price escalation, and special constraints (see prior discussion), and their own subsequent computerized development of an integrated master ranking based upon the same criteria. 3/ HCRS officials state that the master ranking largely determines the HCRS recommended allocation to the agencies,

1/Does not add to 100 percent because of a supplemental request of \$12 million which would not go to any of the four services.

2/Does not add to 100 percent due to rounding.

3/HCRS master ranking in 1980 used the same criteria as it instructed the four agencies to use. The major difference between the agency lists and the master ranking was that only the latter had weights assigned to the priority criteria by HCRS. However, in 1980, the HCRS master ranking produced only minor changes in the agency rankings and was essentially duplicative.

although "management judgement" is applied in some cases to modify the ranking and affect the inclusion or exclusion of projects. 1/

HCRS itself recognizes the need
for an overall Federal land
acquisition plan

Officials at HCRS state that they do not have, but hope to move in the direction of developing a recreation and wildlife refuge land acquisition plan that, based upon a comprehensive needs assessment, sets priorities among competing needs (need for forests, refuges, etc.), and can use to recommend budget priorities among the requirements of the four agencies. HCRS staff stated that even though this kind of land acquisition plan is desirable, they currently lack the resources and staff required for its development. Consequently, their planning efforts have been limited until recently to the development of the more limited priority ranking system discussed earlier ("degree of threat," etc.)

Recently, HCRS officials undertook two new steps to improve or further develop their planning. First, HCRS is designing an information system which will permit an orderly documentation of facts on proposed projects from all of the four agencies. These files, which will be reviewed at various stages, should contain most, if not all of the information presently being collected by the agencies in their composite and concept plans. The new system will be a series of files on each project. With this information, HCRS hopes to have all the details it deems necessary to make recommendations more independently of the four agencies on which specific projects should be funded.

The second new step taken by HCRS is the first annual action program contained in the third Nationwide Outdoor Recreation Plan (NORP), issued in December 1979. The NORP is described as being part of a "new continuous planning

1/Our work shows that the "Federal" program budget request as submitted to levels above HCRS was for the most part the same as the master ranking. However, subsequent to that submission was the firm dollar guidance from OMB limiting the fund to \$610 million and the passage of the Omnibus Parks Bill, making it difficult for us to determine the ultimate significance of the master ranking upon the final outcome of the budget request.

process" and is directed at outdoor recreation needs at a government-wide level. The action program is designed to "highlight priority contemporary issues," one of which is Federal land acquisition. Although this program discusses briefly a new planning and decisionmaking process and development of a policy statement for Federal land acquisition, the nature of the program document is at too general level to be suitable for setting land acquisition goals among the four agencies' competing demands on the fund.

We believe that there should be a comprehensive "Federal" program land acquisition plan based upon a broad assessment of the kinds of land acquisitions that would best serve the outdoor recreation and wildlife refuge needs of the country's various geographic and population areas. Without such a plan, there is no way for the Congress or the executive to know which budget actions would produce the maximum benefits for the nation.

Such a plan would have to be flexible and subject to periodic modification to reflect changing conditions and funding availability, as well as congressional actions.

Conclusions

In the Heritage Conservation and Recreation Service, there is need for an overall plan that, based upon congressional actions and a general assessment of land acquisition needs in the "Federal" program, identifies priorities on the geographic areas and kinds of land (national parks, forests, etc.,) to be acquired. In the absence of such a plan, there is no basis for knowing whether the "Federal" program's acquisitions best serve the country's outdoor recreation and wildlife refuge needs.

Officials of HCRS hope to move in the direction of such planning, but state that they don't have the required staff resources, and have doubts about the usefulness of more planning for such a "highly political" program. We believe that improved planning is needed and consistent with continued congressional project-specific authorizations and funding actions.

HEW'S HEALTH CARE FINANCING ADMINISTRATION PLANNING

According to some HEW officials, National Health Insurance and its planned implementation could be considered the long-range plan. The Medicare benefit payments budget is reviewed within this context. An example of this review concerned HCFA's proposed legislative initiative for a

prescription drug benefit for Medicare. This initiative was not accepted by HEW's Office of the Secretary because the National Health Insurance first phase does not include a prescription drug benefit, and the cost was too high in light of the tight budget.

Beyond this, HCFA and the Office of the Secretary conducted several ad hoc planning efforts during the fiscal year 1980 budget formulation cycle that affected Medicare benefit payments. At HCFA these ad hoc efforts included an early "Legislative Strategy Paper" and a later legislative submission to the Office of the Secretary.

The Legislative Strategy Paper was prepared in the beginning of the budget formulation cycle at the request of the HEW Secretary. It outlined broad proposals with budgetary ramifications in the areas of program eligibility and benefits, reimbursement reform, financing, program management and administration, and delivery system reform. For example, one such proposal was to "examine the feasibility of including currently ineligible groups under Medicare." Several months later, the 1980 budget included a \$27 million legislative initiative to eliminate the additional 24-month waiting period for Medicare coverage for re-entitled disabled individuals.

Later in the budget formulation cycle, HCFA prepared for the Office of the Secretary a legislative submission that included papers on physician reimbursement, Medicaid eligibility and benefits, and drug coverage under Medicare and Medicaid. This legislative submission also identified legislative amendments, some of which would affect Medicare benefit payment levels (whether increases or decreases). ^{1/} For example, one legislative amendment was "to increase the rate of Medicare program payment for outpatient psychiatric services." Several months later, the 1980 budget included this \$22 million legislative initiative.

Although legislative initiatives can originate anywhere in HEW, the largest initiatives are constructed at the Office of the Secretary level. Examples of such initiatives include National Health Insurance, Welfare Reform, and Hospital Cost Containment. For example, the 1980 budget included

^{1/}As discussed more in Appendix VI and Appendix VIII, the budget action in Medicare centers on legislative cost savings proposals that would increase or decrease the costs in this entitlement program. Budget estimates on the current law base program are actuarial projections.

Hospital Cost Containment, a \$1.5 billion legislative cost saving proposal.

Additionally, the HEW Secretary directed a number of ad hoc planning efforts at the Office of the Secretary level. The most significant of these were nine major legislative initiatives task forces. These task forces were independent from the existing budget system and pulled together staffs across the department. The topics reflected the Secretary's and Under Secretary's priorities in new areas they wanted to be studied. The importance of these task forces was evidenced by their formal review by the Under Secretary and by the Secretary specifying their coordination with the budget and legislative submissions to the Office of the Secretary. One of these task forces prepared a malpractice insurance study that resulted in a proposed regulation that would base Medicare reimbursements for hospital malpractice insurance premiums upon the actual experience of Federal beneficiaries, rather than on their rate of utilization of hospital services. Several months later, the 1980 budget included this \$270 million regulatory saving.

HEW'S OFFICE OF EDUCATION PLANNING

The planning in the Office of Education that came to bear on the 1980 request for the grants for the disadvantaged program included development of a series of issue papers discussed at a 1-day retreat that included officials from the administering Bureau of Elementary and Secondary Education, and later at a 3-day retreat at which the entire Office of Education budget was considered by Office of Education officials. The papers covered such matters as:

- developing guidelines for moving the program into the upper elementary and high school levels;
- a policy statement to prevent use of the funds to serve gifted and talented children;
- an evaluation report noting that 34 percent of the children in the program are neither educationally nor economically deprived;
- developing a per-pupil cost on which future allocations to local education agencies would be based;
- developing 5- and 7-year plans for reaching maximum authorized funding; and

--need for a plan to work in cooperation with the evaluation office to conduct a study of nonpublic school participation.

Executive branch officials stated that the papers are best seen as aids to short-term budget strategy development. They pointed out that Office of Education programs are highly political, and that planning for the programs is heavily affected by political realities.

Officials further stated that it is not surprising that there has been little formal multiyear planning--i.e. comprehensive plans that set budget priorities among programs over several years--for Office of Education programs, given the fact that the Federal share of nationwide educational expenditure has been only about 8 percent of the total, and the Federal Government is not responsible for the operation of educational programs at the State and local levels. This contrasts to the military programs in the Defense Department, and land management programs in the Interior Department, where the Federal Government has the exclusive or dominant role.

Officials further noted that the need for formal multi-year planning in grants for the disadvantaged is diminished by the fact that the program can be conducted on a 1-year-at-a-time basis. There are no out-year implications to be considered, as would be the case in a continuing program of DOD operation and maintenance.

Finally, the "hold-harmless" provision of the authorizing legislation, requiring funding each year at no less than 85 percent of the previous year's level, and the statutory entitlement formula governing the distribution of funds to the States, both decrease Administration flexibility, in the program and perhaps act as disincentives to thorough planning.

There are, however, planning exercises that develop education legislative proposals with multiyear budget consequences. The HEW Office of the Secretary asked the Office of Education to submit a "Legislative Strategy Paper" outlining proposed changes to various pieces of education legislation that would have budgetary consequences for fiscal year 1980 and beyond. Additionally, at the HEW departmental level, there was a legislative initiative task force study that addressed similar matters for higher education programs for FY 1980 and beyond. Elementary and secondary education programs (including grants for the disadvantaged) had earlier been given similar treatment for fiscal year 1979 on.

AIR FORCE AND ARMY PLANNING

The budget formulation processes we studied in the Army and the Air Force involved the most systematic effort to link budgeting to planning. The overall process, known as a "planning, programming and budgeting" (PPB, or PPBS), was instituted in 1961. The services have incorporated zero-based budgeting procedures into the existing PPBS processes.

PPBS was established by DOD as a Department-wide process 1/ for projecting more than 1 year into the future. An important facet of PPBS is the systematic study of objectives and alternative ways of achieving them, of future environments, and of contingencies and how to respond to them. The three phases of PPBS reflect three areas of emphasis: to develop strategy (planning), to construct an organized implementation of that strategy which is compatible with fiscal reality (programming), and to place specific costs, by appropriation account, on each facet of the implementation (budgeting).

The planning phase of PPBS

"Planning" forms the basis for assessing broad defense resources needed to meet the military threat to the United States and its allies. Traditional military planning proceeds within the Joint Strategic Planning System (JSPS) under the aegis of the Joint Chiefs of Staff.

The Joint Strategic Planning System is a continuous process resulting in a series of planning documents covering periods up to 10 years. The focal point of the planning system, the Joint Strategic Planning Document, gives a comprehensive military appraisal of military threat to the United States and proposes military strategy for attaining national military goals. The document also includes planning force 2/ levels necessary to execute approved strategy with a "reasonable assurance" of success.

The programming phase of PPBS

"Programming" is intended to translate plans into a more specific 5-year program for acquiring the needed manpower,

1/Within the overall PPBS framework, each service has modified specific elements to suit its own needs.

2/Force military strength, expressed in numbers.

material, training readiness, etc. Cost estimates are identified for the various program components. Programming is a rolling process in which there are periodic programming decisions during each year.

The major annual programming document in each service is the Program Objective Memorandum (POM), which discusses programming questions and specifies detailed program objectives, or "issues," under alternative fiscal and other constraints. Included are programming objectives and associated cost estimates for the coming fiscal year. For example, an Army POM might contain a schedule and dollar amounts for mechanizing a certain number of infantry battalions.

A related document is DOD's Five Year Defense Program document, which also shows programmed amounts for the coming fiscal year plus each of four out-years. This is updated three times a year reflecting various decision points in the overall DOD PPBS cycle. 1/

The budgeting phase of PPBS

"Budgeting" under PPBS expresses needed manpower and dollars requirements categorized by congressional appropriation, giving emphasis to the first year of the approved 5-year program. The formats are different than those required by the POM process. The budget phase in DOD begins with the development of service budget estimates, continues through a joint review 2/ of the estimates by OSD and by OMB, and culminates in the transmission of the President's budget to the Congress. Annual budget formulation is a refinement and recategorization of cost estimates developed during the programming phase.

Refinement is partially necessary because command 3/ budget estimates are prepared prior to final programming

1/ Updates occur each year with (1) issuance of the President's budget, (2) submission of the services POM's to the Secretarial level (around May), and (3) submission of the services' budgets to the Secretarial level (around October).

2/ Each service's budget is simultaneously submitted to OSD and OMB. In joint meetings, both agencies review and analyze the services' budget estimates.

3/ Command is an intermediate organizational level between the service headquarters and a post or base.

decisions. Other refinement results from higher level review. Recategorization is necessary because the services initially develop their budgets in terms of issues which often cut across more than one appropriation account (e.g., operations and maintenance, procurement) and conversion is necessary to associate the amounts with the detailed appropriation account roll-up structure and formats of the Office of the Secretary of Defense's (OSD) and President's budget.

As budget estimates are formulated and reviewed by higher levels, the budget review is primarily intended to be a "scrub"--that is, a repricing and feasibility review. Realistically, the budget review occasionally alters prior programming decisions.

PPBS is continuous and involves all levels

PPBS is a very comprehensive and complex system. One complete cycle includes more than 30 major events (e.g., the issuance of service POM each May) and involves all organizational levels from OMB to the numerous major commands and installations. There is much interaction between all levels with guidance and decisions going down to lower levels and requirements, estimates, and appeals flowing up.

For example, early in each annual cycle, commands and installations prepare program and/or budget input based on the decisions at the end of the previous cycle. From this input submitted by lower levels, plus higher level OSD guidance, each service develops its annual POM. OSD final programming decisions are likewise based on the services' POMs and their subsequent appeals to OSD tentative decisions. Such interactions also exist during the budget phase. Service budget submissions reflect inputs from lower levels and the OSD level, while OSD decisions in turn sometimes reflect service appeals.

Complicating the PPBS process is the fact that events are repeated on an annual basis and cover more than one fiscal year at a time. For example, the annual POM covers 5 years.

This well developed interactive PPBS cycle permits the services to develop program budget estimates, at subappropriation account levels of detail, many months (even years) prior to submission of the President's budget to the

Congress. For example, program budget estimates for fiscal year 1980 were developed and published as early as calendar year 1974 as part of that year's Five Year Defense Program updates. 1/ In none of our non-DOD case study programs is there a similar rolling system for regularly making detailed budget estimates years in advance of final incorporation into the President's budget.

The high degree to which some early estimates for 1980 resembled the final amounts contained in the President's budget may be seen in table 2, which tracks the Air Force and Army case study program amounts at various points within the PPBS cycle. There may have been more fluctuation in amounts for parts of the programs; and this pattern of little change may not be typical of that seen in other years.

1/In each succeeding year these requirements were considered and refined as program and cost data were more accurately defined. The final decisions for the fiscal year 1980 budget submission were made in calendar year 1978.

Table 2

Air Force and Army General Purpose Forces
Operation and Maintenance Budget Estimates for
Fiscal Year 1980

(dollars in millions)

	<u>Air Force</u>	<u>Army</u>
October 1977, service's 1979 budget submission to DOD	\$1,506	\$3,445
January 1978, President's budget for 1979	1,856	3,184
May 1978, service's programming submission to DOD	1,959	3,390
October 1978, service's 1980 budget submission to DOD	1,975	3,505
January 1979, President's budget for 1980	1,850	3,211

Note: These figures were extracted from the Five Year Defense Program updates at the times indicated. These updates generally reflect the documents indicated, but occur up to a month later and in some instances vary slightly.

Some observations on PPBS
in the DOD case study programs

Although we could not within the limits of this review evaluate the operation of PPBS in the Air Force and Army case study programs, we noted some matters of possible interest to the Congress. These illustrate the complexities and some difficulties in PPBS.

The transformation process

DOD initially builds its budget in categories that are often not the appropriation account categories used in presenting the budget to the Congress. The varying categories reflect the differing perspectives or needs of the Defense Department and the Congress. The services make decisions

on "program alternatives" that may cut across more than one DOD major defense program (e.g., "General Purpose Force," "Strategic Forces" etc. 1/) and congressional appropriation account (e.g. "Aircraft Procurement, Army;" "Operation and Maintenance, Army" 2/). A program alternative might be the addition of a specific number of Army maneuver battalions. Cost estimates which are developed for each alternative include all aspects of implementation--procuring equipment, operating equipment, paying personnel, etc.

The Congress, however, uses budget amounts and information segmented by appropriation account. Additionally, the budget reviews conducted by OSD and OMB include consideration of the budget requests on an appropriation basis. This means that there must be a process of transforming dollar amounts (including requests) from program alternatives to appropriation accounts, and vice versa. This is a complex process with certain potential difficulties. The interrelationships are illustrated in figure 8.

Decisions made for one appropriation could have an extensive rippling effect. For example, a decrease in an appropriation account total could lead to the development of new alternatives and, in turn, impact other appropriations. The potential rippling effects of decisions must be determined and assessed.

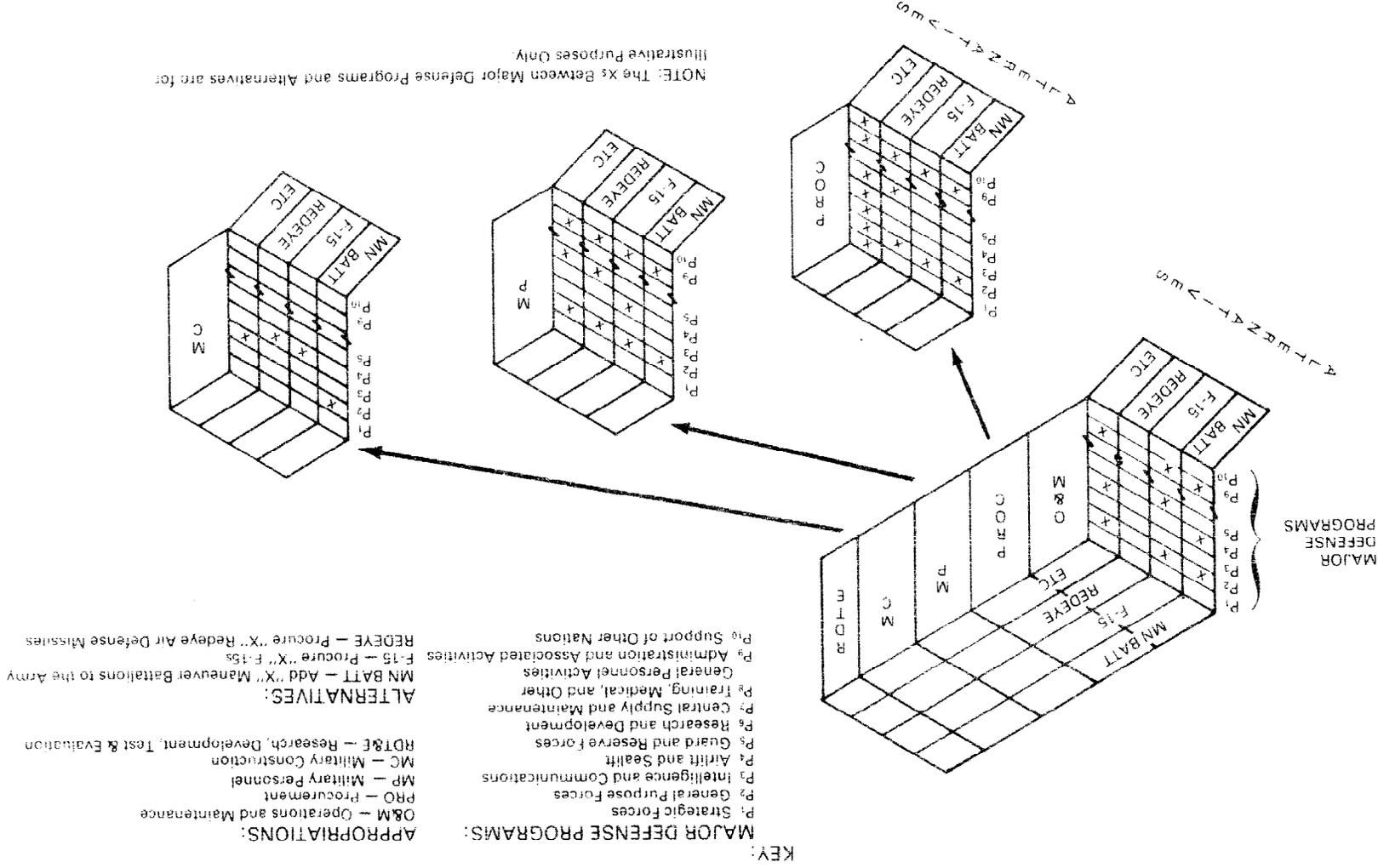
Two studies have recognized the difficulties resulting from the use of dissimilar categories. A Rand Corporation study noted that decisions made in categories which cut across DOD program lines mean potential disruption of the budgeting system. A recent study by Arthur Young and Company recommended that the Army attempt to obtain congressional approval to make the appropriation structure more compatible with the Army's decisionmaking categories.

1/There are 10 such programs. See figure 8 for more examples.

2/Each service's several appropriation accounts cover procurement (several accounts), operation and maintenance (three accounts), research, development, test and evaluation (one account), etc.

Hypothetical Illustration of the Interrelationships Among Alternatives, Appropriations, and Major Defense Programs

Figure 8



Potential exists for limited
use of lower level submissions

An important part of PPBS is the participation of lower organizational levels. Generally, this means that the lower levels define their program requirements within broad dollar and procedural guidance. However, as more participants are used, the time required for a complete cycle expands. Currently, this expansion is such that annual cycles overlap, requiring lower levels to base their input on tentative guidance. Such input may be of limited use.

Army commands, for example, submit their operation and maintenance program requirements in February. ^{1/} These may not reflect OSD's final programming guidance provided in March, or changes at the Department of the Army level, and thus may be of limited usefulness at times. For example, the Army FORSCOM's fiscal year 1980 programming input was of limited use because of (among other matters--see appendix III) a document formatting change at the Department of the Army level. Army headquarters adopted a new ZBB programming document format in January 1978 when FORSCOM's input was already substantially prepared in an incompatible format. A similar potential for change exists when the installations and commands prepare their budget submissions.

Air Force command program input is provided even earlier in the cycle, beginning with command briefings in December. Command budget estimates similarly are submitted earlier than in the Army, in March, ^{2/} and reflect only draft OSD guidance. Budget submissions from the bases are forwarded to the commands in January, prior to even draft OSD guidance. The potential exists, therefore, for lower level submissions to be of limited usefulness. For example, the Tactical Air Command (TAC) did not use the fiscal year 1980 base budget submissions, except for the impact statements for some minor costs, partly because of certain incongruities with dollar amounts in later OSD guidance.

^{1/}Changes to the process for fiscal year 1981 included dividing the programming input into two submissions, one in January 1979 and one in March 1979.

^{2/}The Army's FORSCOM submitted its budget for 1980 in July 1978.

The DOD process is very complex, involving many organizations, activities, and billions of dollars. Thus, it requires an extraordinary investment of time and effort to build a budget with field participation. However, by allowing the necessary time, for field involvement, field input must be based on tentative decisions. The more that later final decisions differ, the less use can be made of field input.

ZERO-BASE BUDGETINGSUMMARY

- Zero-base budgeting (ZBB) was first used by the Federal Government in fiscal year 1979. ZBB has led to increased cost for formulating the budget with very few dramatic achievements as a result of the increased expenditure.

- Agency actions to streamline zero-base budgeting (ZBB) procedures are occurring and are to be strongly encouraged. This should allow agencies to give greater emphasis to needed analysis. Our case study work observed two key methods of streamlining: use of percentage-based "minimum" levels, and use of "cores" in ZBB rankings. Under these modifications there could be inadequate analysis of program priorities and funding alternatives unless a special effort is made to subject the affected programs to detailed analysis every few years. Such analysis is needed under any budget system. The Office of Management and Budget (OMB) should have a role in selecting the programs for detailed review.

- Ranking required by ZBB is generally seen as one of the most beneficial aspects of ZBB application. Many of the critical remarks related to the paperwork intensive approach to ZBB brought about by too much detail. Higher levels in many of the case studies were not satisfied with the mass of detail created by the system, either, because it did not help them in their analysis or decisionmaking.

ZBB IS SUPPOSED TO DIFFER
FROM "INCREMENTAL" BUDGETING

As described in literature on the subject, ZBB is supposed to involve a fundamentally new way of budget formulation, one that will help identify potential cost savings or reallocations more readily than traditional "incremental" budgeting. In incremental budgeting, last year's budget (i.e., the "base") was not normally reviewed in depth; rather, the attention was focused on the narrow range of increases or decreases from the base (i.e., the "margin").

In contrast, the theory behind ZBB is that the base should be opened for review, thereby starting from a "zero

base." Decisionmakers are not to assume continuation of ongoing programs or incremental growth for those programs. Through the key ZBB mechanism of requiring budget submissions from lower levels to include analyses of alternative levels of funding for programs, such as "minimum," "current," and "enhanced" levels, ZBB is supposed to systematically force considerations of alternative levels of funding (whether increases or decreases) within programs as well as possible areas to reallocate resources among programs.

PRESIDENT CARTER INTRODUCED ZBB

President Jimmy Carter introduced ZBB into the Federal Government as the result of his experiences with ZBB as Governor of Georgia, where he established a ZBB process. In his descriptions of ZBB, Mr. Carter made it clear that the chief aim of ZBB is the achievement of cost savings, or at least the rechanneling of dollars into more effective programs. He described the introduction of ZBB into Georgia in the following words:

"As was the case with almost every government, the only analyses of funding requests [before ZBB] were those for new or expanded programs. No method existed for the analysis on an equal basis for old and perhaps obsolete programs which had been en-sconced within the governmental bureaucracy years ago. The cost of new programs consisted of just a small portion of total expenditures. Once a bureaucratic entity had been established, it was almost immune from later scrutiny. Often these agencies would either grow like cancers or retreat into self-perpetuating obscurity.

We changed all of this in my state and devised a procedure whereby the future budgets would start from scratch--at zero. It meant chopping the state government up into individual functions, and analyzing each service delivery system annually, regardless of whether it was fifty years old or a brand new proposal for a future program. 1/

1/Jimmy Carter, Why Not the Best? Broadman Press (Nashville, Tenn.: 1975), p. 127.

Elsewhere, he described in similar terms his Georgia administration's use of ZBB:

"[We made] sure that innovative programs (were) given equal opportunity to compete for scarce resources with existing programs, and we [maintained] a constant analysis of existing programs and of proposed programs to insure effectiveness. This process has saved the State and the people of Georgia a tremendous amount of money. It has also improved the quality of services delivered." 1/

The President asked each Federal agency in February 1977, to develop its fiscal year 1979 budget using ZBB. In his memorandum to agency heads, Mr. Carter stated that ZBB would * * *

"Focus the budget process on a comprehensive analysis of objectives and needs.

Cause managers to evaluate in detail the cost effectiveness of their operations.

Expand management participation in planning and budgeting at all levels of the Federal Government." 2/

Public expectations have been high concerning expected ZBB benefits. However, the results to date of early ZBB applications in the Federal Government indicate that continued efforts are needed to optimize ZBB benefits and reduce its costs.

SOME EARLY PROBLEMS WITH ZBB

Our 1979 report on ZBB, "Streamlining Zero-Base Budgeting Will Benefit Decisionmaking" (PAD-79-45) noted that in selected governmental and private organizations, ZBB concepts were hastily applied creating rigid and mechanical

1/Jimmy Carter, "Natural Resource Management: A Governor's Perspective," Perspective In Natural Resource Management, Occasional Papers, Indiana University School of Public and Environmental Affairs (Bloomington, Indiana, 1975), pp. 1-2.

2/Jimmy Carter, "Memorandum for Heads of Executive Departments and Agencies," (Washington, D.C., February 14, 1977) p. 1.

processes. This led to gaps between expectations and results, duplication of effort, generation of useless paperwork and data, lack of incentive to cut waste, and frustrations created by having few visible results to show for the resources committed. In such cases the particular applications of ZBB led to an increase in the cost and amount of time it usually took the organizations to formulate their budgets.

Our report also noted, however, that some organizations have successfully applied ZBB concept where * * *

- a real organizational need exists which ZBB can fulfill
- skillful streamlining and modification of ZBB takes place (the plan used in implementing ZBB is tailored to fit the needs of the organization); and
- there is careful timing of planning, budgeting, and reassessment.

Our work shows that the same sort of utilization problems covered in our earlier report remain in some of our case study agencies. We still believe ZBB concepts are valid if applied correctly. Especially important is the need for streamlining the ZBB process and making appropriate adaptations. Some of the problems and comparisons discussed below relate to technical aspects of implementing ZBB. Therefore, a brief description of the mechanics of ZBB operations is appropriate.

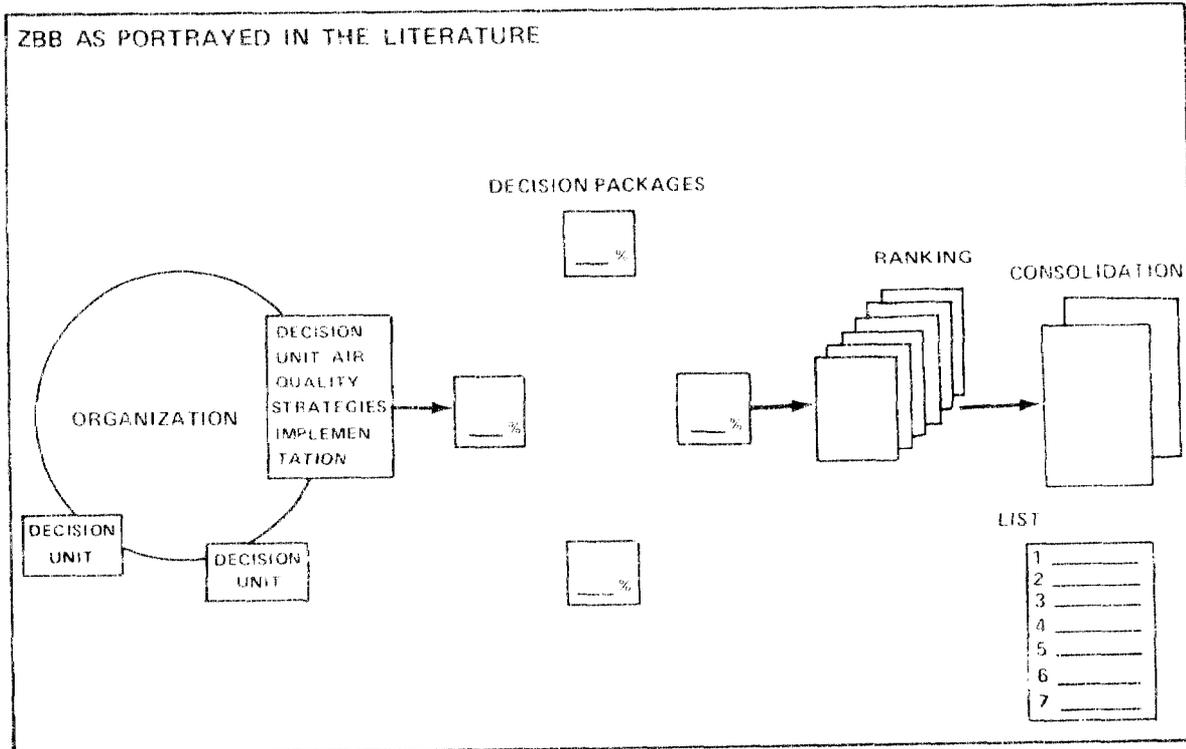
ZBB PROCEDURES ARE DESIGNED TO FORCE
SETTING PRIORITIES AND CONSIDERATION
OF ALTERNATIVE FUNDING LEVELS

The mechanics of a basic ZBB process are designed to force managers to do a more complete analysis of all program aspects under their control. The mechanics of the process differ from incremental budgeting because consideration must be given to lower as well as higher spending levels for all activities. As shown in figure 9, the process involves several steps. 1/

1/Figure 9 portrays the ZBB model as portrayed in literature. Our case studies varied regarding how closely they approximated in detail this model.

Figure 9

ZBB as Portrayed in the Literature a/



a/From "Streamlining Zero-Base Budgeting Will Benefit Decisionmaking," (PAD-79-45, Sept. 25, 1979), p. 3.

First, the activities of the organization are identified. These activities are usually referred to as decision units. For example, a decision unit could be a program component such as the regular grants portion of the Office of Education's grants for the disadvantaged program. As discussed later in this chapter, the level of detail chosen for developing decision units varied among our case studies. If the level of detail is too low, it may result in excessive paperwork and review. Another problem that may occur is the development of the ZBB decision unit categories that differ from the budget categories used in the materials presented to the Congress, leading to increased effort and expense.

Second, several decision packages for each decision unit are prepared.

Decision packages contain dollar amounts and explanatory narratives on:

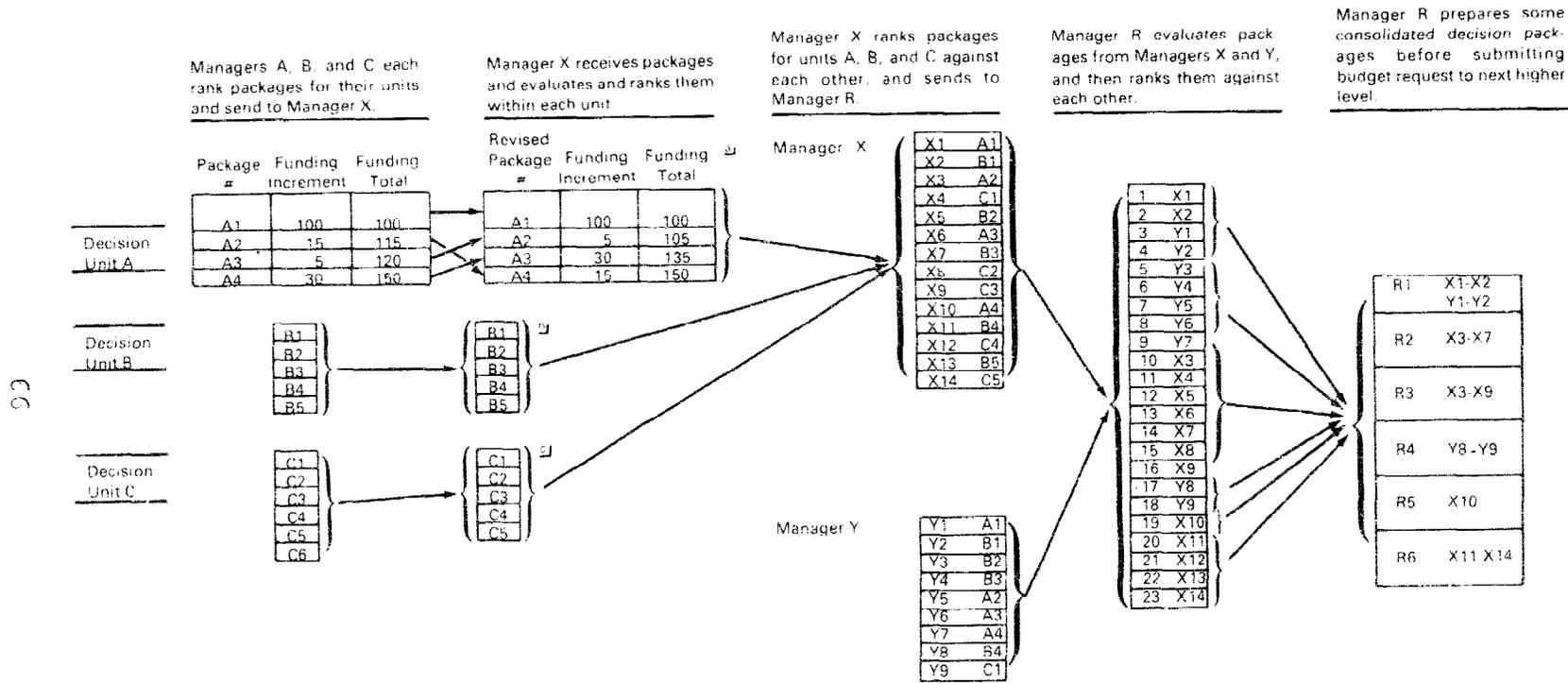
- alternative levels of effort and spending to carry out the activity (decision unit), usually stated in terms of "minimum," "current," and "enhanced" levels of spending,
- the goals or objectives of the activity,
- the consequences of not performing the activity, and
- alternative ways of doing the activity.

As with the level of detail for decision units, the level of detail included in decision packages can also cause paperwork problems. Information can be included, such as minimum levels which are mechanically derived, which does not help in meeting ZBB's aims for better analysis.

Once decision packages have been prepared, a ranking process takes place in which decision packages are listed in order of importance, with cumulative dollar totals. So, parts of a decision unit usually appear more than once in an overall ranking. As shown in figure 10, completed decision packages should be ranked initially by the lower decision unit manager. At higher management levels, the rankings of each subordinate manager are reviewed and formed into a consolidated ranking. The ranking shows the relative priority that discrete increments of decision packages (e.g., minimum, current, and enhanced) have in relation to increments of other decision units.

Figure 10

Decision Package Ranking and Consolidation Process Illustrated



Source: OMB Bulletin No. 77-9.

- ⌊ Higher level manager reorders the proposed priorities of the subordinate decision unit managers. The packages may be revised by either the initial decision unit manager or the higher level manager
- ⌊ Higher level manager accepts proposed priorities of the subordinate manager.
- ⌊ Higher level manager accepts proposed priorities of the subordinate manager, but chooses not to propose funding of lowest priority package

Through this ranking process, top priority activities appear at the top of the list, and the lowest ranked ones at the bottom. The size of the budget request of the organization is determined, a cutoff line is drawn in the ranking, and all activities that fall below the line are not proposed for funding.

A ZBB feature supposedly contributing to better analysis and cost savings or reallocations is the ZBB emphasis on lower level involvement in budget formulation. According to ZBB theory, the best initial sources of ideas on where improvements can be made, whether cutbacks or expansions, lie at lower rather than higher levels in the organization.

CASE STUDY WORK SHOWS MIXED ACHIEVEMENTS, BUT INCREASED COSTS, UNDER ZBB

Use of ZBB is still evolving and, as stated previously, GAO encourages adaptations to the specific needs of departmental managers. In our case study work we found certain ZBB concepts and procedures to be helpful in budget formulation, especially the systematic analysis of program priorities and alternative funding levels. At the same time, however, ZBB often led to increased budget development costs with limited benefits in certain areas.

Little or no reordering of budget priorities

A reordering of budget priorities is supposedly easier under ZBB because all programs and activities are regularly analyzed and prioritized. Less effective items are more readily identified and subjected to termination or budget cuts. Our study shows, however, that in selected DOD, HEW, and DOI areas (including but not restricted to the 10 case study programs 1/), ZBB-based budgets had not proposed more short-term changes in budget priorities at certain levels than was the case with prior non-ZBB budgets.

We compared the degree to which 1978 budget submissions, a non-ZBB year, proposed short-term changes in budget priorities, with the degree to which 1979 and 1980 budgets,

1/Refer to footnotes in table 3 for the scope of coverage.

prepared under ZBB, 1/ proposed changes. In measuring proposed changes in the 1978 budget, 2/ we first ranked the selected appropriation account "activities" (see table 3 footnotes) according to their 1977 funding levels, and then ranked them again as they would be affected by the President's budget proposals. A coefficient 3/ was computed to express the degree to which the two ranking factors were the same or different. A score of "1" indicated that the rankings were the same (no changes in priorities were proposed), and a score of "-1" indicated a total reversal of priorities. Similar coefficients were computed for 1979 and 1980 proposals.

If ZBB was operating to change immediate priorities among activities, we would expect to see fluctuations-- "budget turbulence"--in activity rankings from year to year. As illustrated in table 3, the coefficients comparing the degree of budget turbulence indicated considerable stability before and after ZBB was implemented. 4/ Priorities (rankings) did not significantly change over time, even though the ZBB process forced its users to develop and consider more funding alternatives.

We found that reorderings of budget priorities and other results cannot be attributed solely to a budget development process. In the case of HEW's Office of Education, for example, outcomes under ZBB were even more stable than the last year of "incremental" budgeting. The greater changes in 1980 can partly be accounted for by the reauthorization of the Elementary and Secondary Education Act, major

1/The use of ZBB for fiscal year 1979 in DOD was less extensive than was the case for fiscal year 1980. The fiscal year 1980 DOD budget was the first one developed with full field participation for the entire cycle.

2/The Carter revised budget was used for fiscal year 1978 to minimize turbulence caused by the change in administrations.

3/We used the Spearman rank order correlation coefficient.

4/We ranked activities within selected accounts only, and do not know the degree of budget stability or instability which may have occurred in other or more detailed budget categories. It is possible that more reordering of priorities occurred in these latter categories (DOD program alternatives, etc.).

Table 3

Budget Turbulence in Case Selected Appropriation
Account Activities

	<u>Fiscal Year</u>		
	Non-ZBB <u>1978</u>	ZBB <u>1979</u>	ZBB <u>1980</u>
DOD Army <u>a/</u>	.993	.966	.984
DOI Bureau of Land Management <u>b/</u>	.964	.750/.898 <u>c/</u>	1.00
HEW Office of Education <u>d/</u>	.945	.953	.913

a/We ranked 28 "activities" within the following accounts: Operations and Maintenance; Procurement (Aircraft, Missiles, Weapons and Tracked Combat Vehicles, Ammunition, and Other); and Research, Development, Test and Evaluation. Our general purpose forces operations and maintenance case study was an activity in the Operations and Maintenance account.

b/We ranked seven "activities" within the Management of Lands and Resources account. Our range, coal, fire management, and emergency fire case studies were activities in this account.

c/The method of budgeting for the firefighting and rehabilitation program was changed in fiscal year 1979 (discussed in Appendix IV). The change is not related to ZBB. If the change is not adjusted for, the coefficient is .750; if the budget treatment for all years is held constant, the coefficient is .898.

d/We ranked 19 "activities" in the Elementary and Secondary Education and the Higher Education accounts. Our grants for the disadvantaged case study was an activity in the Elementary and Secondary Education account.

reforms of the student assistance program, and other factors not directly related to ZBB. Furthermore, reordering of priorities should not be the single criterion of success for ZBB.

ZBB may help by bringing about better analysis and more complete information for managers to make budget decisions, whether or not priorities are greatly changed in the short run. Some managers in most of the case study organizations saw some analytical improvements resulting from ZBB. However, during our work, we noted some approaches that could detract from ZBB's goal of providing better analysis and more complete information for budget decisionmakers. We shall note these in the following discussion of ZBB implementation in the case study programs. Some key differences regarding ZBB among the case studies are illustrated in table 4.

ZBB minimum levels

A matter faced by the case study departments was the development of meaningful minimum levels for inclusion in decision packages. The minimum level, according to OMB instructions, is defined as the " * * * level below which it is not feasible to continue the program, activity, or entity because no constructive contribution can be made toward fulfilling its objectives," (OMB Bulletin No. 77-9, April 17, 1977).

Implementation of ZBB, however, sometimes led to a modified approach where predetermined, percentage-based "minimum" levels were used. In these instances, program and budget officials were given, or adopted, fixed percentages of current level spending in their "minimum" level amounts for certain categories of budget activities. While we encourage streamlining of ZBB procedures, and realize that use of percentage guidance for development of minimum levels can be viewed as a streamlining approach, we believe OMB needs to monitor the extent of streamlining to prevent possible abuses. The use of such percentages, while easing the task of preparing ZBB materials, does not require analyses of what constitutes true minimum levels for those budget categories--an analysis that is sometimes needed.

The percentage approach did, however, permit analysis and ranking of various amounts representing reduced funding levels. It did not, therefore, prevent consideration of alternative funding levels, including reductions.

Table 4Case Study Department Implementation of ZBB Varies

	<u>Minimum level guidance</u>	<u>Field Office use of ZBB</u>	<u>Rankings</u>
DOD:			
Army	Percent	Yes	Core program not ranked
Air Force	Percent	Yes	Core program not ranked
DOI:			
Bureau of Land Management	Varies	Varies	Uncontrollables consolidated and ranked #1
Heritage Conserva- tion and Recreation Service	Varies	Varies	Uncontrollables consolidated and ranked #1
HEW:			
Health Care Financing Adminstra- tion	Current level only	No field input	Core ranked
Office of Education	Not per- cent input	No field	Core ranked

We think that OMB monitoring and action is needed to insure that agency use of percentage-based minimum levels does not seriously impair periodic consideration and analysis of reduced funding levels, including real minimum levels.

DOD used a percentage approach to develop minimum levels for ZBB submissions. The Office of the Secretary of Defense provided guidance at three ZBB levels, stating that the minimum level was to be derived by "decrementing" 5 percent from the "basic" (or programmed) level. 1/ This was a general "top-down" minimum level determination. The services, however, allowed commands in some cases to "decrement" by an even larger percentage. Our work at the Army's FORSCOM in Atlanta disclosed FORSCOM use of a minimum level for fiscal year 1980 involving a set 15 percent "decrement" from the "basic" level. 2/ The increments above either the "decremented" or "basic" levels were at the discretion of managers as long as the total operations and maintenance account (of which our general purpose forces operations and maintenance case study was a part) minimum level was 15 percent below the "basic" level. A similar situation existed in some DOI program categories (not our case studies) where there was top-down minimum level guidance on a percentage basis.

Based on fiscal year 1979 experiences in which percentage guidance was used, HEW decided not enough attention was given to developing true minimum levels. Therefore, percentage guidelines were not given for fiscal year 1980. Also, not all HEW decision units were assigned minimum levels. For example, the Medicare benefit payments material contained only the projected fiscal year 1980 need based upon

1/Minimum level guidance to the services was a total service estimate only and not program specific. Air Force and Army headquarters guidance to major commands was at the appropriation account level only and not program specific.

2/DOD did not use traditional ZBB terminology (i.e., decision units, decision packages, minimum level, etc.). According to DOD, PPBS provides logical and useful breaks at program element and subprogram levels. The basic level was defined as the Program Budget Guidance control level.

current statutes and actuarial projections. Medicare benefit payments are relatively uncontrollable because they are based on statutory entitlement provisions. 1/

Field office use of ZBB

The use of ZBB procedures for the fiscal years 1979 and 1980 budget formulation cycles generally did not significantly expand the budget formulation roles of the first level field offices in the case study programs. If the principal field offices did not make systematic and formal program budget submissions before the introduction of ZBB, they mostly continued this inactive program budgeting role under ZBB. This applied to the regional offices of DOI's Heritage Conservation and Recreation Service, and HEW's Health Care Financing Administration (and the predecessor organization administering Medicare) where regional offices have traditionally had no significant role in case study program planning, management, and budget formulation. Headquarters officials in these instances saw no need to involve the regional offices in ZBB exercises on these "national" or "headquarters" programs (Medicare, etc.).

The Air Force differed from the above examples in that the introduction of ZBB for the fiscal year 1979 cycle coincided with the first use of major commands in the budget development process. The Tactical Air Command (TAC) systematic development of a budget submission first occurred for the fiscal year 1979 cycle, in ZBB format, and has been continued since then. The TAC case illustrates that a budget formulation role for a field office is most likely to occur where the field has some program planning and implementation responsibilities.

A trend counter to that expected under ZBB occurred concerning the Office of Education's regional offices. A reorganization took place in 1978 that centralized program planning, management, and budgeting responsibilities in these areas. This reorganization coincided with the introduction of ZBB in the Office of Education. The outcome was

1/However, the budget material of HEW reflected proposed changes to the Medicare legislation that would change benefit payment levels. Decision packages were not prepared for legislative proposals but the effect of legislative proposals on program levels appeared in the ZBB rankings. The ZBB treatment of legislative cost savings proposals is discussed further on page 75.

that the regional offices lost their former responsibilities for submitting program budget requests and related material, and retained only the function of making salaries and expense budget submissions to the Washington headquarters.

Level of detail affects paperwork burdens

Generally, one of the most difficult ZBB items for management is the balancing of information needed between that desired and the smallest amount necessary. Reporting has its burden. Used ineffectively the ZBB process can at times cause a nightmarish paper mill. This is not only detrimental to the ZBB goal of improved analysis, but is also a waste of resources. This can be prevented. One key to successful ZBB use is to report only essential information. There can be different amounts of information for different types of programs.

A program which has just been extensively reviewed during the reauthorization process, for example, should not have to be as extensively documented for ZBB as a program which has not been reauthorized or otherwise thoroughly examined in years. There can be consolidated decision units and related decision packages for such programs. For example, grants for the disadvantaged decision packages could have been consolidated or condensed somewhat for fiscal year 1980 because the program had been reauthorized in fiscal year 1979.

What to include or exclude from ZBB rankings is another factor which can affect the amount of paperwork and usefulness to managers of the process. Whether to rank all decision packages or include in an assumed, aggregate "core" important items which are to be funded regardless of constraining policy varied among case study departments.

In our earlier report on ZBB, we noted that organizations which successfully implemented ZBB did not literally start from zero. Each organization assumed a base of activities necessary to carry on operations. Those base, or core programs, were considered essential and not subject to intensive review. Once core programs had been identified, it was possible to decrease the amount of documentation used to support the budget justifications for those programs, perhaps by consolidating decision units and preparing fewer decision packages. One alternative was to limit the number of decision units and packages, and the size of rankings, by consolidating "core" programs into a single unit. These

included important, ongoing programs which were expected to be funded regardless of expected fiscal constraints. In this way, efforts were more easily channeled toward focusing on determining priorities, analyzing urgent or marginal issues, and considering alternative funding levels.

DOI and DOD followed the approach of including in the ranking an aggregate covering numerous core programs. DOI did not rank relatively uncontrollable accounts (primarily earmarked receipts, trust funds and fixed payments). Instead, the first entry in the ranking was a consolidation of these accounts and detail was provided in an attachment. DOI then ranked decision packages in priority order until the OMB July guidance was reached.

The Army and Air Force rankings were similar to DOI's in that important core items were in the budget submission as an aggregated entity and not ranked in the detail of non-core items which were expected to receive more scrutiny. For example, at Army's FORSCOM the core concept was introduced to refine the methodology for program development. Its central theme involved identifying the least essential items in the Five-Year Defense Plan (FYDP). After removal of those items and associated resources from the FYDP, those which remained were considered the basic core. Those items removed to achieve the "decremented" funding level competed for resources with the new items generated by FORSCOM or higher authority.

HEW's ranking differed from DOI's or DOD's largely because OMB required HEW to rank all decision packages for fiscal year 1980. 1/ This differed from 1979 practice

1/Another factor affecting HEW's ranking which is unique to the HEW case study is the effect of legislative cost savings proposals (discussed in appendix VI). These proposed changes to relatively uncontrollable entitlement programs, such as hospital cost containment's effect on Medicare, lower funding requirements and therefore appear in the ranking as negative entries. The subtraction of these proposals at several points within the ranking allows the total HEW request to approach the OMB guidance and then subtractions are made for legislative cost savings packages. This allows HEW to add more decision packages into the budget request to approach OMB guidance several times. Decisionmakers need to be aware that ranking of legislative cost savings proposals affects comparison of the ranking with guidance (or the "mark") received from OMB and higher department authority.

when HEW had a core consisting of high priority items which were included as a more aggregate entity within the ZBB ranking. Added to this core were estimates for uncontrollables assuming no legislative changes. In essence, uncontrollables did not compete with controllables because they were never ranked. In 1980, OMB required HEW to rank all program decision packages, including uncontrollables. Some controllable programs were ranked higher than uncontrollable programs. This had the advantage of taking the uncontrollables out of the untouchable area. This advantage could still be retained under a core approach, however, through a "rotating" ZBB schedule. Items determined to be part of a core could periodically be taken out of the core (and perhaps ranked high in the margin) and subjected to a comprehensive and detailed treatment. This treatment could apply to all activities determined to be core items, whether relatively controllable or uncontrollable. Core programs could be analyzed fully on a rotating basis that related to periodic presidential or congressional reviews.

Use of a core concept, similar to the use of percentage minimum level guidance, is a streamlining technique which needs to be monitored by OMB to prevent abuse. It is possible for agencies to try to continue to put certain programs and activities in a core year after year to prevent subjecting them to thorough ZBB analysis.

Agency officials have had mixed reactions

ZBB's perceived utility within the various levels of management differs. Positive comments were made regarding the fact that the field had more input into the process than experienced in the past. Higher level officials in most of the case studies were generally pleased with the discipline required for managers to prioritize their programs for the ranking process.

Many of the critical remarks related to the paperwork intensive approach to ZBB brought about by too much detail. Some officials interviewed saw ZBB only as a system that had produced twice as much paperwork with very few results. All they saw was the increased workload coupled with the same old system of funding what you can with the money that is appropriated. Higher levels in many of the case studies were not satisfied with the mass of detail created by the system, either, because it did not help them in their analysis or decisionmaking. In some cases they argued that the process was not always appropriate for their programs--for example, the Medicare entitlement case study and OE and HCRS (State side) case studies.

Increased cost under ZBB

Our case study work found, in line with our earlier ZBB report's findings, that ZBB has led to more costly budget preparation. Resources committed to the ZBB process reportedly are more than was so under previous budget processes. This may partly be the result of ZBB emphasis on more input into the process from all levels. ZBB demands require more time and staff to formulate the budget requests at various levels. Computer use sometimes has also increased as the result of these demands. This is especially true if all the detail created is not used, complicates rather than enhances decisionmaking, or has no effect on decisionmaking.

Budget officials in all three case study departments generally stated that there are increased costs associated with ZBB, whether it be for additional staff, overtime, or increased computer use. For example, Army FORSCOM's 26 subordinate installations reported an average increase of 1,012 hours and \$9,744 for preparing the ZBB portion of just the base operations portions of their general purpose forces operations and maintenance budgets. FORCOM reported that its staff expended an additional 875 staff hours at an incremental cost of about \$11,000.

An increase in cost to prepare the budget in ZBB format was also reported by the Air Force. Officials at TAC in Norfolk stated that it took them about twice as much time to prepare budget materials in ZBB format than it took to prepare budgets in previous years (TAC's budgets in previous years were "execution" budgets prepared for funds allotted to TAC). In addition, TAC officials stated that budget preparation in ZBB format required so much time that they felt it interfered somewhat with adequately monitoring execution of the current budget. 1/

ZBB CAN BE IMPROVED WITH STREAMLINING

Under such circumstances it is understandable why there is considerable doubt among some officials regarding ZBB's usefulness. Much could be corrected, however, if certain steps are taken to "streamline" the ZBB process.

1/It should be noted that some of the time diverted from monitoring would be associated not simply to ZBB, but also to the new budget formulation role required of TAC.

As we reported in our previous report on ZBB, its ultimate success in the Federal Government will depend on management's efforts to streamline the process to fit the needs of the agencies, OMB, the President, and the Congress. We believe steps need to be taken in our case study program areas to streamline the ZBB process. These steps could reduce unnecessary costs and perhaps produce some of the benefits of ZBB. The need to streamline the ZBB process has already been recognized and implemented by some of our case study organizations. We encourage this trend to continue along with adequate OMB monitoring of streamlining to prevent possible abuses. We believe that addressing questions like the following ones contributes to cutting the unnecessary cost and paperwork burdens:

- What constitutes meaningful minimum level guidance?
- How much should budgeting be decentralized?
- At what level should decision units be developed?
- What should be included or excluded from rankings?

DOI is attempting to streamline the ZBB process by decreasing the number of decision packages, resulting in a decrease in the amount of paperwork required. ^{1/} Instructions from the Secretary call for streamlining the bureau budget proposals to reduce their size and make them more understandable for Assistant Secretaries and other reviewers. At the bureau level, however, for the programs we looked at, there is no perceived need or conscious effort to streamline or improve the ZBB process.

In DOD, both the Army and Air Force have attempted to streamline the ZBB system. The Army solicited commanders' critiques of ZBB and used these critiques to make adjustments to better adapt ZBB procedures to the Army budget process. For example, FORSCOM officials state further streamlining of ZBB is planned and a new computer program is under development to improve the ranking system.

^{1/}Our field office work also disclosed that some effort is being made by HCRS participating services to streamline the ZBB process. In the Park Service, for example, the ZBB process for fiscal year 1981 was simplified by reducing the number of budget levels from five to three.

In the Air Force, both headquarters and TAC officials want to streamline the ZBB process. TAC requested Air staff to conduct headquarters level ZBB workshops to improve the process, but the Air Staff has not scheduled workshops. TAC officials also wanted ZBB streamlined by:

- limiting base-level input to the ZBB process for budget items that TAC can better forecast for all of its bases.
- eliminating unnecessary ZBB budget exhibits which are also reported to the Air staff in other reports.

In HEW, we noted factors which complicated its ZBB system in comparison with DOI or DOD, for example the OMB requirement to separately rank high priority, or "core," items which would be funded no matter how constrained the budget. The ZBB ranking for HEW is also complex because of the peculiar effect of legislative cost savings proposals in viewing HEW's budget request against OMB dollar guidance. HEW has limited the number of decision packages and there is recognition of a need for meaningful minimum levels. In cases where only one level of funding is meaningful, such as Medicare benefit payments, only one level is reported.

We believe further efforts are needed to streamline ZBB in case study departments. For example, before ZBB much of the information used to justify an agency's budget submitted to OMB was also used by the agency in preparing its congressional budget justifications. However, these budget processes have become less compatible, and entirely separate submissions have to be prepared with the implementation of ZBB. As pointed out in our prior report, program/activity lists used in the budget process should be made more compatible to streamline the budget process. Time spent in preparing separate budget documents with varying displays and categories takes time from other more analytic development of alternatives.

Another key step we believe should be taken to streamline the ZBB process is to use ZBB selectively. Agreement between OMB and the agencies should be achieved at the beginning of each year's budget formulation period on the programs/activities which will receive comprehensive ZBB treatment during the upcoming ZBB cycle. Only the bare minimum information necessary should be developed for other programs/activities for comprehensive ranking. A "rotating" ZBB schedule could be developed which would link to a periodic review and reauthorization process. For example, our OE case study was reauthorized in fiscal year 1979. A comprehensive ZBB approach could have been taken for this

program at that time only and not taken again until the program is reauthorized in the future or the President wishes to reconsider priorities.

CONCLUSIONS

We strongly encourage steps to streamline ZBZ procedures in order to reduce their expense and cumbersome features. However, OMB needs to monitor agency modifications of ZBB and take any necessary actions to insure that agency modifications don't eliminate systematic, periodic reviews of program priorities and alternative funding levels for individual programs and activities. Two modifications that have potential for misuse are the use of percentage-based minimum levels and ranking "cores."

Zero-base budgeting procedures are, by most accounts, more expensive and cumbersome than traditional budgeting. However, we believe that ZBB priority and alternatives analysis concepts can work and be integrated into the Federal budget process. This conclusion reflects our belief that ZBB concepts are valid but that they have been overshadowed at times by the mechanical process. These concepts--analyzing alternative approaches to programs, establishing alternative funding levels, evaluating program effectiveness, and determining managers' program priorities--need to be successfully incorporated into budget systems. It is a mistake to consider ZBB little more than a process. Agencies should examine their needs, look at ZBB concepts, and only then devise a process to suit their special needs.

CONTROLLABILITYSUMMARY

- The Office of Management and Budget classifies Federal spending as either "relatively uncontrollable" or "relatively controllable" under existing law. Using this twofold classification, OMB classified 76 percent of the fiscal year 1980 budget's projected expenditures as relatively uncontrollable.
- The practical constraints (beyond obvious political constraints) on controllability in the case study programs illustrate that some "relatively controllable" programs are less than fully controllable from a practical point of view. Conversely, the executive branch has treated the "relatively uncontrollable" Medicare benefit payments program in some respects as a controllable program. In essence, there are controllable aspects to uncontrollable programs, and uncontrollable aspects to controllable programs. This illustrates that the current OMB twofold classification (programs as either "relatively controllable" or "relatively uncontrollable"), while useful, simplifies a complex subject.
- Adequate congressional control over the budget depends upon a full and accurate reporting of key program and budget amounts. Our case study work identified ways of improving congressional understanding of, and control over, certain budget amounts and totals. This would involve revised budget reporting on the following: the budgetary consequences of executive-proposed changes to legislation; Medicare's accounts and alternative benefit payments levels; and the estimated appropriation for the Bureau of Land Management's emergency fire program.
- Concerning executive-proposed legislation and its budgetary consequences, there is a need for better disclosure in the budget of the President's proposed legislation with budgetary consequences, whether increases or decreases. At this time, key information is scattered among several sections and tables, making it difficult to analyze and fully understand the budget. Much of the budget cannot be changed without changing authorizing legislation which often requires considerable time. For example,

fiscal year 1980 budget projected outlays and a deficit that assumed enactment of authorizing legislation (e.g., Medicare hospital cost containment) that would reduce expenditures by about \$4 billion. The passage of such legislative proposals is often uncertain, or may require considerable time. Therefore, the budget should adequately disclose and explain legislative proposals with budgetary consequences so that the Congress can make ready assessments of the budget's legislative assumptions, whether for increased or decreased spending.

--Concerning Medicare, better budget summary information is also needed for this \$30 billion-plus program. Medicare's budget treatment is confusing because it involves three budget accounts including two trust funds and the Federal payment account, various sources of income including insurance premiums and an annual appropriation, and extensive legislative proposals.

--Concerning appropriations for the Bureau of Land Management's emergency firefighting program, GAO believes that the budget practice of initially requesting and appropriating each year only a token amount, with a predictably large supplemental being requested later, is somewhat misleading. As a result, initial budget totals do not fully reflect expected budgetary needs.

WHAT IS CONTROLLABILITY?

In recent years observers have shown increasing interest in the fact that the Government is limited in the extent it can readily affect budget totals in a given year. This concerns the annual "controllability" of the Federal budget. The Office of Management and Budget classifies programs as "relatively controllable" if their spending levels can be adjusted annually through the appropriations process under existing authorizing legislation, and as "relatively uncontrollable" if spending adjustments require changes in the legislation. Based on this definition, OMB classified 76 percent of the fiscal year 1980 budget as "relatively uncontrollable," an increase of about 17 percentage points since 1967.

Over the years a number of statutory provisions and budget practices have been introduced that constrain the Government's ability to change spending levels through the annual appropriations process. These statutory provisions

and budget practices often have the objective of improving program efficiency and effectiveness, but in effect they also limit budget control.

For example, some programs are an "entitlement" by statute, whereby benefits must be paid to any recipient who meets the eligibility requirements according to law. In these cases, the spending level is set each year without congressional action. The funding becomes available through either an automatic "permanent appropriation" or a "current appropriation" wherein the Congress has little or no alternative, short of amending the entitlement legislation, but to appropriate the funds. 1/ Medicare benefit payments, our case study program in the Health Care Financing Administration, is an entitlement program. 2/

Other budgetary practices and devices that have increased the uncontrollability of the budget include the following:

- permanent appropriations (used also for nonentitlement programs);
- permanent borrowing authority, permitting a Federal agency to incur obligations and to make payments for specified purposes out of borrowed moneys;
- contract authority, under which binding contracts or obligations may be entered into in advance of an appropriation;
- advance appropriations, wherein funding is provided by the Congress for use in a fiscal year beyond the fiscal year for which the appropriation act is passed (a similar situation exists for programs that are "forward funded"--see p.96);

1/A "permanent appropriation" becomes available as the result of previously enacted legislation and does not require current action by the Congress. A "current appropriation" is enacted by the Congress in or immediately preceding the fiscal year in which it becomes available. Note: All definitions in this chapter are from GAO's "Terms Used in the Budgetary Process," PAD-77-9, July 1977.

2/We have a study underway on entitlements that will look at congressional control of these programs.

- establishment of off-budget Federal entities, whose amounts are excluded by law from the budget totals; and
- loan guarantees, a form of contingent liability that carries a commitment by the United States to repay in whole or in part the principal and/or interest in case of default.

Annual changes in budget totals
are largely uncontrollable

A major consequence of the predominantly uncontrollable budget is that the increment (the increase from the previous fiscal year's budget), in addition to the base, is largely uncontrollable. As a result, much of the budget is a forecast of spending decisions which were made years in advance.

The fiscal year 1980 budget, for example, projected an increase of about \$38 billion in outlays from the fiscal year 1979, but \$33.9 billion (89 percent) of the increase was classified as relatively uncontrollable. Table 5 shows the successive yearly increments since 1975 and the percentage of that increment classified as relatively uncontrollable.

Writers have sometimes distinguished between the budget base and the increment and argued that the base is almost never reviewed as a whole every year. Instead, special attention is given to the increment. ^{1/} Therefore, in practice, the increment could be considered as more controllable than the base. However, as indicated in table 5, the increment itself is largely uncontrollable under current definitions. As a result, much budget activity has recently been directed toward opening the base for closer scrutiny by the use of budget strategies such as legislative cost savings proposals, zero-base budgeting, and multiyear budgeting.

^{1/}See, for example, Aaron Wildavsky, The Politics of the Budgetary Process (New York, 1974: Little, Brown and Company), chapter 2.

Table 5Outlay Increments

(billions of dollars)

<u>Fiscal years</u>	<u>Total increments</u>	<u>Uncontrollable increment</u>	<u>Percent uncontrollable</u>
1979-80	\$38.2	\$33.9	89
1978-79	42.6	36.3	85
1977-78	48.1	39.5	82
1976-77	36.3	26.6	73
1975-76	40.2	30.2	75

Note: Amounts for fiscal years 1978-79 and 1979-80 are estimates.

Reasons for diminished control

In some cases the Congress has traded controllability of Federal spending for certain purposes. Some of these purposes include: 1/

- reducing financial uncertainty for prospective beneficiaries in retirement and insurance programs;
- reducing uncertainty to State and local governments as to the availability of Federal financial assistance when they prepare their budgets;
- reducing stop-and-go financing that leads to the inefficient provision of Government services; and
- reducing uncertainty to business firms and the financial community.

In essence these positive purposes are used to assure efficiency, stability, low risk, and financial certainty. The Congress may decide at times that these positive purposes override the goal of maximizing annual congressional control.

1/Taken from Allen Schick, Congressional Control of Expenditures, House Budget Committee, January 1977, pp. 5-8.

Controllability is
receiving growing attention

Executive branch interest in uncontrollable spending is indicated by several actions. Since 1971, OMB has included in the budget each year a table on the controllability of budget outlays. Table 6 shows the growth of OMB-classified "relatively uncontrollable" outlays as a percentage of the budget since 1967--from about 59 percent in fiscal year 1967 to a projected 76 percent in 1980.

Table 6

Controllability of Budget Outlays
According to OMB, 1967-1980

	<u>Percent of total outlays</u>				
	<u>1967</u>	<u>1971</u>	<u>1975</u>	<u>1979</u>	<u>1980</u>
Relatively uncontrollable under present law					
Open-ended programs and fixed costs:					
Payments for individuals	26.4	36.6	45.7	45.2	47.1
Other	9.5	10.8	11.7	13.2	12.4
Total open-ended pro- grams and fixed costs	35.9	47.4	57.3	58.4	59.5
Outlays from prior-year contracts and obligations	23.4	19.0	15.5	16.6	16.5
Total relatively uncontrollable outlays	59.3	66.4	72.8	75.0	76.0
Relatively controllable outlays	41.6	34.8	28.4	26.1	25.0
Undistributed employer share, employee retirement	-1.1	-1.2	-1.2	-1.1	-1.0
Total budget outlays	100.0	100.0	100.0	100.0	100.0

One way to minimize the possible adverse effects of uncontrollable practices is improved visibility in the budget on the future costs of current and proposed programs. Since 1971, OMB has shown in the President's budget 5-year projections of outlays for broad categories of activities. However, until recently these projections did not represent commitments or plans about budget priorities. The projections were simply estimates of the future outlays needed to support existing programs at their current levels.

As discussed in appendix IV, starting with the 1980 budget, agencies have prepared their budgets in the context of a multiyear plan, with the exception of DOD, which has provided multiyear plans for several years. Budget planning is done for 2 years beyond the coming fiscal year, with projections of these planning targets for 2 more years. One purpose of multiyear planning is to gain better control over the budget through, for example, legislative cost savings proposals in relatively uncontrollable programs.

Much of the budget cannot be changed without changing authorizing legislation, which often requires considerable time, and thus savings in relatively uncontrollable programs may require several years to achieve. These savings need to be considered over a longer period of time. Increased emphasis on multiyear planning will be necessary to achieve significant legislative savings.

Beginning in the 1979 budget, OMB has been proposing a set of credit program budget controls that would include more systematic and comprehensive appropriation limitations on direct loans and loan guarantees. This would help bring under control a major facet of relatively uncontrollable spending.

Congressional interest in gaining more budget control has also been growing. The Legislative Reorganization Act of 1970 established several procedures and requirements to give the Congress better control over the budget, including the Section 221(a) provision requiring the President to inform Congress of the amounts proposed for appropriation and expenditure in the upcoming fiscal year, and estimated amounts for the ensuing 4 fiscal years, on each of his proposals for legislation creating a new program or expanding an existing one. The President's annual budget now contains a table with this information.

The Congressional Budget Act of 1974 initiated other major actions. The Act, among other things, required the Appropriations Committees to study permanent appropriations and to recommend terminations or modifications and also stipulated that new contract or borrowing authority would be effective for any fiscal year "* * * only to such extent or in such amounts as are provided in appropriation acts."

GAO has conducted several studies of congressional budgetary control. These have analyzed how control may be

adversely affected by such factors as "no-year" appropriations, 1/ the lack of full funding for projects with multi-year commitments, 2/ misestimates of obligation rates and outlays, 3/ understatements of budget authority in budget documents, 4/ the use of netting procedures for calculating outlays in public enterprise revolving funds, 5/ and off-budget practices. 6/

CURRENT CASE STUDY WORK ILLUSTRATES
THAT CONTROLLABILITY IS A
COMPLICATED SUBJECT

OMB classifies all of our case study programs, except for Medicare benefit payments, as "relatively controllable." Our work showed that these controllable programs have certain features limiting their practical controllability (beyond obvious political constraints). Conversely, with regard to the "relatively uncontrollable" Medicare benefit payments program, the executive branch has treated it in the same way in some respects as a more controllable program. These cases suggest that the current OMB twofold classification (programs are either "relatively controllable" or "relatively uncontrollable"), while useful, simplifies a complex subject.

1/"No-Year Appropriations in the Department of Agriculture" (PAD-78-74, Sept. 19, 1978).

2/"Further Implementation of Full Funding in the Federal Government" (PAD-78-80, Sept. 7, 1978).

3/"Analysis of Department of Defense Unobligated Budget Authority" (PAD-78-34, Jan. 13, 1978); "An Overview of

Unobligated Balances in Civil Agencies (PAD-78-48); and "Federal Budget Outlay Estimates: A Growing Problem" (PAD-79-20, Feb. 9, 1979).

4/"Budget Authority for Foreign Military Sales is Substantially Understated" (PAD-78-72, July 27, 1978).

5/"Revolving Funds: Full Disclosure Needed for Better Congressional Control" (PAD-77-25, Aug. 30, 1977).

6/"Government Agency Transactions with the Federal Financing Bank Should be Included in the Budget" (PAD-77-70, Aug. 30, 1977).

Controllability is a matter of degree and timing. Many relatively uncontrollable programs are subject to budget control even in the short run, provided legislative changes are enacted. However, changing authorizing legislation often requires considerable time, and thus savings in relatively uncontrollable programs may require several years to achieve. Many relatively controllable programs, on the other hand, entail practical constraints on the degree of control that can be achieved in a given year. The current distinction tends to focus congressional and executive branch attention on the portion of the budget classified as controllable when attention should be focused on the portion classified as uncontrollable as well.

Attempt to control the relatively uncontrollable Medicare benefit payments program of the Health Care Financing Administration

OMB classified the Medicare trust fund accounts 1/ as relatively uncontrollable for two main reasons. 2/ First, Medicare is an entitlement program--all people who meet the eligibility requirements are entitled to certain benefits. Second, Medicare has a permanent appropriation 3/ which is budget authority that becomes available as the result of previously enacted legislation and does not require current action by the Congress.

Although OMB classifies the Medicare benefit payments program as relatively uncontrollable, the fiscal year 1980 budget for Medicare benefit payments reflected administration efforts to reduce costs, showing an attempt at budget control in this relatively uncontrollable program. The administration pursued several strategies during the fiscal year 1980 budget formulation cycle to bring greater

1/Federal Supplementary Medical Insurance Trust Fund," and "Federal Hospital Insurance Trust Fund." In this report, the combined payments from both trust funds are treated as the Medicare program.

2/OMB classifies the projected increases or decreases associated with proposed legislation as relatively controllable amounts.

3/This aspect of Medicare financing is somewhat confusing. Although Medicare is covered by two permanent appropriations, it also receives an annual appropriation for approximately 22 percent of the program.

control to this program. These strategies are discussed below.

HEW sought significant savings through regulatory changes under existing law during fiscal year 1980 budget formulation. The fiscal year 1980 budget reflected regulatory savings of \$386 million. These changes show that under current law, administration officials seek some control over this uncontrollable program. The largest anticipated saving (\$270 million) would result from regulations that would base Medicare reimbursements for hospital malpractice insurance premiums upon the actual experience of Federal beneficiaries, rather than on their rate of utilization of hospital services.

Another budget strategy was centered around legislative cost savings proposals--i.e., proposals to reduce costs through changes in the existing Medicare legislation. The fiscal year 1980 budget outlays for Medicare benefit payments were reduced by \$1.74 billion to reflect the administration's hospital cost containment proposal (\$1.5 billion reduction) and other legislative proposals. Hospital cost containment was first proposed in the fiscal year 1979 budget, with estimated savings of \$636 million, but it failed to pass.

This budget strategy is not limited to the Medicare program. Government-wide, the fiscal year 1980 budget projected almost \$4.2 billion (for 1980) in reduced outlays because of legislative cost savings proposals. The 1981 budget projected over \$5.6 billion (for 1981) in reduced outlays. Earlier budgets have also included large amounts. Thus the President's budget totals, including deficit projections, normally assume large savings by passage of administration-proposed legislation.

Although these initiatives are within the President's prerogative to propose, their enactment is often uncertain and time consuming. If and when they are enacted, their provisions may well differ substantially from those which were proposed. Therefore, full and adequate disclosure of legislative cost savings proposals and assumptions is needed in the President's budget, to allow the Congress and other budget users to gauge when savings can be achieved and their effect on related budget totals.

At this time, insufficient disclosure on the details of such proposals is in the budget. Key information is scattered among several sections and tables, making it difficult to analyze and fully understand the budget. Specifically,

one of the budget's presentations on legislative proposals provides a net figure reflecting both legislation that would increase spending and legislation that would decrease spending (page 517 of the 1980 budget and page 544 of the 1981 budget). It does not provide the detailed breakdown by agency and budget account, along with explanatory narrative, to permit a ready assessment of the proposals. The 1981 budget has a new table (page 14) which summarizes legislative cost savings proposals for outlays only. This is a positive step. However, greater prominence is needed for legislative cost savings proposals in conjunction with legislative expansions so that the Congress can make ready assessments of the budget's legislative assumptions, whether increases or decreases. Therefore, legislative cost savings proposals should be given greater prominence in the President's budget by incorporating them into the budget's present table on legislative proposals for major new and expanded programs (table 15, page 562, 1980 budget). Subtotals should be provided for legislative cost savings proposals and legislative expansions. In addition, the table should be comprehensive to include all legislative proposals with budgetary impact, whether increases or decreases.

Another budget strategy was the use of fraud, abuse, and waste savings targets. The fiscal year 1980 Medicare benefit payments budget submitted by HCFA to the Office of the Secretary incorporated fraud, abuse, and waste savings targets. These targets, directed by Secretarial memorandum, were based on the HEW Inspector General's First Annual Report, dated March 31, 1978. The report estimated fraud, abuse, and waste at \$7.4 billion which was later revised down to \$6.5 billion. This estimate generated much publicity which induced HEW officials to look for ways to control the amount.

Medicare summary information
is lacking

From our work on Medicare, we conclude that needed Medicare summary information is lacking in the Budget Appendix and related "justifications" provided to the appropriation committees. There is a need for a Medicare summary table that would fully disclose, in one place, the key funding and legislative proposals of the Medicare program. The Budget Appendix separately shows three different accounts--the two trust fund accounts and the Federal payment account--without adequately combining and summarizing this information. The justification materials for the appropriations committees only give information directly related to the appropriated Federal payment amounts. The best summary

information available, pulling together current and proposed law information on all three accounts, is in the annual press release on the HEW budget, but the press release has limited circulation. Medicare's budget treatment is confusing because it involves three budget accounts including two trust funds and the Federal payment, various sources of income including insurance premiums and an annual appropriation, and extensive legislative proposals. For this reason, and also because it is a \$30 billion-plus program, Medicare warrants summary information in the budget documents. Improved summary information would help the Congress understand the full budgetary ramifications of Medicare. Table 7 illustrates a summary table (derived from HEW's press release table).

Features of the controllable classification

OMB classifies all of our remaining case study programs as relatively controllable because under current law the program levels are not determined by existing authorizing statute. Although OMB classifies these programs as relatively controllable, there are practical constraints on their degree of controllability (beyond obvious political constraints). We noted some factors limiting practical control over these programs during the fiscal year 1980 budget formulation cycle.

Air Force and Army general purpose forces operation and maintenance

The primary uncontrollable aspect in the services' general purpose forces operation and maintenance budget is that the budget requirements are driven to a great extent by force levels. These include such factors as the average number of military personnel for each service, the number and type of Army divisions and Air Force wings, and the number of bases and installations. If the key force levels remain relatively stable from one year to the next, the operation and maintenance appropriation can be expected to remain fairly stable. Table 8 shows that key force levels in the Army and the Air Force have remained relatively steady over fiscal years 1978-80. Given this trend, it is not surprising that the recent appropriations histories for the two services' case study programs have shown similar stability (see appendix IX). Although the annual appropriations for Army and Air Force operation and maintenance are "relatively controllable," they are to a great extent affected by prior year decisions on the basic force levels.

Table 7

Medicare Fiscal Year 1980 Budget Summary

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>Change</u>
<u>Persons Enrolled (millions)</u>				
--Hospital Insurance (HI)	26.2	26.9	27.5	0.6
--Supplementary Medical Insurance (SMI)	25.8	26.5	27.2	0.7
<u>Program Outlays (in millions)</u>				
<u>Current Law Program:</u>				
<u>Program (current law)</u>				
--HI Benefits	\$17,415	\$20,262	\$23,555	\$3,293
--HI Administration, Experiments, and Demonstrations	447	489	499	10
--SMI Benefits	6,852	8,228	9,591	1,363
--SMI Administration, Experiments, and Demonstrations	497	543	565	22
Subtotal, Program	\$25,211	\$29,522	\$34,210	\$ 4,688
<u>Regulatory savings (current law)</u>				
--Inhalation Therapy Limits (HI)	-	-13	-19	-6
--Provider Inefficiency (HI)	-	-	-97	-97
--Malpractice Insurance (HI)	-	-10	-270	-260
Subtotal, Regulatory savings	-	-23	-386	-363
Total, Current Law Program	\$25,211	\$29,499	\$33,824	\$ 4,325
<u>Proposed Legislation:</u>				
--Hospital Cost Containment (HI)	-	-350	-1,500	-1,150
--Working Aged (HI)	-	-	- 200	- 200
--Hospital-Based Physicians (SMI)	-	-	-48	-48
--Re-Entitled Disabled (HI + SMI)	-	-	27	27
--Chiropractic Benefits (SMI)	-	-	-34	-34
--Psychiatric Services (SMI)	-	-	22	22
--Civil Money Penalty (SMI)	-	-	-9	-9
--Common Audit (HI)	-	-	-6	-6
--Other (HI + SMI)	-	-	4	4
Total, Proposed Legislation	-	-350	-1,744	1,394
<u>Total, Medicare Program Outlays</u>	\$25,211	\$29,149	\$32,080	\$ 2,931

Table 7 - Continued

Medicare Fiscal Year 1980 Budget Summary

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>Change</u>
<u>Program Receipts (in millions)</u>				
<u>Current Law Income:</u>				
<u>HI Trust Fund</u>				
--Taxes Minus Refunds	\$16,677	\$19,948	\$23,354	\$3,406
--Appropriation	850	908	873	-35
--Interest on Investments	730	875	992	117
--Railroad Retirement Transfer and Interest	214	196	229	33
--Premiums from the Uninsured	12	16	20	4
Subtotal, HI Trust Fund	\$18,543	\$21,943	\$25,463	\$3,525
<u>SMI Trust Fund</u>				
--Premiums from the Aged	2,136	2,385	2,609	224
--Premiums from the Disabled	245	265	300	35
--Appropriation	6,386	6,353	7,097	244
--Interest on Investments	229	301	335	34
Subtotal, SMI Trust Fund	9,046	9,804	10,341	537
Total, Medicare Current Law Income	\$27,539	\$31,747	\$35,809	\$4,062
<u>Proposed Legislation:</u>				
--HI	-	3	29	21
--SMI	-	-	-27	-27
Total, Proposed Legislation	-	3	2	-6
<u>Total, Medicare Trust Fund Income</u>	\$27,539	\$31,755	\$35,811	\$4,056

Table 8

Force Level Stability of the Air Force and Army

	Fiscal Years		
	<u>1978</u>	<u>1979</u>	<u>1980</u>
Military Personnel			
Average Strength:			
-Air Force	572,000	567,000	562,000
-Army	771,000	762,000	772,000
General Purpose Forces:			
-Air Force wings	26	26	26
-Army divisions	16	16	16

Similarly, the rates and levels of forces' modernization affects operation and maintenance requirements, and this too relates often to prior year decisions. Prior year decisions to procure and introduce new and more advanced aircraft, mechanize battalions, etc., can affect the nature and complexity of the operation and maintenance budget and thereby the current budget needs. 1/

Linked with these broad considerations are a number of related factors that limit flexibility during budget formulation. For example, from our case study of budget processes at FORSCOM and the 101st Division at Fort Campbell, Kentucky, we noted that several budgeted items are perceived (at FORSCOM and Ft. Campbell) as somewhat uncontrollable because of legal requirements and Army regulations. In real property maintenance, laws and regulations require FORSCOM to supply certain levels of heating, cooling, and electricity to the troops. FORSCOM is also required by law to maintain and preserve real property. Utility costs cannot be eliminated of such drastic steps as base closings.

1/A third key factor affecting budget needs, more variable on a year-to-year basis, concerns adjustable readiness factors. Increased combat readiness may require more battalion training exercises or fighter pilot inflight training, and these would necessitate larger budgets for fuel, spare parts, etc.

Office of Education grants
for the disadvantaged program

A "forward funding" mechanism for the Office of Education grants for the disadvantaged program causes appropriations to be enacted almost a year ahead of the time when the money may be obligated. 1/ The reason for forward funding is to allow school districts to plan better and to prepare budgets with the certainty of the Federal funding level. Because the outlay effect (expenditures) of each year's appropriation is delayed by a year or more, the program is limited for controlling outlays in the immediate future.

In addition to forward funding, the authorizing legislation has an additional relatively uncontrollable aspect. It contains a "hold-harmless" provision that establishes a minimum floor for grantee amounts. The law states that grant amounts cannot be less than 85 percent of the prior year's amounts to a grantee. Therefore, the portion of the appropriation that represents 85 percent of the prior year's appropriation could be considered as an uncontrollable base. The authorizing legislation would have to be changed to negate the "hold-harmless" provision.

Bureau of Land Management
coal, range, fire, and
emergency firefighting programs

A court injunction in the coal program and a court-ordered agreement in the range program restricted these programs until certain work was completed on environmental impact statements. In the coal program, the court injunction prevented DOI from issuing any new leases, except under limited circumstances, until the completion of a supplement to the coal program environmental impact statement originally prepared in 1975. The result was that priorities in the coal program were switched to completing the environmental impact statement and maintaining existing leases. In the range program, the court-ordered agreement (later amended) required the Bureau of Land Management to complete 212 site-specific environmental impact statements on 150 million acres of public land by 1989. The agreement further restricted the Bureau from implementing new plans on a specific area until

1/For example, the 1980 appropriation becomes available in the last quarter of fiscal year 1980, and remains available during fiscal year 1981.

an environmental impact statement was completed. As a result, budget flexibility has been limited.

The Bureau's emergency firefighting program level is directly related to the severity and number of fires and fire conditions. Although OMB classifies the emergency firefighting program as controllable, its program level is heavily uncontrollable and contingent upon the weather and the outbreak of fires. In addition, for each of the last several years (except 1979), the President's budget has requested an initial token amount for emergency firefighting of \$4.8 to \$5.4 million. During the year, any shortage of emergency funds may be temporarily offset by borrowings from other accounts, to be repaid by supplemental appropriations. The supplementals have ranged from about \$20 to \$53 million annually.

The exception to this practice was in the fiscal year 1979 budget. The President proposed a larger, full funding amount for emergency firefighting of \$30.0 million--hoping to avoid the need for a supplemental appropriation. The Congress, however, rejected this approach and appropriated a token \$4.8 million (the later supplemental appropriation was for \$44.9 million).

Under the normal approach, total estimated costs for this program are not shown in the budget request. Table 9 shows the appropriation history for emergency firefighting for the last 7 years.

The practice of initially requesting each year only a token amount for emergency firefighting is somewhat misleading to the public and the Congress. It understates expected budget requirements. The same practice is also used for the emergency firefighting programs of the Forest Service and the Bureau of Indian Affairs. The budget would present a more complete picture of emergency firefighting program requirements if the initial request reflected the best estimate of total needs. This more complete "up front" disclosure would show the full costs of the program and would facilitate program comparisons and priority setting by the Congress.

A computed average amount, with necessary adjustments, could be used as the basis for a full (estimated) request. Statutory provisions could be enacted to insure that any excess appropriation could not be used for unauthorized purposes and that any shortages of funds could be temporarily covered with borrowings (as in current practice).

Table 9

Emergency Firefighting Appropriation History a/

(dollars in thousands)

<u>Fiscal year</u>	<u>Initial appropriation request</u>	<u>Initial appropriation</u>	<u>Supplemental request</u>	<u>Supplemental appropriation</u>	<u>Total appropriation</u>
1974	\$ 5,400	\$4,800	\$21,000	\$19,300	\$24,100
1975	5,400	4,800	19,950	19,950	24,750
1976	4,750	9,500	20,500	20,500	30,000
1977	4,750	4,750	35,000	35,000	39,750
1978	4,750	4,750	53,000	53,000	57,750
1979	30,000	4,750	44,850	44,850	49,600
1980	4,750	4,750	45,000	b/	b/

a/These amounts do not include offsetting collections which not only reduce the appropriation request but also reduce congressional control because the Congress does not review or approve their amounts as part of the annual appropriations process.

b/Pending enactment.

Heritage Conservation and
Recreation Service "States"
and "Federal" programs

OMB also classifies the Land and Water Conservation Fund's "States" and "Federal" programs as controllable, because spending can be increased (up to the \$900 million authorized limit for the fund) or decreased without changes in existing law. These are probably the most controllable programs from a practical standpoint. Because each year's appropriation is designed to fully fund the "States" and "Federal" projects, a subsequent year's reduced appropriation would not disrupt ongoing projects (provided that the earlier projects were fully funded ^{1/}). Given this feature, the programs of the Land and Water Conservation Fund are both technically and practically controllable. However, such high controllability can have negative effects.

According to officials in DOI and OMB, the Land and Water Conservation Fund, being among the most controllable accounts in DOI, is used as a "balancing" account for DOI, subject to change in order to allow the Administration to meet changing fiscal requirements and budget targets. Thus State and Federal agencies are uncertain of their funding level. The uncertainty, as discussed in appendix IV, can create a disincentive to planning.

CONCLUSIONS

The practical constraints on controllability in most of our case study "relatively controllable" programs (beyond obvious political constraints) illustrate some limitations on flexibility even in these programs. Conversely, the executive branch has treated the "relatively uncontrollable" Medicare benefit payments program much as a controllable program. In essence, there are controllable aspects to uncontrollable programs, and uncontrollable aspects to controllable programs. This illustrates that the current OMB twofold classification (programs as either "relatively controllable" or "relatively uncontrollable"), while useful, simplifies a complex subject.

^{1/}We could not in our review determine the extent to which this is the case with most projects.

The Congress needs informative and accurate budget information in order to adequately compare programs, set priorities, and exercise fiscal control. Our case study work identified areas where improvements are needed. There is a need for better disclosure in the budget of the President's proposed legislation with budgetary consequences, whether increases or decreases. At this time, such information is scattered among several budget tables and discussions. It is important to have good budget information on such legislative proposals because the enactment of the legislation is often uncertain or may require considerable time, and a full and readily understood disclosure of the budget amounts that are contingent upon the passage of legislation would permit users of the budget to better assess the budget's assumptions and totals. There is a need for a single table and discussion with a reporting by agency and account of the budget authority and outlay increases/decreases (with sub-totals for each) associated with executive branch proposed legislation.

Similarly, there is a need for a Medicare summary table that would fully disclose, in the Budget Appendix and related justifications, the key funding and legislative proposals for the Medicare program. Medicare's budget treatment is confusing because it involves three budget accounts including two trust funds and the Federal payment account, various sources of income including insurance premiums and an annual appropriation, and extensive legislative proposals. For this reason, Medicare (and perhaps similarly complex programs such as Social Security) warrants summary information in the budget documents. Good summary information is needed for full disclosure so that the Congress can make clear priority assessments.

Finally, there is a need for executive and congressional action to put BLM's emergency firefighting program on a full funding basis in initial appropriation action each year. This would better show the full costs of the program and facilitate comparisons with other programs. The budget practice of initially requesting and appropriating each year only a token amount for the Bureau of Land Management's emergency fire program, with a predictably large supplemental being requested later, is somewhat misleading. As a result, initial budget totals do not fully reflect expected budgetary needs. This can lessen the meaningfulness of the budget and confound congressional budget priority setting.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE CASESSEQUENCE OF STEPS FOR FISCAL YEAR 1980OVERVIEW OF KEY DATES AND EVENTS
IN THE DEPARTMENTAL PROCESS

The following is a chronological listing of the key dates and events in the overall departmental budget formulation cycle for fiscal year 1980, with an emphasis on the dates of formal policy and dollar guidance given by higher levels to lower levels, and the dates of formal budget submissions by lower levels. Other dates and events are listed with the separate case study discussions in the following pages.

- | | |
|----------------------|--|
| January 31,
1978 | Memo from Director of OMB providing preliminary policy and dollar guidance for fiscal year 1980. Dollar targets were given for the Department as a whole for budget authority of \$205.6 billion. |
| February 18,
1978 | Key departmental memo, "Development of Policies, Budgets, and Legislative Programs for Fiscal Years 1980 and 1981," is issued to the six Principal Operating Component (POC) heads. <u>1/</u> OMB dollar guidance is not included. |
| March 9-24,
1978 | Policy and budget strategy meetings (these are considered to be the kickoff meetings for the budget season) held with POC heads, the Under Secretary and the Secretary in order to provide input to OMB Spring Review. Objective is to influence 1980 budget targets which will be communicated to the Department on July 3, 1978. |

1/POCs are the six major subdivisions of HEW. They are the Office of Education (OE), the Health Care Financing Administration (HCFA), the Social Security Administration (SSA), the Public Health Service (PHS), the Office of Human Development Services (HDS), and the Office of the Secretary (OS).

March 31,
1978

Inspector General of HEW issues First Annual Report for 1977. Fraud, abuse, and waste are estimated at \$7.4 billion and later revised to \$6.5 billion. This estimate generated much publicity which induced HEW officials to look for ways to control the amount.

April 7-25,
1978

Series of departmental instructions to POCs regarding "Major Legislative Initiatives for the FY 1980 Cycle," "Guidance for the FY 80 Budget and FYs 80 and 81 Legislation," "Zero-Base Budgeting Instruction for Fiscal Years 1980-82," and "Inventory of Best Estimates of Fraud, Abuse, and Waste."

Late April-
early May
1978

POCs issue budget instructions, including instructions for zero-base budgeting submissions, to lower levels to develop budget estimates and return budget submissions to POC budget offices.

May 5 and 25,
1978

OMB issues Circular No. A-115, "Zero-Base Budgeting," and Circular No. A-11, "Preparation and Submission of Budget Estimates," to Department.

Early June
1978

POC budget and legislative submissions due to the Office of the Secretary budget office where they are reviewed.

July 3,
1978

Director of OMB, as result of OMB's "Spring Planning Review" with departmental officials, provides revised policy and dollar guidance for fiscal year 1980. Level of detail was for the Department only. Total budget authority target was \$205.7 billion (relatively uncontrollable target of \$184.2 billion vs. relatively controllable target of \$23.0 billion, with receipts of \$-1.5 billion).

Late June-
early August
1978

Under Secretary meets with POC heads regarding their budget and legislative submissions. Under Secretary also meets with the nine major legislative task force project managers to review their plans for possible inclusion in the POC budgets. Individual POC dollar guidance, growing out of OMB guidance, is not

forwarded to the POC. Under Secretary issues preliminary fiscal year 1980 allowances to POC heads. Appeals to the allowance are prepared by POCs and sent to the Secretary.

Early August-
September 14,
1978

Meeting between the Secretary and the POC heads regarding allowances and appeals. Secretary issues final allowances to POC heads. ZBB comprehensive ranking prepared and meetings between Office of the Secretary and POCs to make final ranking decisions.

September 15,
1978

Departmental submission to OMB. Total budget authority request was \$208.2 billion, \$2.5 billion above OMB guidance. Relatively controllable request was \$24.5 billion, or \$1.4 above OMB target.

September 15-
early January
1979

OMB holds hearings, reviews budget, and meets with President and Domestic Policy Staff. OMB passback formally delivered to Department with major cuts.

Secretary sends 43 page appeal to the Director of OMB (e.g., seeks restoration of \$2.7 billion in fiscal year 1980 relatively controllable budget authority). Series of meetings between Secretary and staff, OMB officials, and the President regarding appeals. Result was a restoration of \$2.5 billion in budget authority.

January 22,
1979

OMB submission to Congress of \$205.2 billion in budget authority for the Department.

OFFICE OF EDUCATION

Our review's work locations

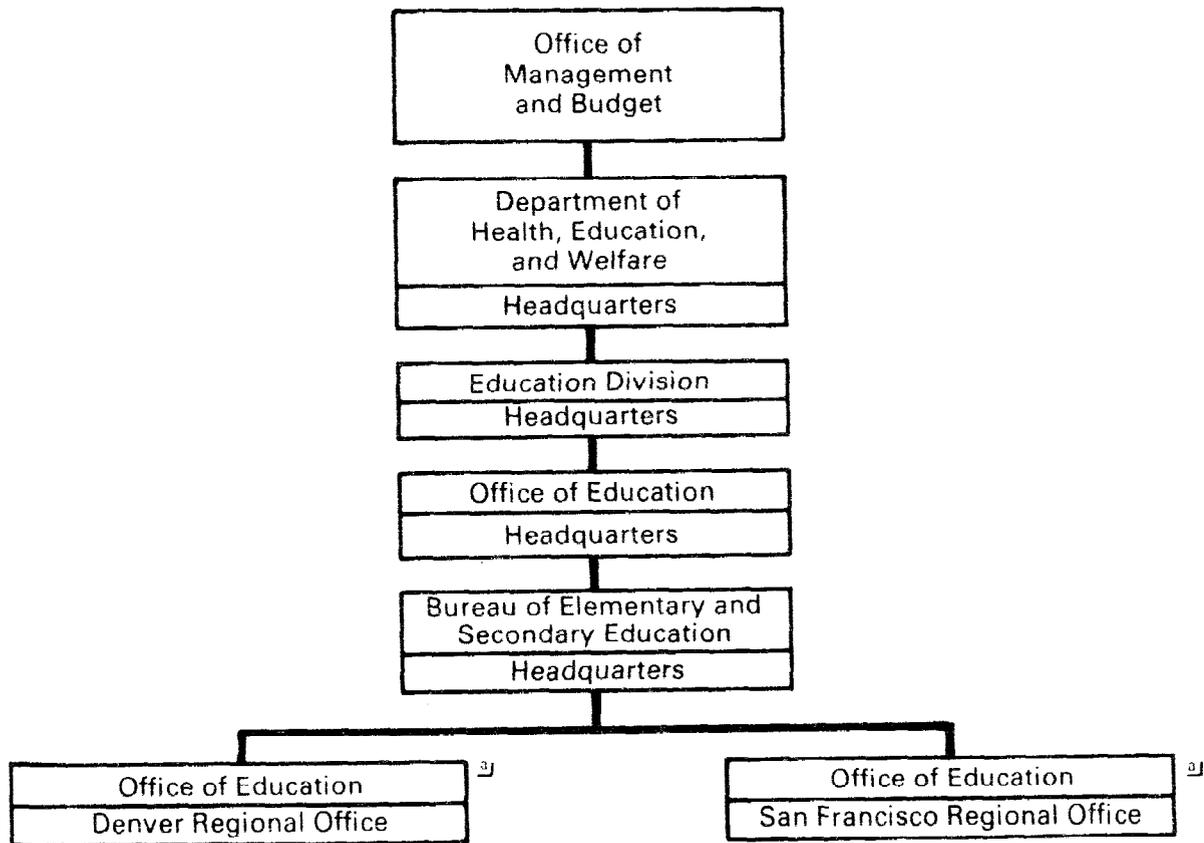
As seen in figure 11, our case study work on the grants for the disadvantaged program in the Office of Education involved work at both the headquarters and field levels.

The grants for the disadvantaged case study highlights

The grants for the disadvantaged program case study is the largest Federal program for elementary and secondary

Figure 11

GAO Work Locations in Review of Office of Education Budget Formulation



⌘ These work locations examined the regional input into formulation of the salaries and expenses (S&E) budgets. The regional offices play virtually no role in formulation of program budgets for OE.

education. The level of funding for the program becomes an entitlement after the annual appropriation amount is set by the Congress. Grants are made on a formula basis to local educational agencies to help improve their programs in order to meet the special educational needs of educationally deprived children. Grants are also made to State agencies for the education of handicapped children, dependent and neglected children, orphans and juvenile delinquents in State institutions, and for children of migratory workers. Additional grants are made to school districts with high concentrations of disadvantaged students, as authorized by the Education Amendments for 1978. It is estimated that from 7 to 7.5 million children in about 14,000 local school districts and from over 300 State agencies will participate during school year 1980-81. This includes an estimated 225,000 in nonpublic schools.

The grants for the disadvantaged program budget initiated as three subprograms during fiscal year 1980 budget formulation. In addition to regular grants, these included State incentive grants and concentration grants (both authorized by 1978 amendments). Fiscal year 1980 was the first year in which funds were requested for State incentive grants. The objective of this subprogram is to provide an incentive to States to inaugurate, maintain, and expand their own compensatory education programs having goals and structures similar to the grants to the disadvantaged program, by assisting them with additional funding. Concentration Grants, the other subprogram, was first funded in fiscal year 1979. Its goal is to provide for additional supplementary educational services to the educationally disadvantaged in those school districts with a high concentration of children in poverty.

Budget account and recent funding

The grants for the disadvantaged program is funded through the Office of Education budget account "Elementary and Secondary Education" (75-0279-0-1-501). It is funded under the "grants for disadvantaged" activity. OMB classifies this program as relatively controllable. Since 1975, funds under this program have been appropriated a year in advance of their use by State and local organizations. The fiscal year 1980 request will be used for school year 1980-81 and will become available on July 1, 1980, and remain available through September 30, 1981.

The grants for the disadvantaged program has experienced recent growths in both the appropriation requests and the appropriations. This is seen in table 10.

Table 10

Recent Appropriation History for the Grants
for the Disadvantaged Program

(dollars in thousands)

<u>Fiscal year</u>	<u>Appropriation request</u>	<u>Appropriation</u>	<u>Increase/ decrease (-) from request</u>
1978	\$2,285,000 <u>a/</u> 2,635,000	\$2,735,000	\$ 100,000
1979	2,978,820	3,078,382	99,562
1980	3,478,382	3,330,343 <u>b/</u>	(-148,039)

a/1979 revised President's budget.

b/Conference report.

Table 11 shows the action taken by the Congress on the grants for the disadvantaged program for fiscal year 1980.

Table 11

Initial Congressional Action on Grants
for the Disadvantaged Program Request, Fiscal Year 1980

(dollars in thousands)

<u>Adminis- trations's appropria tion request</u>	<u>House Passed</u>	<u>Senate Passed</u>	<u>Final enacted</u>
\$3,478,382	\$3,477,132	\$3,328,343	\$3,330,343

Congressional action on the fiscal year 1980 appropriation differed from the trend for this program in that it was the first time in which less had been appropriated than requested. The reason for this was the need for fiscal constraint. The Elementary and Secondary Education account, of which grants for the disadvantaged comprises the largest program, has for the last 10 years received larger appropriations from the Congress than the President's budget requested.

Driving forces

The grants for the disadvantaged program is traditionally a high priority program in the Office of Education, the Department, and the Congress. Although this program had to compete for scarce resources in a generally tight budget year, relative to other programs in the Office of Education, and the Department as a whole, it was comparatively successful. As a relatively controllable program, however, it is more liable to higher level (i.e., OMB) major budget decisions. The program was the subject of an OMB cut in the HEW budget request to fund the newly authorized State incentive grants subprogram. One of the reasons OMB did not want to fund the subprogram was because of congressional changes to the President's reauthorization proposals.

There is considerable congressional interest in this program. This is evidenced by the history of congressional add-ons to the President's budget request. Even though the fiscal year 1980 congressional action on the request deviated from the past history because of overall budget restraint, the Congress provided funding for State incentive grants which OMB had eliminated. Budgeting for this program is very controversial. For example, the reauthorization during 1979 was marked by intense efforts to change the grant distribution formulas.

Although the grants for the disadvantaged program is classified as relatively controllable, it nevertheless has certain characteristics which make it less controllable than would appear from the program description. For example,

the mechanism of forward funding ^{1/} decreases the likelihood of this program being used as a short-term candidate for fiscal constraint. The impact of budget decisions is delayed a year. If the program's budget is cut for short-term fiscal considerations, only the budget authority amount is lowered, but the effect on outlays will not show up until next year (to affect the deficit figure).

Another aspect which decreases the controllability of this program is that the authorizing legislation sets the formula for distribution of funds and contains "hold-harmless" provisions which affect the amount authorized to be appropriated (i.e., establishes a "floor"). For example, the law states current year grant amounts cannot be less than 85 percent of prior year amounts to a grantee. Therefore, the portion of the current year appropriation that represents 85 percent of last year's appropriation could be classified as uncontrollable because the authorizing legislation would have to be changed to negate the "hold-harmless" provision.

Organizational level changes in the request amount

The dollar amounts requested by the principal organizational levels are seen in figure 12.

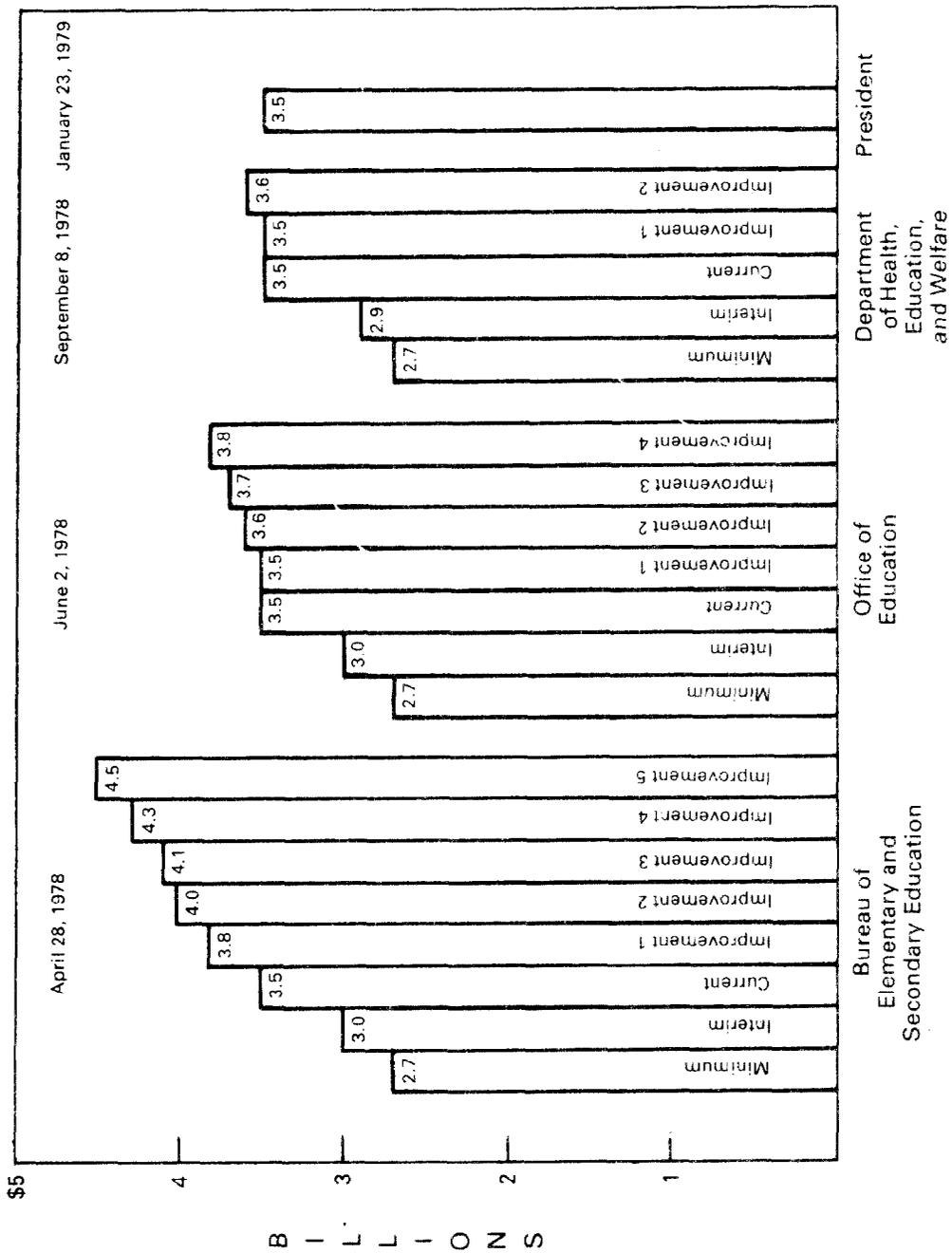
The various zero-base budgeting levels shown in figure 12 are defined as follows: ^{2/}

Minimum	That level below which it is not feasible to continue the program,
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^{1/}Some programs, typically involving Federal grants, do not work very well unless the money is assured many months before the start of the period in which it is to be spent. So the Congress provides forward funding. Thus, Federal aid to elementary and secondary schools is mostly appropriated a year ahead of the time it is to be spent. If it were appropriated currently rather than in advance, the school districts would, for the most part, not know how much Federal aid they would receive for a school year until the year had already started, long after teachers must be hired and books ordered.

^{2/}Definitions are adapted from the Office of Education "1980 ZBB Instructions," dated April 14, 1978.

Figure 12
 Organization Level Changes in the Appropriation Request for the OE Grants
 for the Disadvantaged Program, Fiscal Year 1980



because no constructive contribution can be made toward fulfilling its objectives.

Interim	Used to trace changes in goals, strategies, and output/input between the minimum and current levels.
Current	The 1979 budget request, plus any mandatory increases or decreases. There can be any number of different improvement levels proposed. The packages should be based upon logical, discrete incremental additions to a program.
Improved	There can be any number of different improvement levels proposed. The packages should be based upon logical, discrete incremental additions to a program.

The request level, as perceived by the participants in budget formulation for the program, was always the highest dollar total of the zero-base budgeting submission--the last improvement level.

Chronology of key dates and events

The following are key dates and events in budget formulation on the grants for the disadvantaged program for fiscal year 1980:

Program level formulation

January 3, 1978	The Commissioner of Education issues a memorandum to OE bureaus and speaks of "resolving various programmatic issues before the budget is developed." He called for a short list of policy issues and a separate paper on each issue.
January- February 1978	The bureau identifies budget issues that need resolution for the fiscal year 1980 budget cycle for the program. There were several meetings within the bureau to resolve budget issues.

February 18, 1978 The Secretary issues memo, "Development of Policies, Budget, and Legislative Programs for Fiscal Years 1980 and 1981," to POC heads. This memo initiated the HEW budget process for fiscal year 1980.

March-April 1978 Issue papers are submitted from the program office through the bureau, to the OE Office of Planning and Budget.

April 14, 1978 OE "1980 ZBB Instructions" is issued by Commissioner of Education to bureau heads.

April 24, 1978 Secretary issues memo, "Guidance for the FY 1980 Budget and FYs 80 and 81 Legislation," to POC heads. This accompanied the April 25 instructions. This memorandum provides additional guidance and it identifies other legislative reauthorizations, new proposals, and major studies not covered in the April 7 memorandum. Budget planning ceilings are not issued. The Secretary is particularly interested in proposals to reduce waste, as identified by the Inspector General.

April 25, 1978 Deputy Assistant Secretary, Budget issues memo, "Zero-Base Budgeting Instructions for Fiscal Year 1980-1982," to POC budget contacts.

April 28, 1978 Bureau, after preparing justification strategies, prepares a preliminary ranking and submits a skeletal ZBB package to the OE Office of Planning and Budget.

Regular	\$3,878,820,000
State Incentive	140,000,000
Concentration	<u>500,000,000</u>
Total	\$4,518,820,000

April 29-
May 9,
1978 The Office of Planning and Budget assembles skeletal ZBB documents received from the bureaus and then critiques them. The skeletal ZBB packages are then sent to the Office of the Executive Deputy Commissioner along with the critique and an overview of the submission for FY 1980.

Spring Planning Retreat

May 10-12,
1978 All the Commissioners along with the Division of Planning and Budget hold a Spring Planning Retreat to formulate policy on budget issues and pass on guidance to the bureaus.

June 2,
1978 OE submits preliminary budget request to Department.

Regular	\$3,338,820,000
State Incentive	83,000,000
Concentration	<u>400,000,000</u>
Total	\$3,821,820,000

June 6,
1978 Secretary issues memo, "Action Plans to Reduce Fraud, Abuse, and Waste," to POC heads detailing targets for fraud, abuse, and waste to be incorporated in legislative and budget submissions.

Department level formulation

June-July
1978 Office of the Secretary staff offices review the budget and legislation. These staff offices are the Office of Management and Budget, the Office of Planning and Evaluation, and the Office of Legislation.

August 5,
1978 Under Secretary issues "Preliminary 1980 Allowance" to the Commissioner of Education, who appeals the \$3,569 million decision. Of special concern was a \$40 million allowance for State incentive grants.

August 17,
1978 Secretary issues "Final 1980 Allowance" for \$3,612 million and reinstates the \$83 million for State incentive grants. Final formal and informal appeals are reviewed by the Secretary.

September 15,
1978 Department submits budget request to OMB.

Regular	\$3,113,820,000
State Incentive	83,000,000
Concentration	<u>415,000,000</u>
Total	\$3,611,820,000

October 17, 1978 OE submits plan to the Secretary to reduce fraud, waste, and abuse in response to April 24 memo.

OMB formulation

November 30, 1978 OMB passback is formally delivered to HEW.

November 30-December 4, 1978 Appeal strategy is prepared and reviewed including appeals by the POC heads with staff at meetings with Secretary and Under Secretary on December 1.

December 5, 1978 Secretary of HEW submits "HEW's FY 1980 Budget Appeal" to the Director of OMB. The appeal is 43 pages.

December 15, 1978 Secretary of HEW meets with the President to discuss appeals.

December 1978 and January 1979 The President and OMB finalize the budget.

January 22, 1979 OMB makes submission to the Congress.

Regular	\$3,078,382,000
State Incentive	--
Concentration	<u>400,000,000</u>
Total	\$3,478,382,000

HEALTH CARE FINANCING ADMINISTRATION

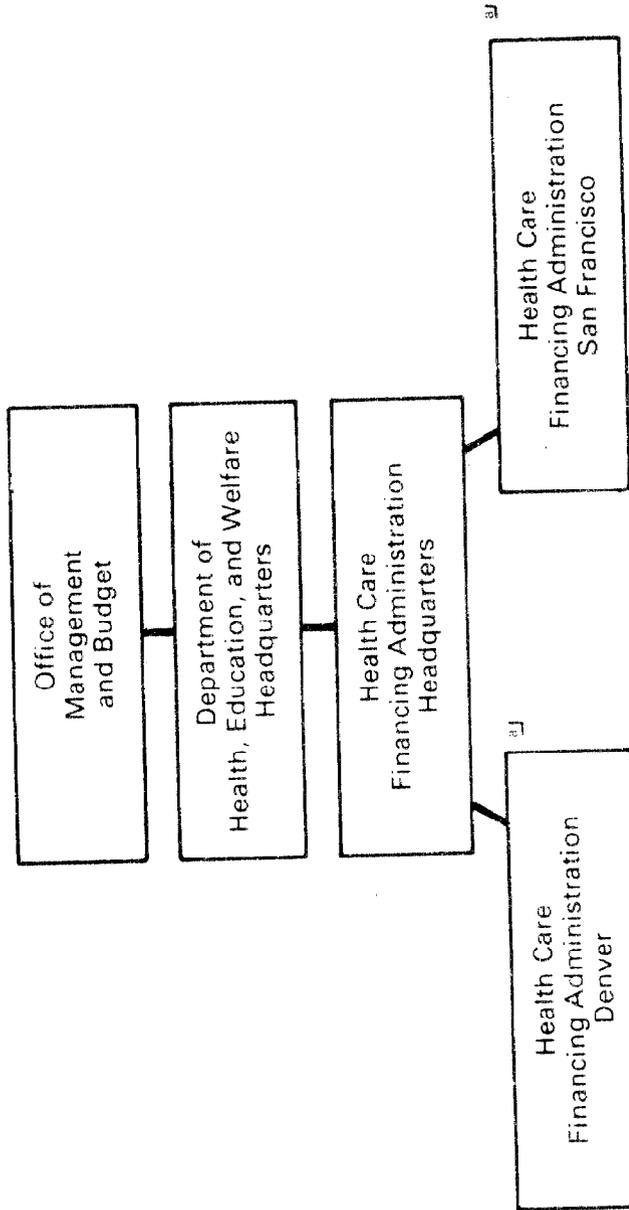
Our review's work locations

As seen in figure 13, our case study work on Medicare benefit payments program in the Health Care Financing Administration involved work at both the headquarters and field levels.

The Medicare benefit payments case study highlights

Medicare (authorized under Title XVIII of the Social Security Act) is a nationwide health insurance program to most persons age 65 and over, to persons under 65 who have been

Figure 13
GAO Work Locations in Review of Health Care Financing Administration's
Budget Formulation



These work locations examined the regional input into the Medicare administrative costs budget. The regions have no input for budget formulation for our case study program, Medicare benefit payments.

entitled for 24 months to social security or railroad retirement benefits because they are disabled, and to certain workers and their dependents who need kidney transplants or dialysis. The eligibility requirements and benefit structure are the same throughout the country, and it is available to insured persons without regard to their income or assets. In essence it is an entitlement program--all people who meet the eligibility requirements are entitled to certain benefits.

Medicare is composed of two parts--the Hospital Insurance Program (Part A), and the Supplementary Medical Insurance Program (Part B). Each of the two programs' financial operations are handled by trust funds--the Federal Hospital Insurance Trust Fund (HI) and the Federal Supplementary Medical Insurance Trust Fund (SMI). Each trust fund was established on July 30, 1965 as a separate account in the United States Treasury.

Budget account and recent funding

The Medicare benefit payments program is funded through three distinct accounts within the budget of the Health Care Financing Administration. The first two have already been mentioned--the Hospital Insurance Trust Fund (20-8005-0-7-551) and the Federal Supplementary Medical Insurance Trust Fund (20-8004-0-7-551). Within these two accounts, there are three activities--administration, experiments and demonstrations, and benefit payments. The benefit payments activity which composes 96.9 percent of the fiscal year 1980 outlays for these two accounts, is our case study program. OMB classifies this program as "relatively uncontrollable." In addition to these two accounts, a third account, entitled Payments to Health Care Trust Funds (75-0580-0-1-551), represents the appropriated amounts for Federal payments to the health care trust funds for benefits and related administrative costs not financed by contributions from workers and employers.

The Hospital Insurance program is financed principally through a special hospital insurance payroll tax levied on employees, employers, and the self-employed. General revenues of the Treasury (annual appropriation) finance three small activities which are 3.4 percent of the total budget authority for the Hospital Insurance Trust Fund in fiscal year 1980.

The Supplementary Medical Insurance program is financed jointly through monthly premium charges on enrollees together

with contributions from the general revenues of the Treasury (annual appropriation). The annual appropriation represents 68.6 percent of the total budget authority for the Federal Supplementary Medical Insurance Trust Fund in fiscal year 1980.

Combining the two trust funds, the annual appropriation request represents 22.3 percent of the total budget authority for Medicare in fiscal year 1980 (\$7,969,906,000 out of a total of \$35,808,906,000). The bulk of this, as previously noted, pays for benefit payments.

Since 1965, the appropriation request was not changed until the 1979 budget when it was reduced by \$3 million, and in the 1980 budget it was reduced by \$1.75 million. However, both of these reductions were not in the case study program, Medicare benefit payments, rather they were in the administration activity. Table 12 shows the recent history of the appropriation request.

Table 12

Recent Appropriation History
for the Medicare Program

(dollars in thousands)

<u>Fiscal year</u>	<u>Budget request</u>	<u>Appropriation</u>	<u>Increase/Decrease (-) from appropriation request</u>
1978	\$7,242,941	\$7,242,941	\$ 0
1979	7,763,913	7,760,913	(-3,000)
1980	7,969,906	7,968,156 <u>a/</u>	(-1,750)

a/Conference report.

Table 13 shows the action taken by the Congress on the Medicare program request for fiscal year 1980.

The reduction in the appropriation request was not in our benefit payments case study, rather it was in the administration activity to cover the Professional Standards Review Organization's review of hospital admissions of Medicaid patients. This activity requires an appropriation to reimburse the trust fund.

Table 13Initial Congressional Action on
Medicare Program Request, Fiscal Year 1980

(dollars in thousands)

<u>Adminis- tration's appropria- tion request</u>	<u>House Passed</u>	<u>Senate Passed</u>	<u>Final Enacted</u>
\$7,969,906	\$7,966,406	\$7,969,906	\$7,968,156

In addition to appropriations, congressional action was taken on \$1.74 billion of legislative cost savings proposals requested by the administration for the Medicare benefit payments program. The centerpiece of the legislative program was Hospital Cost Containment which the administration estimated would reduce Medicare benefit payments outlays by \$1.5 billion in the fiscal year 1980 budget. For the second year in a row it failed to pass.

Driving forces

Medicare is a "relatively uncontrollable" entitlement program financed principally through taxes in the Hospital Insurance program, and premiums plus an annual appropriation in the Supplementary Medical Insurance program. However, even the annual appropriation is "locked in" because Medicare is an entitlement program, allowing little discretion in the short term. This basic character of the Medicare program generates the two primary driving forces for HCFA budget formulation.

First, budget estimates for the current law base program are actuarial projections. The Office of Financial and Actuarial Analysis (OFFA), composed of actuaries, prepares the current law base estimates for Medicare benefit payments. In fact, the ZBB submission has only a current level--no minimum or enhanced levels. Three indications of this driving force are the following:

- no field or regional input into the budget estimates,
- no dollar guidance from higher levels, and
- no review of the substance of the estimates by higher levels for budget formulation.

The lack of review is due to the confidence in the professionalism of the actuaries.

Second, budget action during formulation occurs primarily with legislative cost savings (negative) proposals and proposed regulatory changes. This is because estimates for the current law base program for Medicare benefit payments are actuarial projections with little review and little controversy. Thus, legislative proposals and proposed regulatory changes are the means of affecting the Medicare budget. The prime example is the "Hospital Cost Containment" legislative cost saving proposal. There are two reasons for this. There have been very tight budgets for 1980 and 1981, and actions to reduce fraud, abuse, and waste received attention. The result is that the emphasis in new legislative proposals and proposed regulatory changes has switched from expansion of services to better program management and cost savings.

Organizational level changes on the request amount

The dollar amounts requested by each organizational level are seen in figure 14. Every organization level accepted the budget estimate for the current law base program of Medicare benefit payments with no changes. The change in December, before the President's budget was released, was a reestimate by the actuaries themselves due to changing economic conditions. Each submission had only a current level because that was the only decision level prepared for Medicare benefit payments. Other decision levels are inappropriate because the program is "locked in" by statute. Almost all changes are possible only through legislative proposals.

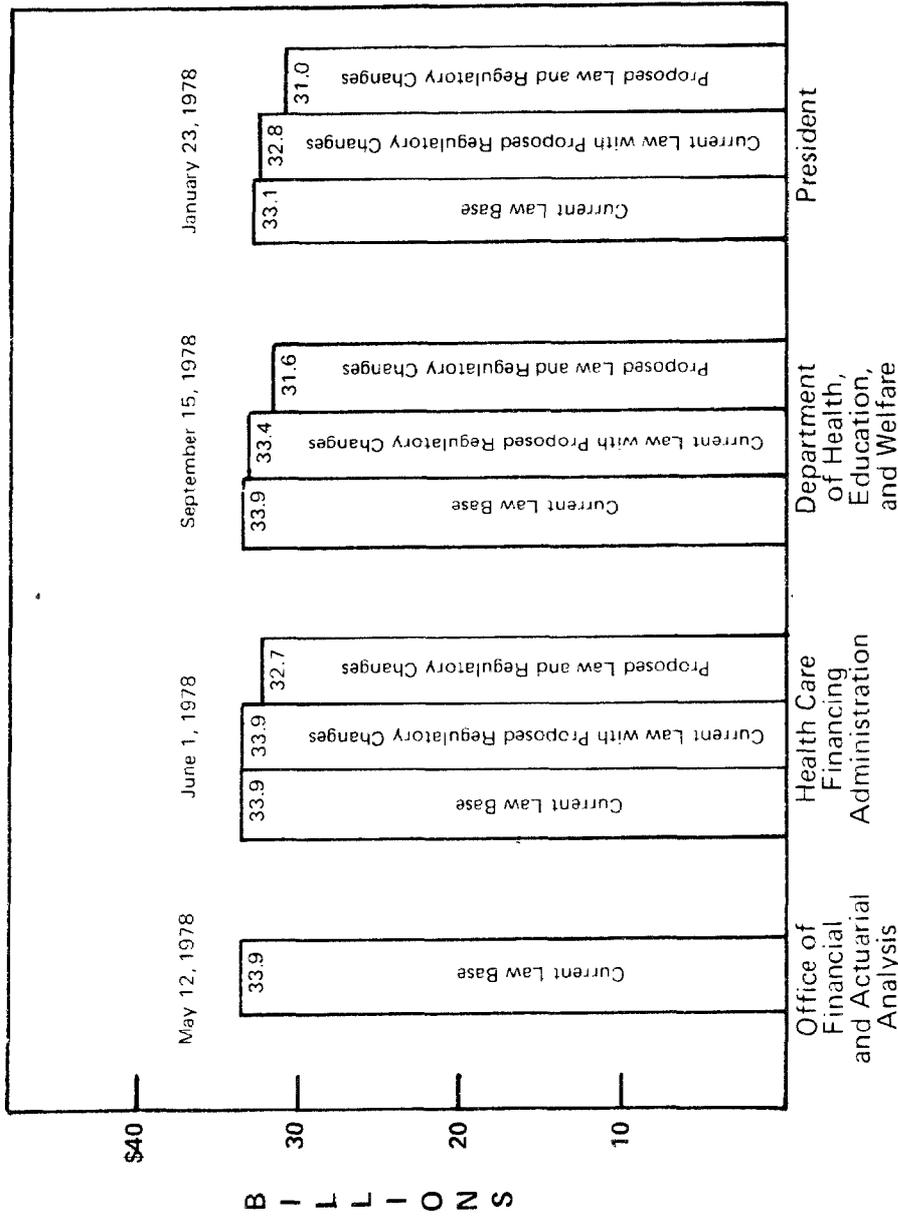
Chronology of key dates and events

The following are key dates and events in budget formulation for the Medicare benefit payments program for fiscal year 1980.

Program level formulation

February 18, 1978	Secretary issues memo, "Development of Policies, Budgets, and Legislative Programs for Fiscal Years 1980 and 1981" to POC heads. This set up the budget process for fiscal year 1980.
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Figure 14
Organizational Level Changes for the
Medicare Benefit Payments Program, Fiscal Year 1980



March 8,
1978 A "Legislative Strategy Paper" was submitted by HCFA to the Office of the Secretary in response to the February 18 memo. This detailed proposed budget priorities for HCFA during the fiscal year 1980 formulation.

March 17,
1978 A 2-hour "Policy and Budget Strategy Meeting" was held between the Administrator of HCFA and the Secretary and Under Secretary of HEW. This meeting was in effect the kickoff for the fiscal year 1980 budget formulation.

April 7,
1978 Secretary issues memo, "Major Legislative Initiatives for the FY 1980 Cycle," to POC heads. This set up the nine major legislative task forces.

April 18,
1978 "Health Care Financing Administration FY 1980 Budget Instructions" were sent from the HCFA Budget Division to all components, including bureaus, of HCFA.

April 24,
1978 Secretary issues memo, "Guidance for the FY 1980 Budget and FYs 80 and 81 Legislation," to POC heads. This accompanied the April 25 instructions. This memorandum provides additional guidance and it identifies other legislative reauthorizations, new proposals, and major studies not covered in the April 7 memorandum. Budget planning ceilings are not issued. The Secretary is particularly interested in proposals to reduce waste as identified by the Inspector General.

April 25,
1978 Deputy Assistant Secretary, Budget issues memo, "Zero-Base Budgeting Instructions for Fiscal Years 1980-82," to POC budget contacts. These instructions were sent out 1 week after the instructions were sent from the HCFA Budget Division.

May 12,
1978 OFAA submits current law estimate for the Medicare benefit payments base program to the HCFA Budget Division. Total equals \$33,899,000,000 in outlays.

Late May
1978 HCFA prepares and reviews budget, legislation, and ZZB rankings.

June 1, 1978 HCFA submits budget, "Preliminary Estimates of Zero-Base Budget Requirements for Fiscal Year 1980," to the Office of the Secretary.

Current law base	\$33,899,000,000
Regulatory savings	- 26,850,000
Current law total	<u>33,872,150,000</u>
Legislative proposals	<u>-1,189,300,000</u>
Proposed total	32,682,850,000

June 6, 1978 The Secretary issues memo, "Action Plans to Reduce Fraud, Abuse, and Waste," to POC heads detailing targets for fraud, abuse, and waste to be incorporated in legislative and budget submissions. However, this came out 6 days after the due dates for their submission. HCFA responded by making tables which showed the extent to which the budget met or did not meet these targets. The budget at this time was not changed.

June 15, 1978 HCFA submits legislative package, "Major HCFA Initiatives for FY 1980 and 1981," to the Office of the Secretary.

Department level formulation

June-July 1978 Office of the Secretary staff offices review the budget and legislation. These staff offices are the Office of Management and Budget, the Office of Planning and Evaluation, and the Office of Legislation.

Late June-early July 1978 Under Secretary meets with the nine major legislative task force project managers to review their plans for possible inclusion in the POC budgets.

July 18, 1978 Under Secretary meets with the Administrator and staff and Office of the Secretary staff offices to review the HCFA budget.

July 26, 1978 Under Secretary meets with the Administrator and staff and Office of the Secretary staff offices to review the HCFA legislation.

August 2, 1978 Under Secretary issues "Preliminary 1980 Allowance" to the Administrator of HCFA.

August 9, 1978 The Administrator of HCFA submits the "Budget Appeal" to the Secretary of HEW.

August 14, 1978 Secretary meets with the Administrator and staff and Office of the Secretary staff offices for appeals of the "Preliminary 1980 Allowance."

August 17, 1978 Secretary issues "Final 1980 Allowance" to the Administrator of HCFA.

Late August-September 15, 1978 Several issues are resolved between HCFA and the Office of the Secretary that actually are not covered in the "Final 1980 Allowance."

Late August-September 11, 1978 A comprehensive ranking for all ZBB decision packages of the HEW budget is prepared. The Deputy Assistant Secretary, Budget does the first draft with subsequent review by all staff offices and the Under Secretary and Secretary.

September 15, 1978 HEW submits "Justifications of Budget Estimates for Office of Management and Budget Fiscal Year 1980" to OMB.

Current law base	\$33,899,000,000
Regulatory savings	- 542,600,000
Current law total	<u>33,356,400,000</u>
Legislative proposals	<u>-1,751,300,000</u>
Proposed total	31,605,100,000

OMB formulation

November 30, 1978 OMB passback is formally delivered to HEW.

November 30-December 4, 1978 Appeal strategy is prepared and reviewed including appeals by the POC heads with staff at meetings with Secretary and Under Secretary on December 1.

December 5, 1978 Secretary of HEW submits "HEW's FY 1980 Budget Appeal" to the Director of OMB. The appeal is 43 pages.

December 15, 1978 Secretary of HEW meets with the President to discuss appeals.

December 1978 and January 1979 The President and OMB finalize the budget.

January 22, 1979 The President's budget is released. Reduction of \$753 million in the Medicare benefit payments base program was a reestimate by the actuaries in OFAA due to changing economic conditions.

Current law base	\$33,146,000,000
Regulatory savings	<u>- 386,000,000</u>
Current law total	32,760,000,000
Legislative proposalsd	<u>-1,744,000,000</u>
Proposed total	31,016,000,000

DEPARTMENT OF THE INTERIOR CASESSEQUENCE OF STEPS FOR FISCAL YEAR 1980OVERVIEW OF KEY DATES AND EVENTS
IN THE DEPARTMENTAL PROCESS

The following is a chronological listing of the key dates and events in the overall departmental budget formulation cycle for fiscal year 1980, with an emphasis on the dates of formal policy and dollar guidance given by higher levels to lower levels, and the dates of formal budget submissions by lower levels. Other dates and events are listed with separate case study discussions in the following pages.

- | | |
|----------------------|--|
| January 31,
1978 | Letter from Director of OMB providing preliminary policy and dollar guidance for fiscal year 1980. Planning targets of \$5,888,000,000 were given by OMB for the Department as a whole. |
| February 28,
1978 | Memo from DOI Director of Budget to Assistant Secretaries and Heads of Bureaus and Offices providing a table of Bureau/Office allowances and targets. OMB multiyear budgeting targets for Bureaus and Offices are included. |
| March 30,
1978 | Memo from Secretary of DOI to the Solicitor and Assistant Secretaries providing policy and dollar guidance at the Bureau/Office level. Proposed levels not to exceed 12 percent (\$6.6 billion) over controllable portion of OMB 1980 target levels (\$5,888,000,000). Assistant Secretaries are expected to hold their areas within nine percent (\$6.4 billion) of the OMB planning targets. |
| May 15,
1978 | Bureaus submit their budget requests to their Assistant Secretaries and the Assistant Secretary of Policy, Budget and Administration (PBA) containing Bureau, account, program, and subprogram dollar totals. |
| July 10,
1978 | Director of OMB, as a result of OMB's Spring Planning Review with departmental officials, provides revised policy and dollar guidance |

for the Department as a whole for fiscal years 1980-82, employment ceilings and budget year issues.

September 8-11, 1978 Bureaus submit their budget estimates in ZBB format to DOI's Office of Budget.

September 19, 1978 Departmental submission to OMB providing a table of 89 consolidated decision unit packages and 19 over ceiling packages. The cover letter gives highlights of the proposed DOI \$5.851 billion budget.

Late September- November 14, 1978 OMB reviews budget submissions, holds agency hearings, gives its passback and hears agency appeals. OMB passback document, on November 14, provides detailed decision unit allowances and explanations of reductions.

November 1978- January 22, 1979 President reviews budget recommendations and decision on agency budget. OMB notifies agency and agency revises estimates.

January 23, 1979 President submits FY 1980 budget request to the Congress.

BUREAU OF LAND MANAGEMENT

Our review's work locations

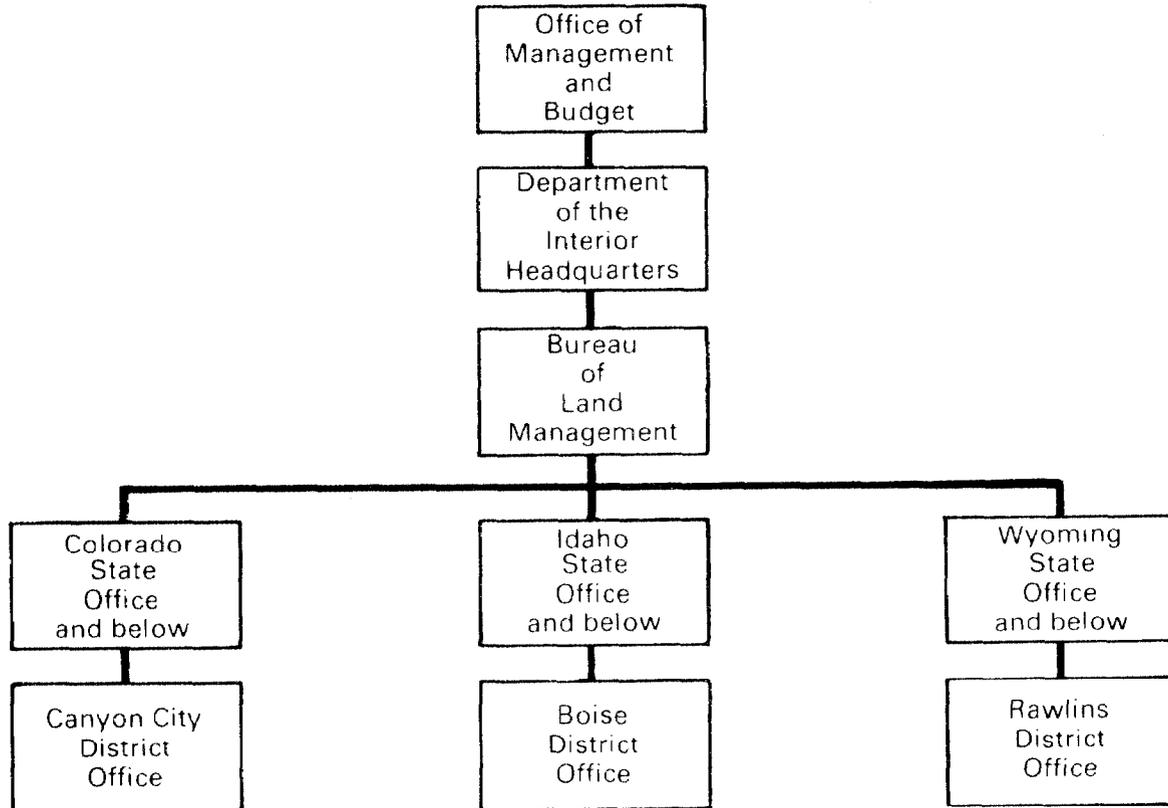
As seen in figure 15, our case study work on selected programs in BLM involved work at both the headquarters and field level.

The range management case study highlights

The BLM administers approximately 174 million acres of public lands in the 11 western States which provide part or all of the livestock grazing needs for an estimated 3.3 million cattle, 4 million sheep, 15 thousand wild horses and burros. The BLM range management program consists of two components: grazing management, which generates approximately \$20 million annually in grazing fees, and wild horse and burro management.

Figure 15

GAO Work Locations in Review of Bureau of Land Management's Budget Formulation



Budget account and recent funding

The range management program is funded through the BLM's budget account "Management of Lands and Resources" (14-1109-0-1-302), and is a subpart of the "renewable resource management" activity. OMB classifies this program as relatively controllable.

The range management program requests have increased by \$12.5 million over the last 3 years. Furthermore, the Congress increased the program request by 2.7 percent in fiscal year 1978 and by 1.4 percent in fiscal year 1979. The increases for fiscal years 1978 and 1979 reflected congressional concern for preserving and enhancing public lands as well as the impact of wild horses and burros on these lands. This is seen in table 14.

Table 14Recent Appropriation History for the
Range Management Program

(dollars in thousands)

<u>Fiscal year</u>	<u>Appropriation request</u>	<u>Appropriation</u>	<u>Increase/decrease (-) from appropriation request</u>
1978	\$23,899	\$30,347	\$6,448
1979	31,357	35,759	4,402
1980	36,455	42,010	5,555

Table 15 shows the action (as of November 30, 1979) taken by the Congress on the range management program request for fiscal year 1980.

Table 15Initial Congressional Action on Range
Management Program Request, Fiscal Year 1980

(dollars in thousands)

<u>Administration's appropriation request</u>	<u>House</u>		<u>Senate</u>		<u>Final enacted</u>
	<u>Reported</u>	<u>Passed</u>	<u>Reported</u>	<u>Passed</u>	
\$36,455	\$40,455	\$40,455	\$42,255	\$42,255	\$42,010

The House recommended a \$4 million increase over the President's request for the range management program. According to the House report, the increase is to provide for "grazing management in order to implement a total of 104 (50 additional) grazing management plans in FY 1980 . . ." and "\$1.5 million for wild horse and burro research and management, the Secretary's highest priority program in BLM. The amount recommended by the [House Appropriations] Committee will provide the capability to remove 6,500 animals in FY 1980."

The Senate recommended an increase of \$5.8 million over the President's request for range management. This increase reflects four areas of concern to the [Senate Appropriations] Committee: BLM's failure to control excess populations of wild horses and burros in the West; sufficient funds for BLM to continue operations at the Spanway Distribution Center under the Adopt-a-Horse program in Washington State; possible severe economic impact of large grazing allotment reductions in the western public lands States; and the heavy strain on range management funding created by ever-increasing environmental protection requirements, diverting funds into expensive environmental paperwork instead of on-the-ground range management and improvements.

The final action by the Congress on range management represents an increase of about \$5.6 million over the President's request. Of the appropriation, about \$5.2 million is provided for wild horse and burro management, with the remaining going to grazing management. This level of funding represents a gain of 11 percent over the President's request for wild horse and burro management and a gain of 16 percent for grazing management.

Driving forces

The two key factors which influence the range program funding level are the program's traditional popularity and the court-ordered environmental impact statement schedule. Historically, the range program has not only been a popular, but also a high priority program with BLM, the Department of the Interior, and the Congress. This popularity, in part, accounts for the steadily increasing funding levels.

The other factor influencing the range program funding level is the requirement that BLM meet a court-ordered environmental impact statement schedule. As a result of Natural Resource Defense Council (NRDC) vs Morton, early 1975, BLM's

grazing programmatic environmental statement was ruled inadequate. Consequently, BLM is committed to complete 212 site-specific environmental statements on 150 million acres of public land by 1989. Completing this number of environmental statements within this timeframe is a costly and labor-intensive undertaking, but not meeting the schedule could result in the Department of the Interior being held in contempt of court.

Organizational level changes on the request amount

The dollar amounts requested by the principal organizational levels are seen in figure 16.

Of the three ZBB levels (proposed, current, and minimum) used by DOI in fiscal year 1980 budget formulation, the proposed level represents the request amount. The current level equates to the fiscal year 1979 President's budget request. The minimum level is neither the percentage below current level used for some DOI programs nor the level below which it is feasible to continue the program, but rather an amount below the current level determined by BLM headquarters.

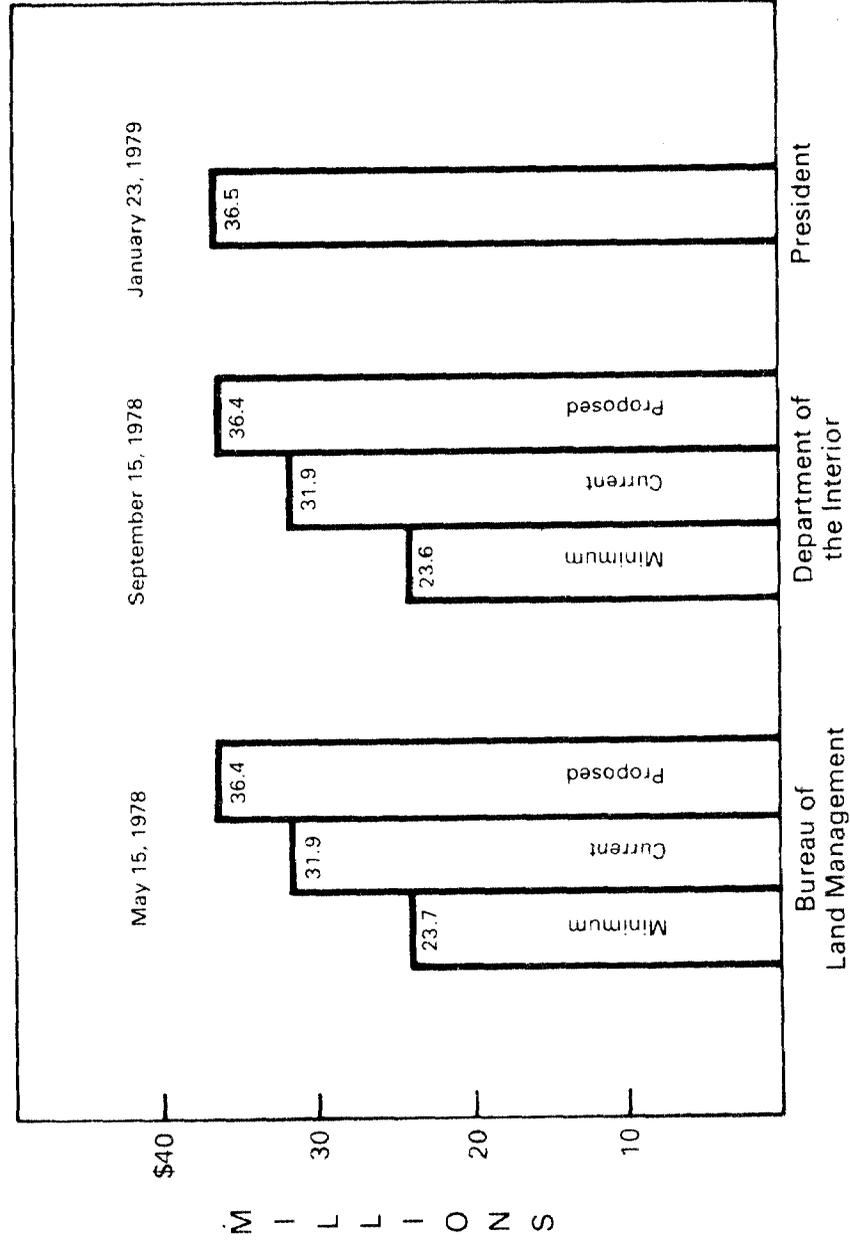
As the range management request moved up the line, its support remained constant.

The fire management and emergency fire case study highlights

The objectives of BLM's fire management program are to protect natural resources and other values on public lands from loss or depletion due to wildfire, and to develop utilization techniques as a tool for resource management. This program includes preparedness or "presuppression" work in advance of actual fire occurrence to reduce the risk of fire, and to increase effectiveness of suppression once a fire does start.

In the emergency program, funds are used for emergency presuppression efforts and for actual suppression of fires starting on or threatening the public lands, and for subsequent emergency rehabilitation work in burned areas to reduce resource and economic losses. These funds are not used for regular time of permanent employees engaged in emergency fire work since their salaries are already programmed in other accounts, nor are they used for purchase of capitalized equipment, certain training costs, or fire planning, which is funded out of the fire management subactivity.

Figure 16
Organizational Level Changes in the Appropriation Request for the Range
Program, Fiscal Year 1980



Budget account and recent funding

The fire management program is funded through the BLM's budget account "Management of Lands and Resources" (14-1109-0-1-302), and is a subpart of the "renewable resource management" activity. OMB classifies this program as relatively controllable.

The firefighting and rehabilitation program is funded through the BLM's budget account "Management of Lands and Resources" (14-1109-0-1-302). OMB classifies this program as relatively controllable.

The fire management program requests have been at a fairly stable level in recent years, with the exception of the one-time congressional add-on in fiscal year 1979 of \$4 million, to replace aging firefighting equipment and accelerate training of employees in presuppression and firefighting methods. This is seen in table 16.

Table 16Recent Appropriation History for
the Fire Management Program

(dollars in thousands)

<u>Fiscal year</u>	<u>Budget request</u>	<u>Appropriation</u>	<u>Increase/decrease (-) from appropriation request</u>
1978	\$8,304	\$ 8,284	(-20)
1979	8,647	12,612	3,965
1980	8,764	8,764	0

Similarly, the firefighting and rehabilitation program requests have been at a fairly stable level in recent years, with the exception of the fiscal year 1979 request for \$30 million, which was cut back to the customary \$4.75 million by the Congress. This fiscal year 1979 request stands out as different from all prior and subsequent requests due to a request by the House and Senate Budget Committees to the DOI and OMB to come up with an average total firefighting cost for the fiscal year 79 request, with no supplemental request. In the past, costs for emergency firefighting and rehabilitation have been met through deficit financing which required borrowing funds from other accounts and subsequent

supplemental appropriations to repay these accounts. The objective of the Budget Committees' request was to reduce the need for borrowing from other accounts, such as the Land and Water Conservation Fund, and to minimize the need for annual supplemental appropriations. This is seen in table 17.

Table 17

Recent Appropriation History
for the Emergency Fire Program

(dollars in thousands)

<u>Fiscal year</u>	<u>Budget request</u>	<u>Appropriation</u>	<u>Increase/decrease (-) from appropriation request</u>
1978	\$ 4,750	\$4,750 a/	0
1979	30,000	4,750 a/	(-25,250)
1980	4,750	4,750	0

a/Firefighting supplemental appropriation: fiscal year 1978 = \$53 million; fiscal year 1979 = \$44.9 million.

Tables 18 and 19 show the action (as November 30, 1979) taken by the Congress on the fire management and emergency firefighting program's requests for fiscal year 1980.

Table 18

Initial Congressional Action on Fire
Management Program Request, Fiscal Year 1980

(dollars in thousands)

<u>Administration's appropriation request</u>	<u>House</u>		<u>Senate</u>		<u>Final enacted</u>
	<u>Reported</u>	<u>Passed</u>	<u>Reported</u>	<u>Passed</u>	
\$8,764	\$8,764	\$8,764	\$8,764	\$8,764	\$8,764

Table 19

Initial Congressional Action on the Emergency
Fire Program Request, Fiscal Year 1980

(dollars in thousands)

Administration's appropriation request	<u>House</u>		<u>Senate</u>		<u>Final</u>
	<u>Reported</u>	<u>Passed</u>	<u>Reported</u>	<u>Passed</u>	<u>enacted</u>
\$4,750	\$4,750	\$4,750	\$4,750	\$4,750	\$4,750

Neither the House nor the Senate recommended an increase or decrease in the President's request for either the fire management program or the emergency fire program.

Driving forces

The fire management program has a fairly stable funding level. The program's budget is relatively small and it does not have high priority within the DOI.

Similarly, the emergency fire program has had a history of deficit financing with token initial requests of \$4 to \$5 million and annual supplemental appropriations ranging from approximately \$20 to \$53 million over the last 7 years. Since the majority of the funding for this program is accomplished by supplemental appropriations, the initial token request has become predictable and noncontroversial.

Organizational level changes on the request amount

The dollar amounts requested by the principal organizational levels are seen in figures 17 and 18. Of the three ZBB levels (proposed, current, and minimum) used by DOI in fiscal year 1980 budget formulation, the proposed level represents the request amount for the fire management program. The current level equates to the fiscal year 1979 President's budget request. The minimum level is 75 percent below current level.

However, for the emergency fire program, the minimum and current request levels are the same and there is no proposed level. Therefore, there is only one request level.

Figure 17

Organizational Level Changes in the Appropriation Request for the Fire Management Program, Fiscal Year 1980

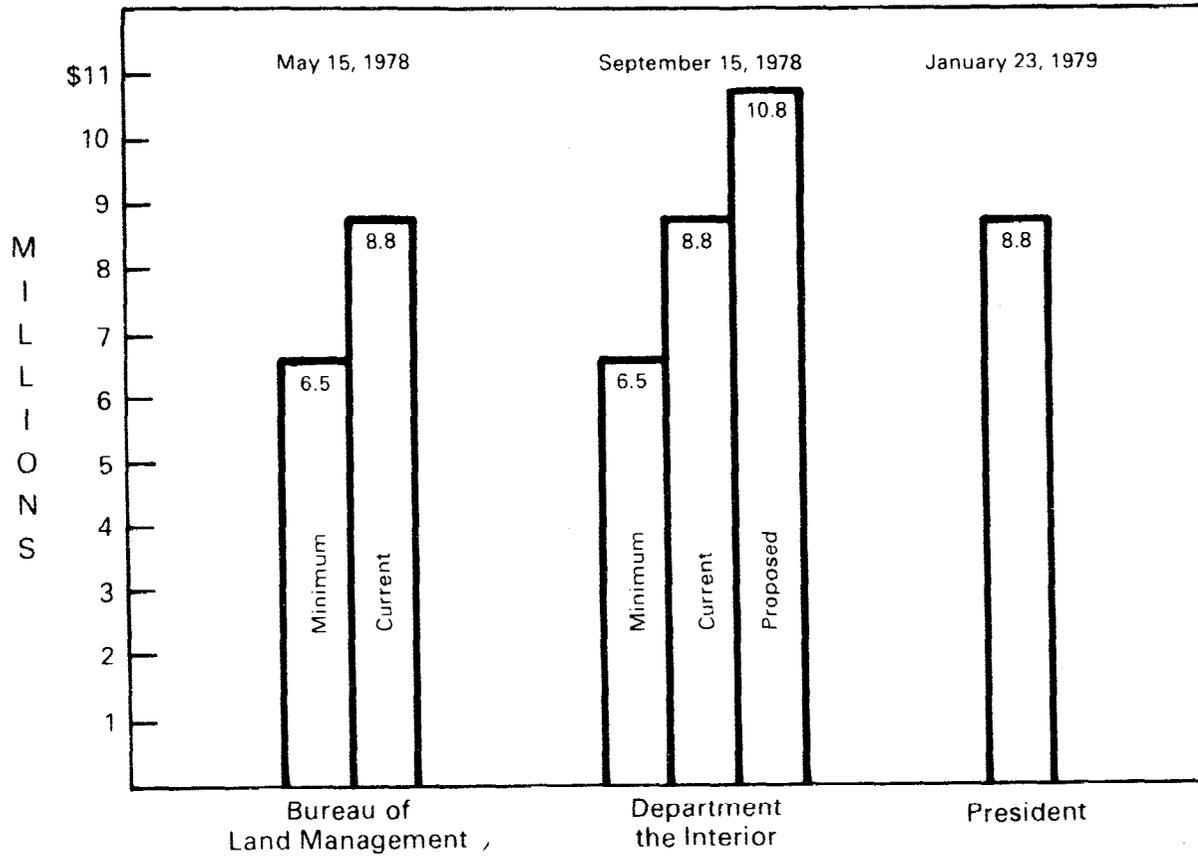
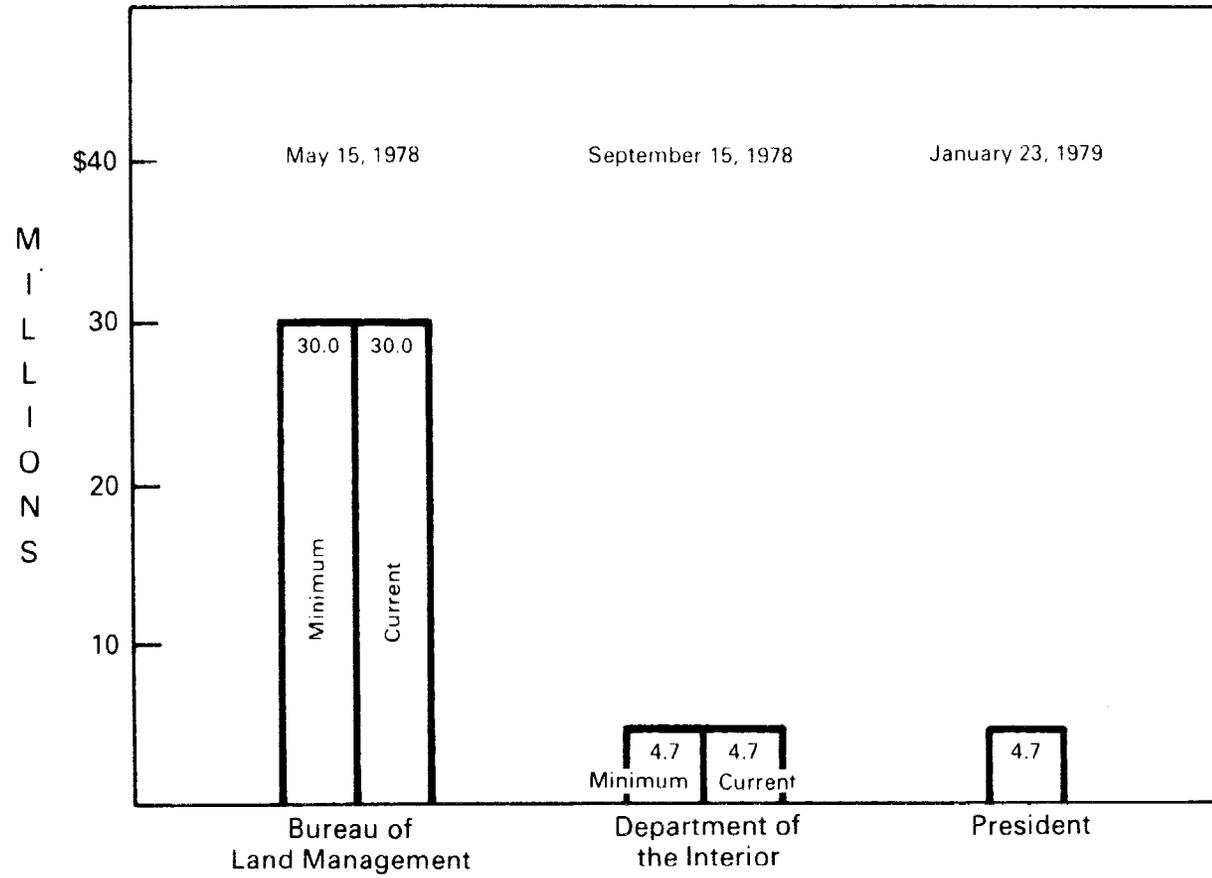


Figure 18

Organizational Level Changes in the Appropriation Request for the
Emergency Fire Program, Fiscal Year 1980



As the fire management request moved up the line, its support increased at the departmental level in an effort to retain the congressional add-on in the fiscal year 1979 appropriations in the fiscal year 1980 request. This add-on was disallowed by OMB in the fiscal year request since it was intended for the one-time purchase of firefighting equipment and deferrable training.

As the emergency fire request moved up the line, it appears to have suffered a tremendous cut at the departmental level. This change, however, in the request level is accounted for by the fact that the May 15 figures represent the fiscal year 1979 request whereas the September 15 figures represent congressional action on that request level (for details see appendix VI).

The coal case study highlights

BLM's coal program centers around the administration of leases, collection of data to determine site reclamation potential, preparation of environmental analyses and impact statements, and processing of short-term lease applications. Receipts from coal leases on public lands amounted to \$11.9 million in fiscal year 1978 and are estimated to total \$15.0 million in fiscal year 1979, and \$18.0 million in fiscal year 1980.

Budget account and recent funding

The coal program is funded through BLM's budget account "Management of Lands and Resources" (14-1109-0-1-302), and is a subpart of the "energy and mineral management" activity. OMB classifies this program as relatively controllable.

The coal program requests have fluctuated during fiscal years 1978-80. In fiscal year 1978, the Congress cut not only the coal program funding level but also the number of positions in order to reflect slippages in the program resulting from policy judgments of the Secretary of the Interior. In contrast, in fiscal year 1979, Congress increased the coal program request to fund limited reactivation of coal leasing following the settlement of the injunctive suit of the Natural Resources Defense Council (NRDC).

In fiscal year 1980 the coal program request was only slightly above the level of the previous year and was approved by the Congress without change. This is seen in table 20.

Table 20Recent Appropriation History for the Coal Program

(dollars in thousands)

<u>Fiscal year</u>	<u>Budget request</u>	<u>Appropriation</u>	<u>Increase/decrease (-) from appropriation request</u>
1978	\$20,181	\$19,502	\$(-679)
1979	17,352	21,100	3,748
1980	21,065	21,000	(-65)

Table 21 shows that action (as November 30, 1979) taken by the Congress on the coal program request for fiscal year 1980.

Table 21Initial Congressional Action on Coal
Program Request, Fiscal Year 1980

(dollars in thousands)

<u>Administration's appropriation request</u>	<u>House</u>		<u>Senate</u>		<u>Final enacted</u>
	<u>Reported</u>	<u>Passed</u>	<u>Reported</u>	<u>Passed</u>	
\$21,065	\$21,065	\$21,065	\$21,065	\$21,065	\$21,000

Driving forces

The two key factors which influence the coal program funding level are the program limitations imposed by the Natural Resources Defense Council (NRDC) suit and the setting of a firm goal by the Secretary of the Interior to plan for leasing of 5-10 tracts by mid-1980 if such leasing is needed.

Prior to the NRDC suit in 1977, the BLM coal program was in a custodial management mode from the early to

mid-1970s. Program capability increased thereafter to to prepare environmental statements and to assess land capability in anticipating new leasing. However, in September 1977, the U.S. District Court for the District of Columbia, in the case of NRDC vs. Hughes, enjoined the Federal Government from taking any steps whatsoever, directly or indirectly, to implement the coal programmatic environmental impact statement prepared in 1975. Needless to say, this injunction set back the program by prohibiting calls for nominations of tracts for Federal coal leasing and issuance of coal leases, with certain exceptions. In 1978 there was a proposed modification of the order of the District Court in NRDC vs. Hughes allowing processing of some short-term lease applications and preference right lease applications.

This proposed modification of the court order coupled with the Secretary's commitment to be in a posture to initiate competitive coal leasing by mid-1980, have increased the program's budget and manpower requirements. The fiscal year 1980 budget request reflected this stepped-up level of activity in the coal program. Of the three ZBB levels (proposed, current, and minimum) used by DOI in fiscal year 1980 budget formulation, the proposed level for the coal program represents the request amount and assumes the offering of 5-10 tracts for competitive sale in the fiscal year 1980 President's budget request. The current level equates to the fiscal year 1979 President's budget request. The minimum level for the coal program assumes no future leasing activities beyond those anticipated in fiscal year 1979.

As the coal program request moved up the line, its support remained constant. 1/ See figure 19.

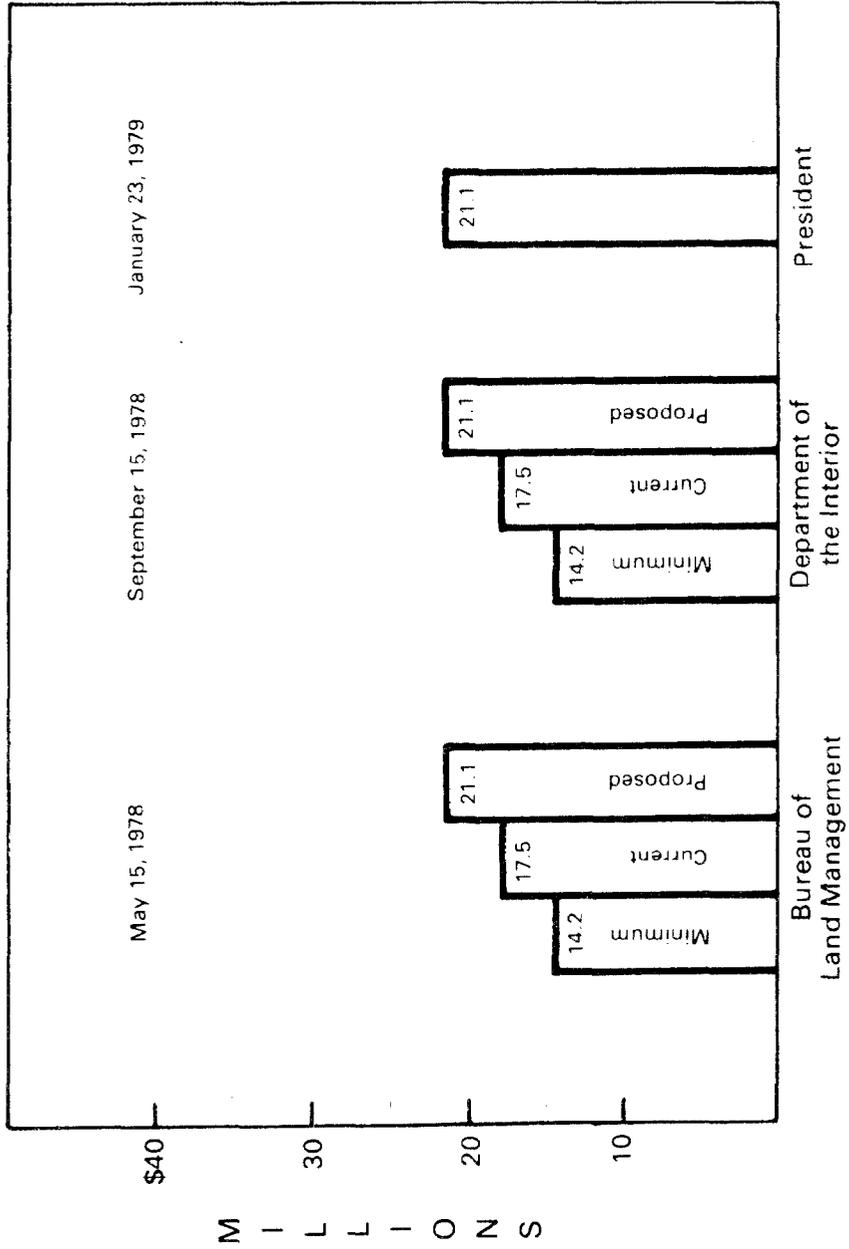
Chronology of key dates and events: range, management, and fire programs

The following are key dates and events in budget formulation on the range management and two fire programs for fiscal year 1980.

1/It is interesting to note that the funding level recommended in the coal task force report corresponded with the BLM budget request to DOI on May 15 and also with the anticipated and forthcoming congressional add-on to the fiscal year 1979 coal program request.

Figure 19

Organizational Level Changes in the Appropriation Request for the Coal Program,
Fiscal Year 1980



Program level chronology to May

The Bureau of Land Management (BLM) fiscal year 1980 budget formulation for Colorado, Wyoming, and Idaho started with receipt of the budget package directives from headquarters by the State directors about January 1, 1978. The State directors held meetings to determine program target amounts based on the total budget target supplied to them in the headquarters directives.

On January 10, 1978, Idaho's director forwarded the headquarters directives to the district together with tentative Level A and B funding ceilings for each decision unit and a tentative ranking table for comments only. On January 25, 1978, after receiving district comments, the director revised program ceilings and provided districts with several decision unit funding ceilings and a ranking table. He requested a written submission of detailed programming data on February 8, 1978.

In Colorado, the director requested the decision unit leaders (program specialists) to submit a one-page justification covering funding, work to be accomplished, tentative staff months, etc., to him by January 17, 1978, so he could set program priorities and dollar allocations. Priorities and allocations were set about January 18, 1978, and communicated to the specialists. These specialists prepared directives for district offices.

In Wyoming, the director, associate director, and program specialists determined activity target amounts. Once they were determined, it was left to the specialist to prepare the package submission and consult with the districts as necessary. After the program specialists compiled the Zero Base Budget (ZBB) package submissions, they were forwarded to the Environmental and Planning Coordination Division for review of proper format, quality control, and timeliness. When all the packages were in order, the complete submission was sent to the State director for approval and signature.

February
1978

The above State offices forwarded the fiscal year 1980 submission to headquarters about February 23, 1978, 8 weeks after the total process started.

January 31,
1978

Letter from Director of OMB, which set out planning targets, \$5,888 million for fiscal year 1980,

for the Department, and significant policy determinations. No program guidance for range, fire management, or firefighting and rehabilitation.

February 28,
1978

Memo from DOI Director of Budget to Assistant Secretaries and heads of Bureaus and Offices, providing a table of Bureau/Office allowances and targets (BLM = \$876 million for fiscal year 1980, Management of Land and Resources Account = \$275 million for fiscal year 1980). OMB multiyear budgeting targets are included (account level guidance assumed no growth and program level guidance did not give dollars but assumed no growth).

February-
March 1978

BLM - Headquarters program development analysts review State office range submissions. (State offices do not submit budget requests for the fire-fighting and rehabilitation program.)

March 30,
1978

Memo from Secretary of DOI to the Solicitor and Assistant Secretaries with policy and fiscal guidance at the Bureau/Office level. Proposed levels not to exceed 12 percent (\$6.6 billion) over controllable portion of OMB 1980 target levels (\$5,888 million). Assistant Secretaries are expected to hold their areas within 9 percent (\$6.4 billion) of the OMB planning targets. Range program guidance consisted of statement of high priority given to meeting court-stipulated timetable and requirements, but not dollar guidance. No fire management or fire fighting and rehabilitation program guidance was provided.

March-
April
1978

Three weeks of meetings involving the BLM Office of the Director, Office of Program Development, and Program Associate Directors, ensued to determine budget estimates, including range fire management, and firefighting and rehabilitation.

April-
June
1978

OMB Spring Planning Review: OMB discussed program developments and management issues, and resulting budgetary effects, with agencies and compiled total outlay estimates for comparison with revenue estimates. OMB developed recommendations for the President on fiscal policy, 1/ program issues, and budget levels.

Agency level chronology between May and September

May 15,
1978

BLM budget request forwarded to the Assistant Secretary for Land and Water Resources and the Assistant Secretary for Policy, Budget and Administration (PBA). Range request was \$36.4 million, fire management request was \$8.8 million, and firefighting and rehabilitation request was \$30.0 million. (See figures 16, 17, and 18.)

May 19-
August 15,
1978

PBA reviewed submissions from Bureaus/ Offices and made recommendations to the Secretary. Assistant Secretaries briefed the Secretary on their programs. Secretary transmitted his proposed budget to the Assistant Secretaries. Assistant Secretaries could appeal before Secretary made final budget decisions.

July 10,
1978

OMB planning allowance letter provided budget planning ceilings for 1980-82 for the Department as a whole, employment ceilings and budget year issues. No range program guidance for range, fire management, or firefighting and rehabilitation was provided.

1/In cooperation with the Treasury Department and the Council of Economic Advisers.

August-September 1978 Congressional action on fiscal year 1979 DOI appropriation, set range program at \$35.76 million, fire management at \$12.61 million, and firefighting and rehabilitation at \$4.75 million.

September 8-11, 1978 Bureaus submitted their budget estimates in ZBB format to DOI's Office of Budget.

OMB level chronology from September to submission of President's budget to the Congress

September 19, 1978 DOI submitted its fiscal year 1980 budget estimates to OMB, providing a table of 89 consolidated decision unit packages, and 19 over-ceiling packages: The body of the letter gave highlights of the proposed budget. Range request was \$36.4 million, fire management request was \$10.8 million, and firefighting and rehabilitation request was \$4.75 million. (See figures 16, 17, and 18.)

Late September-November 14, 1978 OMB reviewed budget submissions, held agency hearings, gave its passback, and heard agency appeals. OMB passback document on November 14 provided detailed decision unit allowances and explanations of reductions (including suggested \$8.2 million reductions in the Range, Soil, and Wildlife decision unit in several deferrable activity areas: project development cut \$4.4 million, research and studies cut \$2.8 million, and management operations cut \$1 million) suggested \$4 million reductions in fire management, and suggested \$2 million reductions for one-time purchase of firefighting equipment and \$2 million reduction in presuppression training. BLM appealed approximately \$7 million for the Range, Soil, and Wildlife decision unit. There were no appeals of the fire

	management or firefighting and rehabilitation reductions.
November 1978- January 1979	President reviewed budget recommendations and decisions on agency budget. OMB notified agency of its recommendations and agency revised its estimates.
January 23, 1979	President submitted fiscal year 1980 budget request to the Congress. (Range request was \$36.5 billion, fire management was \$8.8 million, and emergency firefighting was \$4.75 million.)

Chronology of key dates and events: Coal program

The following are key dates and events in budget formulation on the coal program for fiscal year 1980.

Program level chronology to May

The fiscal year 1980 budget was separated from the rest of the budget preparation for the State offices. For Colorado and Wyoming, budget instructions were received by the State directors from a headquarters-based Coal Task Force about mid-March 1978, and passed to the program specialists. Although no program dollar guidance was provided by BLM headquarters, the instructions emphasized the following programmatic points:

- the coal program was to receive high priority,
- regional statements and studies were to reflect major workload efforts already included in the 1978 annual work plan and meet deadlines,
- inventory and planning efforts were to receive major emphasis,
- several areas per State leasing offers were to be anticipated, and
- descriptions of the basis of estimates for various work or contracts proposed were to be provided.

March 15, 1978	Budget submissions were due on March 24, 1978. Because the timeframe was so short, the program specialists
-------------------	--

did not ask the district for information. The States submitted their budget to headquarters, where the Program Group and Task Force met to review the data.

January 31,
1978

Letter from Director of OMB (see prior chronology for details). No coal program guidance.

February 28,
1978

Memo from DOI Director of Budget to Assistant Secretaries and heads of Bureaus and Offices (see prior chronology for details). The only guidance that related specifically to coal concerned making the assumption of a 5 percent annual price increase in receipt estimates.

March 30,
1978

Memo from Secretary of DOI to the Solicitor and Assistant Secretaries (see prior chronology for details).

Coal program guidance consisted of being prepared to resume any necessary competitive coal leasing by June 1980, including any necessary field studies for long-term coal leasing decisions.

April 1978

Three weeks of meetings (see prior chronology for details).

April-June
1978

OMB Spring Planning Review (see prior chronology for details).

Late March-May
1978

At BLM headquarters, coal program analysts and the Coal Task Force review the States' coal submissions. The task force prepares its report, planning and budget for coal leasing, 1978 through 1980, which recommends that the fiscal year 1980 request level of the coal program be \$21.0 million.

Agency level chronology from May to September

May 15,
1978

BLM budget request coal forwarded (see prior chronology for details). Coal

program request was \$21.1 million,
(see figure 19).

May 19-August 15,
1978 PBA reviewed submissions from Bureaus/
Offices (see prior chronology for
details).

July 10,
1978 OMB planning allowance letter is trans-
mitted (see prior chronology for
details). No coal program guidance was
provided.

August-September
1978 Congressional action on fiscal year
1979, DOI appropriation set the coal
program at \$3.7 million increase.
(See figure 19.)

September 8-11,
1978 Bureaus submitted their budget esti-
mates (see prior chronology for
details).

OMB level chronology from September to submission
of President's budget to the Congress

September 9,
1978 DOI submitted its fiscal year budget
estimates to OMB, (see chronology for
details). Coal request was \$21.1
million (see figure 19).

Late September-
November 14,
1978 OMB reviewed budget submissions, (see
prior chronology for details). OMB ap-
proved the \$21.065 million for the
coal program (see figure 19).

November 1978-
January 1979 President reviewed budget recommenda-
tions (see prior chronology for details).

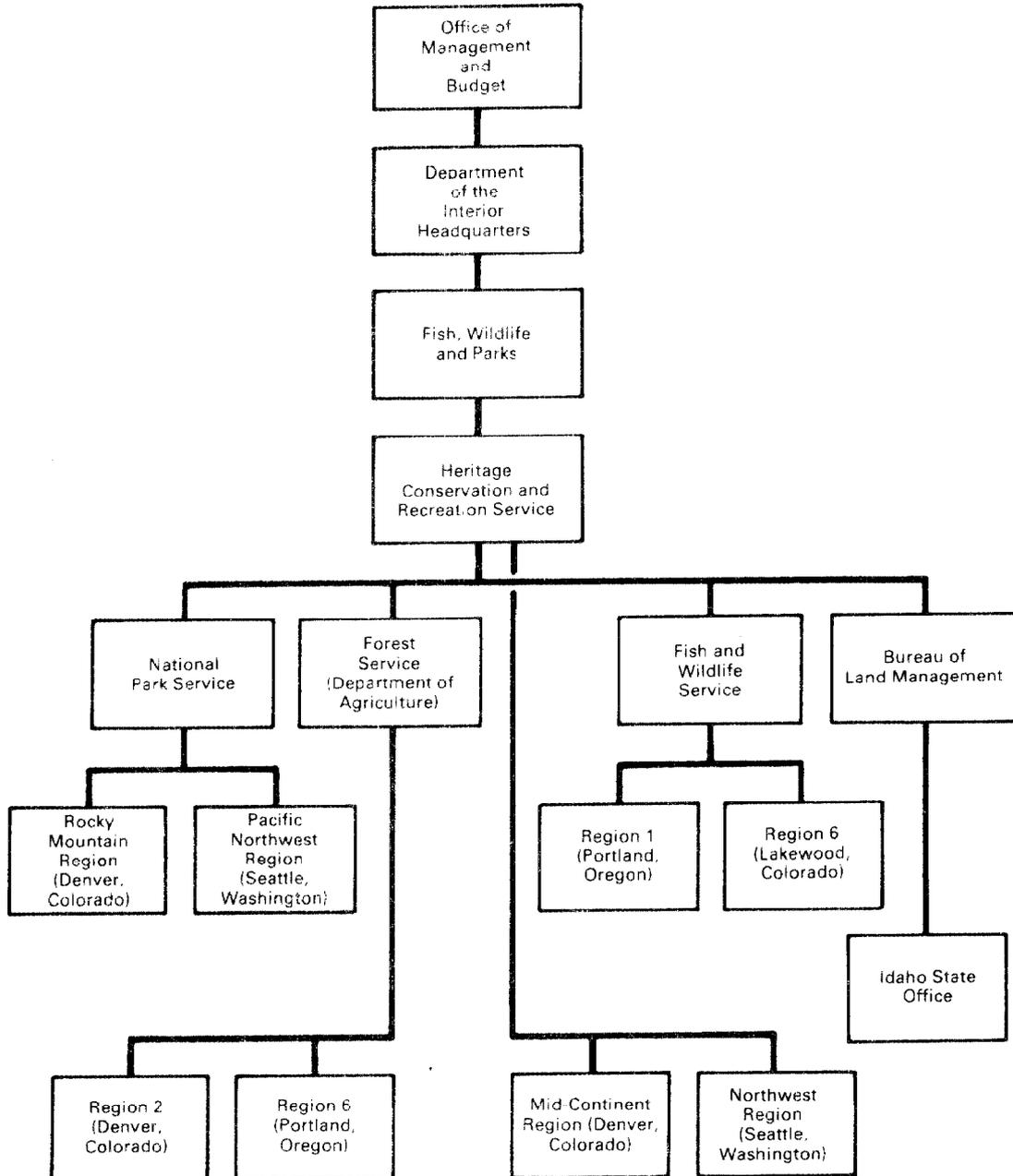
January 23,
1979 President submitted fiscal year 1980
budget request to the Congress. Coal
request was \$21.0 million (see
figure 19).

HERITAGE CONSERVATION AND RECREATION SERVICE

Our review's work locations

As seen in figure 20, our case study work on selected
programs in HCRS involved work at both the headquarters and

Figure 20
GAO Work Locations in Review of
Heritage, Conservation and Recreation Service's Budget Formulation



field levels of HCRS, Bureau of Land Management (BLM), Fish and Wildlife Service (FWS), Forest Service (FS), and National Park Service (NPS).

The Land and Water Conservation Fund
program case study highlights

The Land and Water Conservation Fund (LWCF) was created by the Land and Water Conservation Fund Act of 1965 (P.L. 88-578) to increase outdoor recreation opportunities. The fund is divided into two "sides" to accomplish two distinct purposes.

--The "Federal side," which cannot receive less than 40 percent of the total fund, acquires lands for federally administered parks, wildlife refuges, and recreation areas. These areas are administered by the National Park Service (NPS), Fish and Wildlife Service (FWS), and Bureau of Land Management (BLM) in the Department of the Interior, and Forest Service (FS) in the Department of Agriculture. All acquisition programs must be specifically approved by the Congress.

--The "State side" provides grants to States and, through States, to their cities, counties, towns, etc., for the acquisition and development of public outdoor recreation areas. The Federal Government cannot provide more than 50 percent of the funds for any project.

Revenues for this fund are obtained from the sale of surplus Federal real property, the Federal motor boat fuels tax, and Outer Continental Shelf receipts. For fiscal year 1980, the fund is limited by law to revenues of \$900 million.

Budget account and recent funding

The Land and Water Conservation Fund (LWCF) program is funded through HCRS' budget account 14-5005-0-2-303, consisting of assistance to States ("State side"), Federal programs ("Federal side"), and administrative expenses. Both assistance to States and Federal programs are classified as relatively controllable by OMB.

The "State side" requests have remained relatively constant over the past 3 years while the "Federal side"

requests have fluctuated by over \$100 million during the same time period. It should also be noted that for both fiscal years 1978 and 1979 Congress appropriated more to the "Federal side" than the Executive requested, while it did not increase the "State side" (reducing it by over \$45 million in fiscal year 1978). This practice was altered in 1980, where both the "State side" and the "Federal side" were reduced by a total of \$100.8 million. This is seen in table 22.

Table 22

Recent Appropriation History for
Land and Water Conservation Fund Program

(dollars in thousands)

<u>Fiscal year</u>	<u>Budget request</u>	<u>Appropriation</u>	<u>Increase/decrease (-) from appropriation request</u>
1978			
State side	\$351,635	\$306,070	\$- 45,565
Federal side	239,136	285,166	46,030
Admin.	9,229	8,764	- 465
Total	<u>\$600,000</u>	<u>\$600,000</u>	<u>\$ 0</u>
1979			
State side	369,790	369,790	0
Federal side	347,477	359,988	12,511
Admin.	7,733	7,247	- 486
Total	<u>\$725,000</u>	<u>\$737,025</u>	<u>\$ 12,025</u>
1980			
State side	359,307	300,000	- 59,307
Federal side	242,873	201,801	- 41,072
Admin.	7,820	7,393	- 427
Total	<u>\$610,000</u>	<u>\$509,194</u>	<u>\$-100,806</u>

Table 23 shows the action (as of November 30, 1979) taken by the Congress on the LWCF program request for fiscal year 1980.

The House recommended a reduction of \$162.9 million from the President's original and supplemental request. The "State side" was reduced by \$159.3 million. On the "Federal side," the \$12 million supplemental for the

Table 23

Initial Congressional Action on Land and Water Conservation Fund Request, Fiscal Year 1980

(dollars in thousands)

	<u>Administration's appropriation request</u>	<u>House</u>		<u>Senate</u>		<u>Final enacted</u>
		<u>Reported</u>	<u>Passed</u>	<u>Reported</u>	<u>Passed</u>	
Assistance to States	\$359,307	\$200,000	\$200,000	\$359,307	\$359,307	\$300,000
Federal programs	242,873	239,366	239,366	188,175	187,847	201,801
Administrative expenses	<u>7,820</u>	<u>7,693</u>	<u>7,693</u>	<u>6,693</u>	<u>7,393</u>	<u>7,393</u>
Total LWCF	\$610,000	\$447,059	\$447,059	\$554,175	\$554,547	\$509,194

Pinelands National Reserve was deleted while the original request was increased by \$8.4 million--a net decrease of \$3.6 million.

The Senate recommended a reduction of \$55.8 million from the President's original and supplemental request, \$107.1 million above the House recommendation. The "State side" coincided with the President's original request. The Senate report stated, "the \$159,307,000 reduction approved by the House involves a sharp drop in current support, and most States clearly merit maximum support." On the "Federal side," the \$12 million supplemental was included, but the original request was reduced by \$54.7 million. According to the Senate report

"Recent jumps in authorized spendings limits for the Land and Water Conservation Fund have fostered equally rapid increases in appropriations. At the same time the Congress has also authorized a major expansion of the National Park System and granted wider general authority for Federal land purchases to other resource management agencies. In some cases, dollars have piled up faster than these agencies can spend them properly. This in turn has resulted in some land acquisition proposals that were hastily conceived, perhaps more to utilize available funding than to address actual program needs.

At the beginning of August * * * little more than half the appropriation available to the land managing agencies had been obligated. Three of these agencies had yet to obligate even the funds carried forward from fiscal 1978 * * *.

Clearly, in the Committee's judgment, the availability of more than \$220,000,000 in unused appropriations diminishes the need for more new funding in fiscal 1980 * * *.

Accordingly, wherever any fiscal 1980 budget proposals for Federal land acquisition were not clearly justified, or wherever any question of suitability or authority existed, the Committee has deferred funding for more careful review. And wherever the land acquisition agencies have not demonstrated that they can obligate available appropriations in a timely and effective manner, the Committee has reduced the level of new funding."

Final Senate action increased the funding level recommended by the Senate Appropriations Committee by \$372,000, leaving the "State side" the same, lowering the "Federal side" \$328,000, and raising the administrative expenses \$700,000.

Final action was between the Senate and House versions--almost \$15 million was added to the "Federal side," while \$59 million was cut from the "State side," and administrative expenses did not change.

Driving forces

Earlier decisions and long-range planning do not determine the level of funding for the LWCF. In fiscal year 1980, the driving force for the funding level of the entire fund is the fact that LWCF is one of the two largest controllable funds in the Department of the Interior. Therefore, the fund can have any request below the \$900 million maximum. In the Spring Passback, OMB determined a figure (\$610 million) and gave no further instructions on how it should be used. The LWCF request was \$610 million.

The driving force for the division of the \$610 million between the two "sides" was the determination of the Director of HCRS with approval through the Department to split the fund on a 60/40 basis (60 percent to the "State side" and 40 percent to the "Federal side"). The decision had been made to divide the fund on this basis when HCRS was requesting the \$900 million maximum prior to the Spring Passback.

The division of funds is allocated by a static formula, part of which is stated in law and part of which is at the discretion of the Secretary of the Interior.

According to HCRS officials, the driving force behind the division of the "Federal side" funds between NPS, FS, FWS, and BLM is the priority ranking of all the proposed projects. HCRS has certain criteria by which the projects are judged. Those with the most "need" are funded first. However, in the fiscal year 1980 process, while a separate ranking was completed for each service, there was no overall ranking combining all the projects for the four services. Over the past 3 years, the percentage of the Federal funds which were requested for each of the services in the President's budget has remained relatively constant (see table 24).

Table 24

Each Service's Percentage of
"Federal Side" Request in
President's Budget

<u>Fiscal year</u>	<u>National Park Service</u>	<u>Forest Service</u>	<u>Fish and Wildlife Service</u>	<u>Bureau of Land Management</u>
1980 <u>a/</u>	60	23	10	2
1979 <u>b/</u>	61	22	15	1
1978	60	28	11	1

a/Does not add to 100 percent because of a supplemental request of \$12 million for acquisition of land at Pine-lands National Reserve which would not go to any of the four services.

b/Does not add to 100 percent due to rounding.

There is a perception by some officials at the services involved that the fund is being divided on a percentage basis. Also, after each of the four services reviews its portion of the request, individual projects may be added and subtracted by the service at its discretion. These changes cannot, however, affect the overall funding level for the service.

Organizational level changes on the request amount

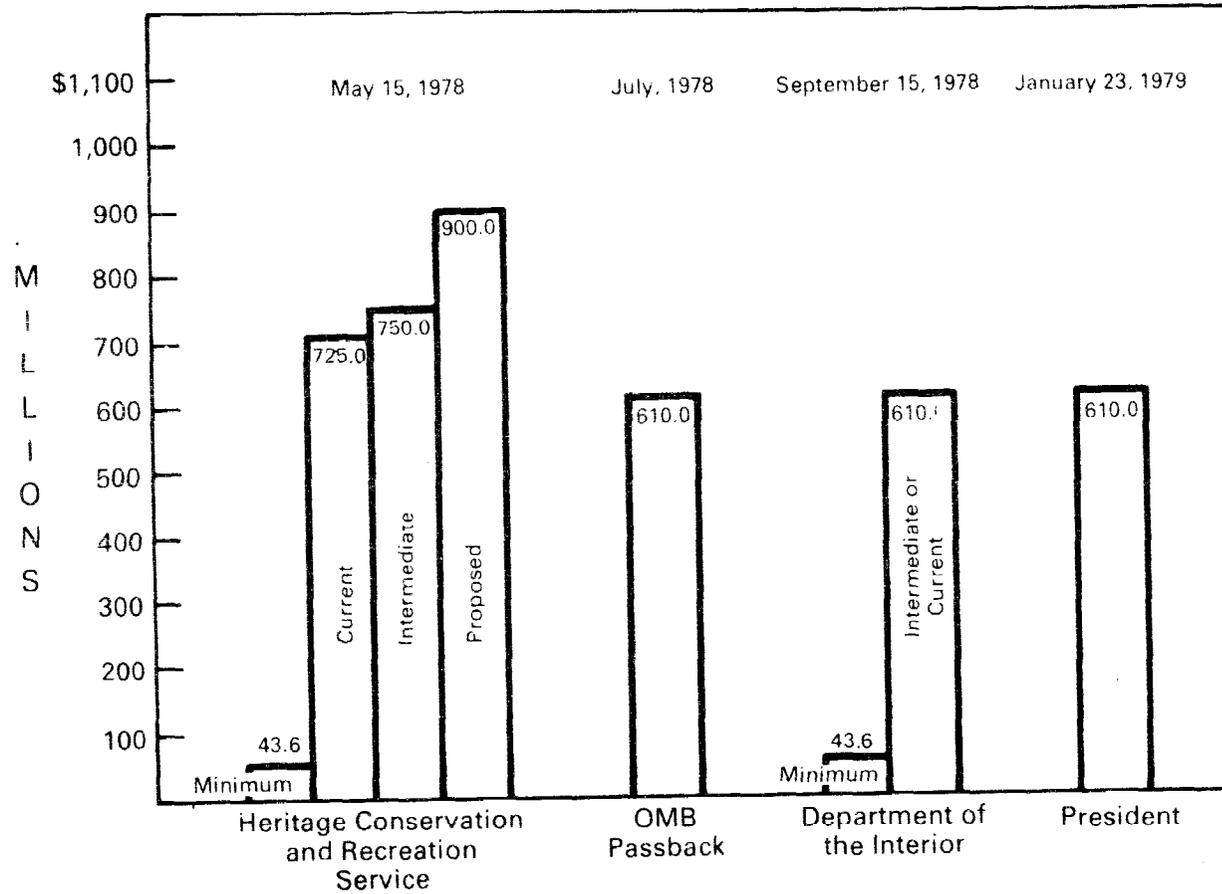
The dollar amounts requested by the principal organizational levels are seen in figure 21.

The ZZB levels originally submitted by HCRS to the Department for consideration had four levels. The two most important ones were the minimum and proposed levels. The minimum was what the fund needed to retain personnel, administer unobligated carryovers and make outlays, and plan for the future. The proposed level of \$900 million was the maximum permitted by law. After OMB's passback in July, \$610 million was the proposed level. Support remained at \$610 million from July on.

Chronology of key dates and events

The following are key dates and events in budget formulation on the LWCF program for fiscal year 1980.

Figure 21
Organizational Level Changes in the Appropriation Request for the Land and Water Conservation Fund, Fiscal Year 1980



Program level

November 1977 FWS Washington office asked regional offices for proposed projects for "Federal side" (responses received in January).

December 1977 BLM Washington office asked regional offices for proposed projects for "Federal side" (responses received in January).

January 26, 1978 NPS Washington office sent budget directives for "Federal side" used in FY 1979 formulation to regional offices for fiscal year 1980 use (responses received in February).

January 31, 1978 Letter from Director of OMB, which set out planning targets of \$5,888 million for the Department. No specific LWCF guidances and significant policy determinations.

February 16, 1978 Land Planning Group (policy group within "Federal side" of LWCF--predecessor of Land and Water Conservation Fund Policy Group) sent instructions to four services for budget formulation: criteria to be used, definitions of minimum and current levels, and agency target figures for unconstrained level (NPS--\$360 million, FS--\$130 million, FWS--\$155 million, BLM--\$6.5 million).

February 28, 1978 Memo from DOI Director of Budget to Assistant Secretaries and heads of bureaus and offices, providing a table of Bureau/Office allowances and targets. Projection for LWCF--\$850 million.

March 1, 1978 FS Washington office sent budget directives for "Federal side" from Land Planning Group (LPG) to regional offices (responses received during March).

March 15, 1978 Budget priority ranking due from four services to LPG for "Federal side" (formal submissions received from NPS on March 17, BLM on March 29, FWS on April 4, and FS on April 7).

March 30,
1978 Memo from Cecil Andrus, Secretary of DOI, to the Solicitor and Assistant Secretaries with policy and fiscal guidance at Bureau/Office level--"LWCF may not exceed the authorized levels" (\$900 million).

April 7,
1978 DOI Deputy Assistant Secretary of Policy, Budget, and Administration (PBA) to Eliot Cutler, transmitting OMB Submission of Interior's Spring Planning Issues.

April 21-24,
1978 LPG divided "Federal side" between four services, HCRS directorate reviewed the allocations, and the four services were notified of their level.

Agency level from May to September

May 16,
1978 Formal submission of budget request from HCRS to PBA and Assistant Secretary of Fish Wildlife and Parks (FWP) request for LWCF was for \$900 million.

May
1978 Informal results of OMB Spring Review--LWCF to receive \$610 million.

June
1978 President approved LWCF at \$610 million.

June 22,
1978 Director of HCRS to Assistant Secretary, FWP, requesting 60/40 split between "State" and "Federal sides."

June
1978 Division of funds by two sides on basis of 60/40 split.

July 10,
1978 Official OMB Planning Allowance of \$610 million for LWCF with no other dollar details.

July 12,
1978 Director of HCRS to Assistant Secretary, FWP requesting 60/40 split between "State" and "Federal sides."

August 1,
1978 Secretary of DOI to Assistant Secretaries-- Decisions on allocation of allowances given by OMB (including administrative amounts):

LWCF - "State side"	\$366 million
"Federal side"	244 million
	<u>\$610 million</u>

OMB level chronology from September to submission
of President's budget to the Congress

September 8-11, 1978	Bureaus submit their budget estimates in ZZB format to DOI's Office of Budget.
September 19, 1978	DOI submission of budget request to OMB-- request for LWCF is for \$610 million, appeal by DOI for 60/40 split of LWCF.
Late September-- November 14, 1978	OMB reviewed budget submission, held agency hearings, gave its passback, and heard agency appeals. OMB passback document on November 14 provided detailed decision unit allowances.
November 10, 1978	Passage of Omnibus Park Bill.
November 1978	Supplemental appropriation incorporating newly authorized sections in Omnibus Park Bill not accepted. DOI decision made to incorporate portions of bill into fiscal year 1980 request for "Federal side" without increasing level of funding.
November-- December 1978	Almost continuous informal contact between different levels (OMB, Interior Budget Office, Office of Policy Analysis, Assistant Secretary, FWP, HCRS, LPG, and the Washington offices of the four services in determining which projects to fund. As dollar levels were changed between services, each service was given a short period of time to come up with which projects at what level of funding could be accomplished.
November 1978-- January 1979	President reviewed budget recommendations and decisions on agency budget.
January 23, 1979	President submitted fiscal year 1980 budget request to the Congress. The request for LWCF was \$598 million in appropriation and a \$12 million supplemental--or \$610 million. The \$610 million was divided on a 60/40 basis between the "State" and "Federal sides."

DEPARTMENT OF DEFENSE CASESSEQUENCE OF STEPS FOR FISCAL YEAR 1980OVERVIEW OF KEY DATES AND EVENTS
IN THE DEPARTMENTAL PROCESS

The following is a chronological listing of the key dates and events in the overall departmental budget formulation cycle for the fiscal year 1980 operations and maintenance (O&M) appropriation. Emphasis is placed on the dates of formal policy and dollar guidance given by higher levels to lower levels, and the dates of formal program and budget submissions. Dates for program submissions are included as they are the link between planning and budgeting. Decisions on what will be accomplished during the budget year are primarily made during the programming cycle. All dollar amounts are given on the O&M level, if available. Other dates and events are listed with the separate discussions of the Army and the Air Force presented later. 1/

January
1978

The President, at the time that the fiscal year 1979 budget was issued (January 1978), also approved DOD's estimates for 3 out years as suitable budget authority planning targets; for fiscal year 1980, the target for all DOD was \$139.4 billion.

January 17,
1978

The Office of the Secretary of Defense (OSD) published the draft Consolidated Guidance, providing both mandatory and suggested program guidance. 2/ Fiscal guidance for each service's total obligational authority for 5 years was given

1/Our review concerned the Office of the Secretary of Defense, and numerous components of the Army and the Air Force. We did not contact the Joint Chiefs of Staff (JCS). Therefore, this chronology does not discuss JCS involvement in DOD's budgeting process.

2/This guidance was developed after, and partly reflected, considerable service input.

in three ZBB levels. 1/ At the basic level, this guidance was:

Army \$34.4 billion
Air Force \$37.1 billion.

March
1978

OSD published the Consolidated Guidance, providing both mandatory and suggested program guidance. 2/ Fiscal guidance for each service's total obligation authority for 5 years was given in three ZBB levels. At the basic level, this guidance was:

Army \$34.6 billion
Air Force \$37.8 billion.

May
1978

Each service submitted its Program Objective Memoranda (POM), which describes the basic level program and adjustments necessary to reach the minimum/enhanced levels. Program costs are presented for 5 years.

June
1978

OSD issued the Budget Estimate Guidance (BEG) concerning the preparation and submission of budget estimates. It discussed civilian pay increases, reimbursements for industrial funds, and zero-base budget materials. It provided no fiscal guidance.

1/DOD used three ZBB levels, defined essentially (there were some minor service variations) as follows:

"Minimum"--the level of performance below which no constructive contribution could be made.

"Basic"--the level of performance at current year service or input level without major policy changes.

"Enhanced"--the level with increased output or service levels consistent with major objectives.

2/This guidance was developed after, and partly reflected, considerable service input.

July
1978

After reviewing service POMS, OSD provided its tentative decisions in the Program Decision Memoranda (PDMs). The fiscal year 1980 PDMs reflected program estimates in three ZBB levels. Basic level estimates were:

Army \$34.6 billion
Air Force \$39.3 billion.

Services may appeal the decisions.

July
1978

OMB provided fiscal guidance to DOD, citing a target budget authority of \$135.1 billion.

August
1978

OSD issued final program decisions in the Amended Program Decision Memoranda (APDMs). Program changes resulted in revised estimates, at the basic level, of:

Army \$35.0 billion
Air Force \$39.3 billion.

Guidance for the minimum and enhanced levels was also provided.

August
1978

Total obligational authority (TOA) control total and supplementary instructions were provided to the services. For fiscal year 1980, this document provided updated fiscal guidance, for the basic level, of: 1/

Army \$35.9 billion
Air Force \$40.1 billion.

The dollar estimates given in the following sections are for operations and maintenance/general purpose forces

1/This document does not usually provide updated fiscal guidance. However, for fiscal year 1980, the APDM estimates were revised to reflect an increased inflation rate.

(O&M/P-2), the focus of our review. The preceding estimates were given at the level provided in the particular document.

September 1978 Each service submits its budget estimates in ZBB format, simultaneously to OSD and OMB for their review. Estimates for O&M/P-2 basic level were:

Army	\$3.5 billion
Air Force	\$2.0 billion.

September-December 1978 During this period, a process in DOD known as the "DPS cycle" (Decision Package Sets cycle) occurs. OSD reviews and, subject to service appeal, approves or disapproves the Decision Package Sets. Approved DPSs comprise the total DOD recommended budget. OMB also reviews the proposals.

January 1979 The President's fiscal year 1980 budget was submitted to the Congress, reflecting estimates of:

DOD	\$135.0 billion
Army	33.2 billion
O&M	9.9 billion
O&M/P-2	3.2 billion
Air Force	36.4 billion
O&M	10.1 billion
O&M/P-2	1.9 billion.

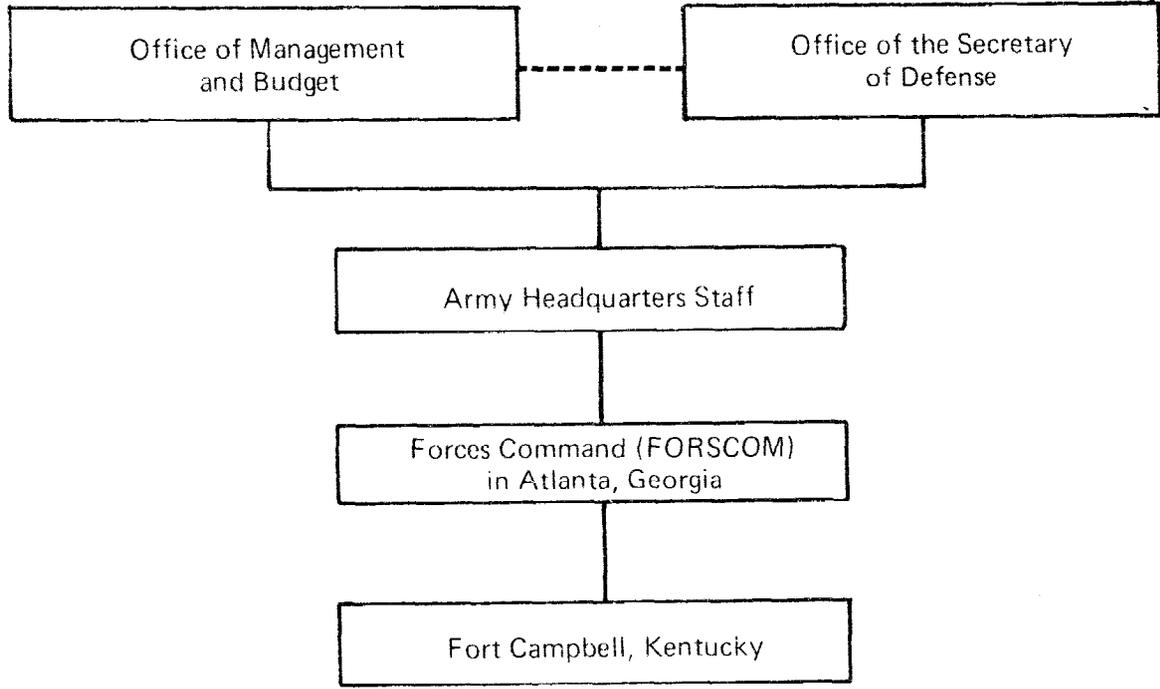
DEPARTMENT OF THE ARMY

Our review's work locations

As seen in figure 22, our case study work on the selected program in the Army involved work at both the headquarters and field level.

Figure 22

GAO Work Locations in Review of the Department of the Army's O&M
General Purpose Forces Program Budget Formulation



General purpose forces
operation and maintenance
case study highlights

The primary aim of the general purpose forces operation and maintenance program is to provide the readiness training, operation and maintenance of equipment and facilities related to the combat forces other than those in the Strategic Forces Program. These O&M funds must support the forces in maintaining the capability to perform levels associated with these forces and related support units which are deployed or deployable as constituent parts of military forces. These operation and maintenance costs include civilian pay, contract services for maintenance of equipment and facilities, expendable supplies, and repair parts for equipment.

Budget account and recent
funding

The O&M general purpose forces program is funded through the Department of the Army's budget identification code 21-2020-0-1-051. The budget associated with the code represents the O&M activities related to the major forces program active forces. The O&M budget is classified by OMB as being relatively controllable. The table below presents the recent dollar request and appropriation history for the O&M general purpose program.

Table 25

Recent Appropriation History of Army Operations
and Maintenance/General Purpose Forces

(dollars in thousands)

<u>Fiscal year</u>	<u>Appropriation request</u>	<u>Appropriation</u>	<u>Increase/ decrease (-)</u>
1978	\$2,691,983	\$2,594,710	-\$97,273
1979	3,033,764	2,982,154	- 51,610
1980	3,210,820 <u>a/</u>	3,150,299 <u>a/</u>	- 60,521

a/Excludes budget amendment of \$84.6 million.

As shown above the funding appropriated by the Congress increased from 1978 to 1980. However, the appropriations enacted for those years represented decreases from the funding levels requested.

Driving forces

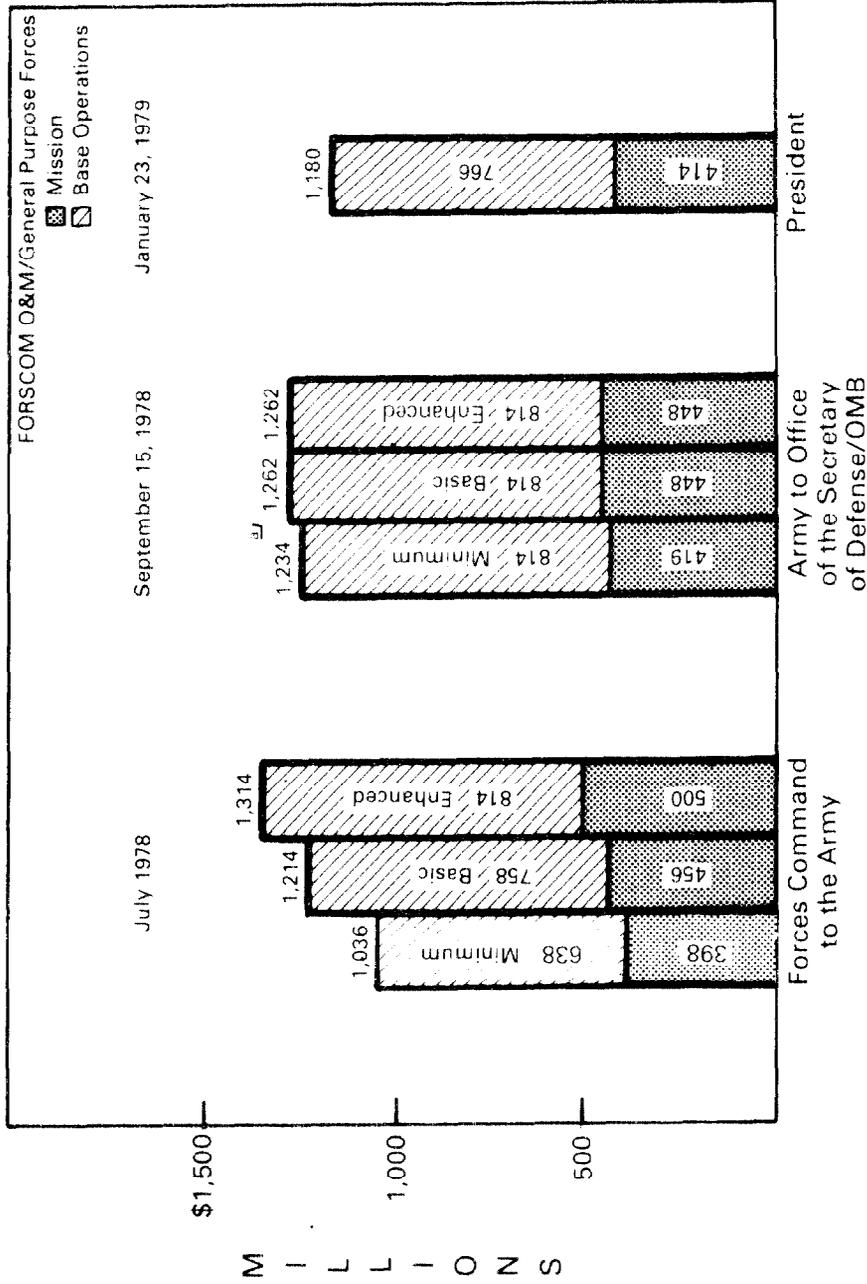
In the recent past, the funding for O&M/P-2 has shown only a slight yearly change. Such stability is what one would expect, given the purpose of O&M/P-2 funds. These funds provide operation and maintenance required to insure that forces have the capability to perform their mission. Thus, a key determinant of the funding level is the size of the forces that must be operated and maintained. Within the last few years, the Army force has been fairly constant, consisting of 16 divisions plus other assorted units, stationed throughout the world. Once basic force size has been established, the modernization and readiness levels of these forces also impact the funding level. For example, the introduction of new weapons systems, training requirements, and maneuver or tank battalions can affect funding needs.

In addition, overall budget factors can be of importance, such as the President's "NATO" commitment, repeated in his proposed budget for fiscal year 1980, for a 3 percent "real" growth in defense spending for 1980.

Organizational level changes on the request

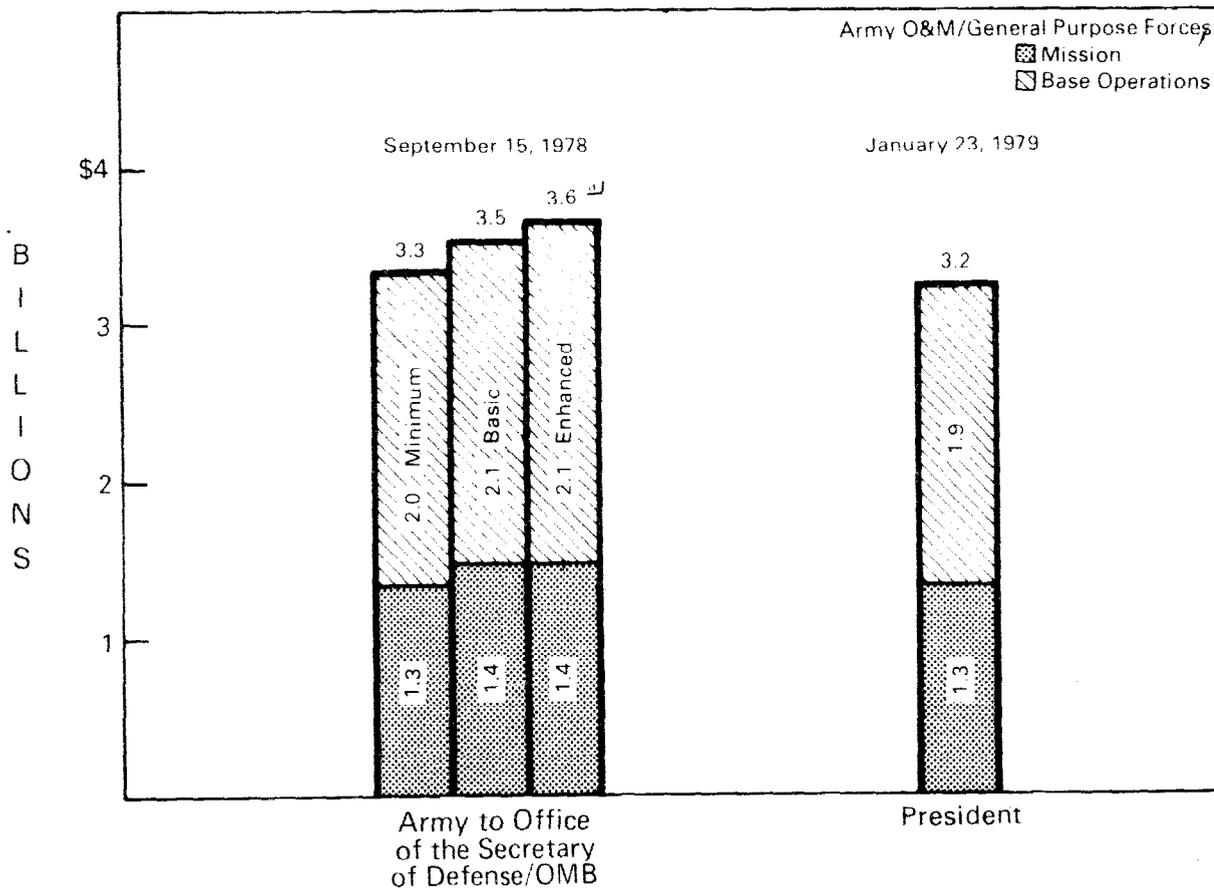
The budget dollar amounts submitted by the principal organizational levels are seen in figures 23 and 24. In accordance with ZBB theory, there is no one ZBB level designated as "the request" level, although the "enhanced" level most closely represents the desired level. It is important to note that a given ZBB level at two organizational levels (for example, the "basic" level at FORSCOM and Army headquarters) may not reflect the estimated cost of implementing the same program. "Program alternatives" (see appendix IV) may be eliminated or new ones created, etc., throughout the review process. Therefore, any decrease or increase in the dollar amounts from one organization level to another may mean that program requirements have been changed.

Figure 23
 Organizational Level Changes in the Appropriation Request for the Army Forces
 Command Operations and Maintenance: General Purpose Forces Program,
 Fiscal Year 1980



† Does not add to bar total due to rounding

Figure 24
Organizational Level Changes in the Appropriation Request for the Army Operation and Maintenance: General Purpose Forces Program, Fiscal Year 1980



⌘ Does not add to bar total due to rounding

Chronology of key dates and events

The following are key dates and events in the formulation of the Army O&M/P-2 budget for fiscal year 1980.

October 1977	Army issued the Preliminary Army Planning and Program Guidance Memorandum (PAPPGM) to be used by the Army staff in developing the Army POM. This guidance was finalized later, on March 16, 1978. It discussed policy and resource constraints.
December 22, 1977	Army issued instructions to the major commands for preparation of the Programming Analysis and Resource Review (PARR) their programming input to the Army POM.
January 17, 1978	OSD published the Draft Consolidated Guidance, providing both mandatory and suggested program guidance. Fiscal guidance for each service's total obligation authority for 5 years was given in three ZBB levels. For fiscal year 1980 the Army basic level was estimated as \$34.4 billion.
February 1978	FORSCOM submitted its programming input to the Army.
March 7, 1978	OSD forwarded the Draft Consolidated Guidance which included program as well as fiscal guidance. The Army guidance was \$34.6 billion.
March 29, 1978	FORSCOM provided instructions to Ft. Campbell for use in preparing its budget estimate submission.
April 20, 1978	The Army Select Committee reviewed the program being developed for the POM.
May 1978	The Army published its Program and Budget Guidance (PBG) which allocated POM resources to each major command according to appropriation accounts. Major defense program estimates were provided for information only.

FORSCOM's allocation for O&M was \$1.26 billion. The informational amount provided for O&M/P-2 was \$1.21 billion.

May 19,
1978

Ft. Campbell submitted its budget request to FORSCOM. O&M was estimated at \$56.1 million; O&M/P-2 at \$53.5 million.

May 23,
1978

The Army POM (fiscal year 1980-1984) was submitted to OSD. The POM discusses the Army basic level program and alternatives necessary to reach the minimum/enhanced levels. The fiscal year 1980 basic level program for the Army was estimated to cost \$37.8 billion.

June 30,
1978

OSD issued the BEG concerning the administrative preparation of budget estimates.

July 1,
1978

FORSCOM submitted its budget estimates to Army in three ZBB levels. The basic level was \$1.21 billion for O&M/P-2.

July 25,
1978

After review of the POM and the subsequent issue meetings, OSD issued the Program Decision Memorandum (PDM) which approved the POM with certain tentative changes. The estimate for the Army basic level 1980 program was \$34.6 billion.

August 20,
1978

Following Army appeals of the PDM, OSD issued its Amended Program Decision Memorandum (APDM). The Army program estimates were given in three ZBB levels, with a basic level for fiscal year 1980 of \$35.0 billion.

August
1978

OSD revised the budget estimates of the APDM to reflect a higher inflation rate. The Army basic level cost increased to \$35.9 billion.

September- December 1978	Jointly, OSD and OMB reviewed the Army budget, approving and revising each decision package set.
January 1979	The President's fiscal year 1980 budget was submitted to the Congress, containing a total Army program of \$30.4 billion. Of this, \$9.9 billion was for O&M; \$3.2 billion for O&M/P-2. The FORSCOM budget was \$1.21 billion for O&M; \$1.18 billion for O&M/P-2.

DEPARTMENT OF THE AIR FORCE

Our review's work locations

As seen in figure 25, our case study work on the selected program in the Air Force involved work at both the headquarters and field level.

General purpose forces operation and maintenance case study highlights

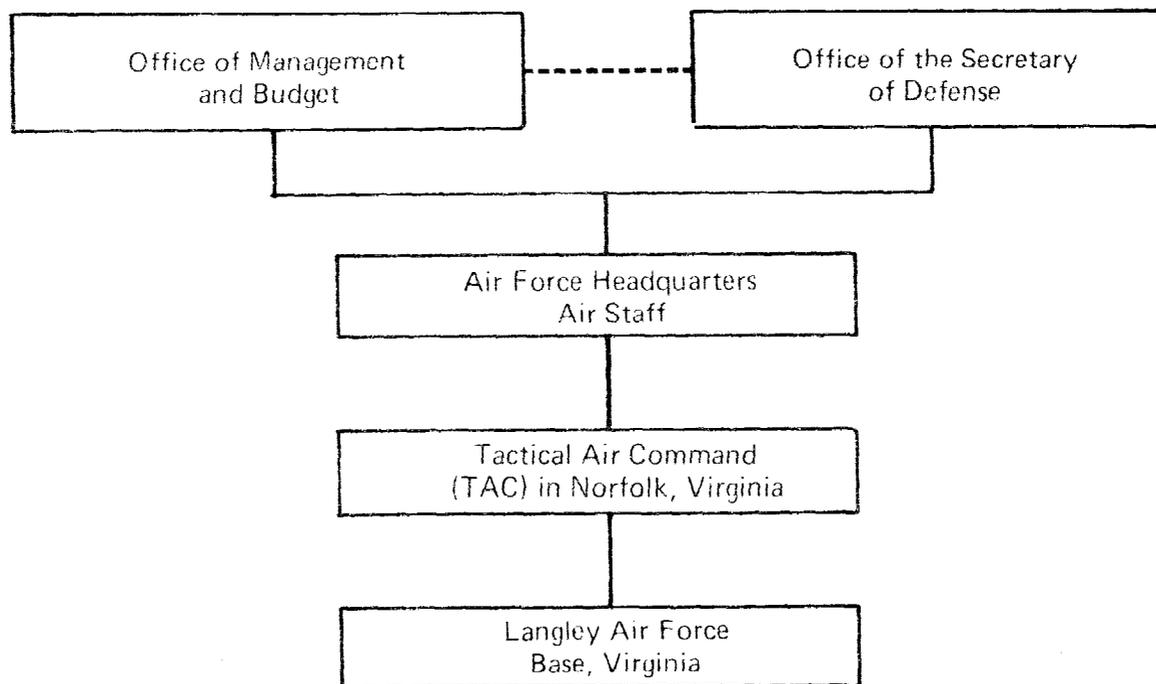
The primary aim of the O&M general purpose forces program is to provide operation and maintenance required to insure that the forces have the capability to perform its mission through tactical air operations, interdiction, close air support, tactical air reconnaissance and special air operations as circumstance of the tactical forces includes civilian pay, contract services for maintenance of equipment and facilities, travel, expendable supplies, and repair parts for weapon systems and equipment.

Budget account and recent funding

The O&M general purpose forces program is funded through the Department of the Air Force's budget identification code 57-3400-0-1-051. The budget associated with this code represents the O&M activities associated with the major force programs related to the active forces. The O&M budget is classified by OMB as being relatively controllable.

Figure 25

GAO Work Locations in Review of the Department of the Air Force's O&M
General Purpose Forces Program Budget Formulation



The table below presents the recent dollar request and appropriation history for the O&M general purpose program.

Table 26

Recent Appropriation History of Air Force Operations and Maintenance/General Purpose Forces

(dollars in thousands)

<u>Fiscal year</u>	<u>Appropriation request</u>	<u>Appropriation</u>	<u>Increase/decrease (-)</u>
1978	\$1,589,309	\$1,521,340	-\$67,969
1979	1,737,106	1,695,247	- 41,859
1980	1,850,163	1,966,694	116,531

As shown above the funding appropriated by the Congress increased from 1978 to 1980. However, the appropriations represented decreases from the funding levels requested.

Driving forces

In the recent past, the funding for O&M/P-2 has shown only a slight increase. Although affected by external pressures such as the President's pledge to NATO for 3 percent real growth in defense spending in fiscal year 1980, and inflation, funding for O&M/P-2 has been generally stable.

Both the size and composition of the Air Force are a direct function of the threat posed by potential adversaries. The procurement of the latest and most sophisticated aircraft is in response to that threat. While aircraft can be procured only to the extent authorized by the Congress, once purchased it is Air Force policy to operate and maintain these aircraft to the extent that will achieve at least a minimum level of readiness. The amount of funds required for O&M/P-2 is then directly related to the force structure and the readiness requirements. Within the last few years, the basic force level has been fairly constant--e.g., 26 tactical wings. The modernization and readiness levels of these wings also affect funding requirements. Also important are such budget factors as the President's "NATO" commitment for increased defense spending.

Organizational level changes
on the request

The dollar amounts requested by the principal organizational levels are seen in figures 26 and 27.

Chronology of key dates and events

The following are key dates and events in budget formulation on the O&M/P-2 program for fiscal year 1980.

November 14,
1977

TAC's guidance to Langley Air Force Base regarding the "call" for the fiscal year 1979 and 1980 was based on the Air Force and Financial Program (F&FP) updated October 1977.

January
1978

Program documents reflecting the updated President's budget were provided to TAC as a guide for the operation of the major command in the program/budget formulation process.

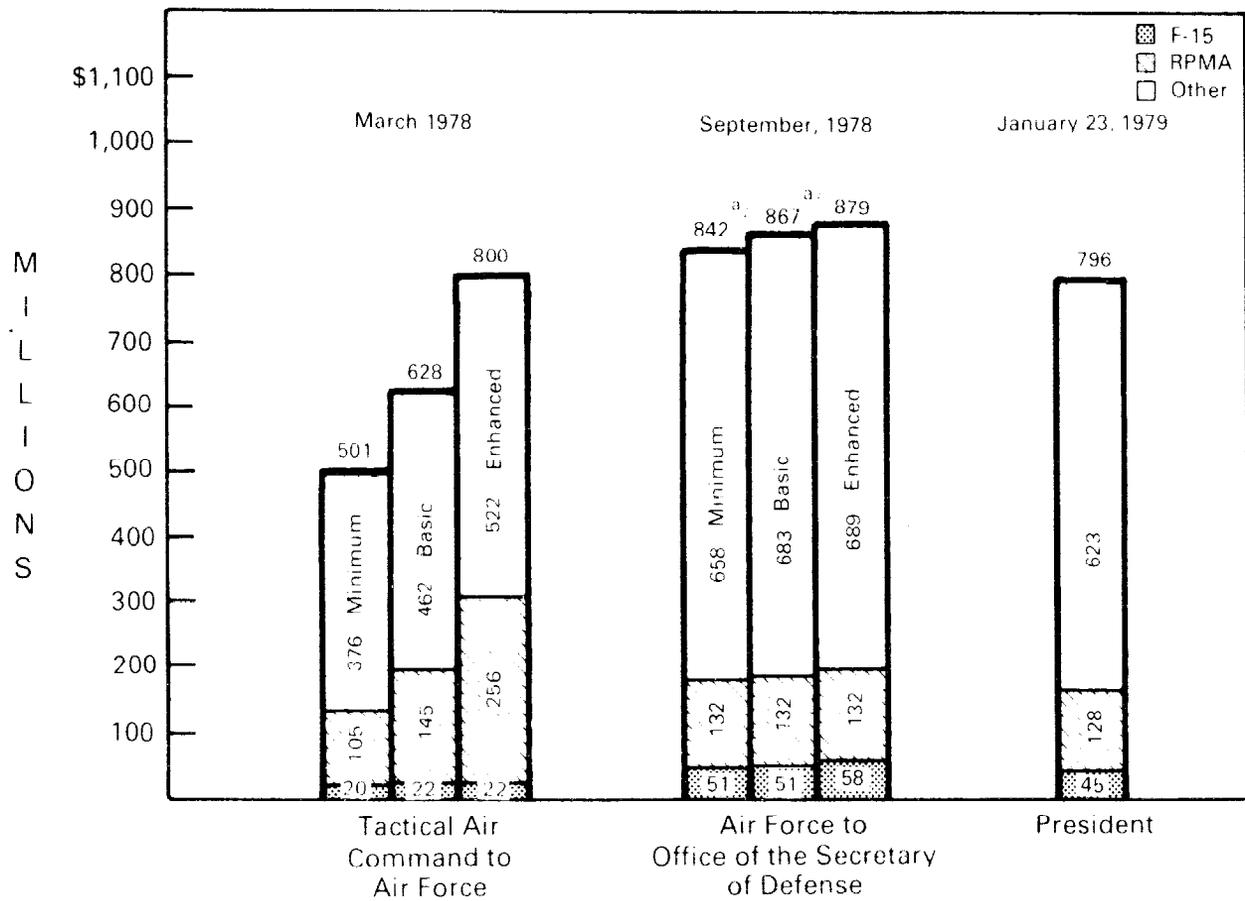
OSD forwarded the Draft Consolidated Guidance which included program as well as fiscal guidance. The Air Force guidance at the basic level was \$37.09 billion for the total service budget.

The Air Force then provided planning target estimates to TAC. The planning target, \$553.4 million, represented the minimum level from which TAC prioritized its requirements on an incremental basis.

March 10,
1978

TAC submitted its "Operation and Maintenance Budget" to Headquarters representing a pricing and prioritization of TAC's O&M requirements. The O&M program totaled \$686.5 million at the basic level. The O&M/P-2 program totaled \$627.9 million at the basic level.

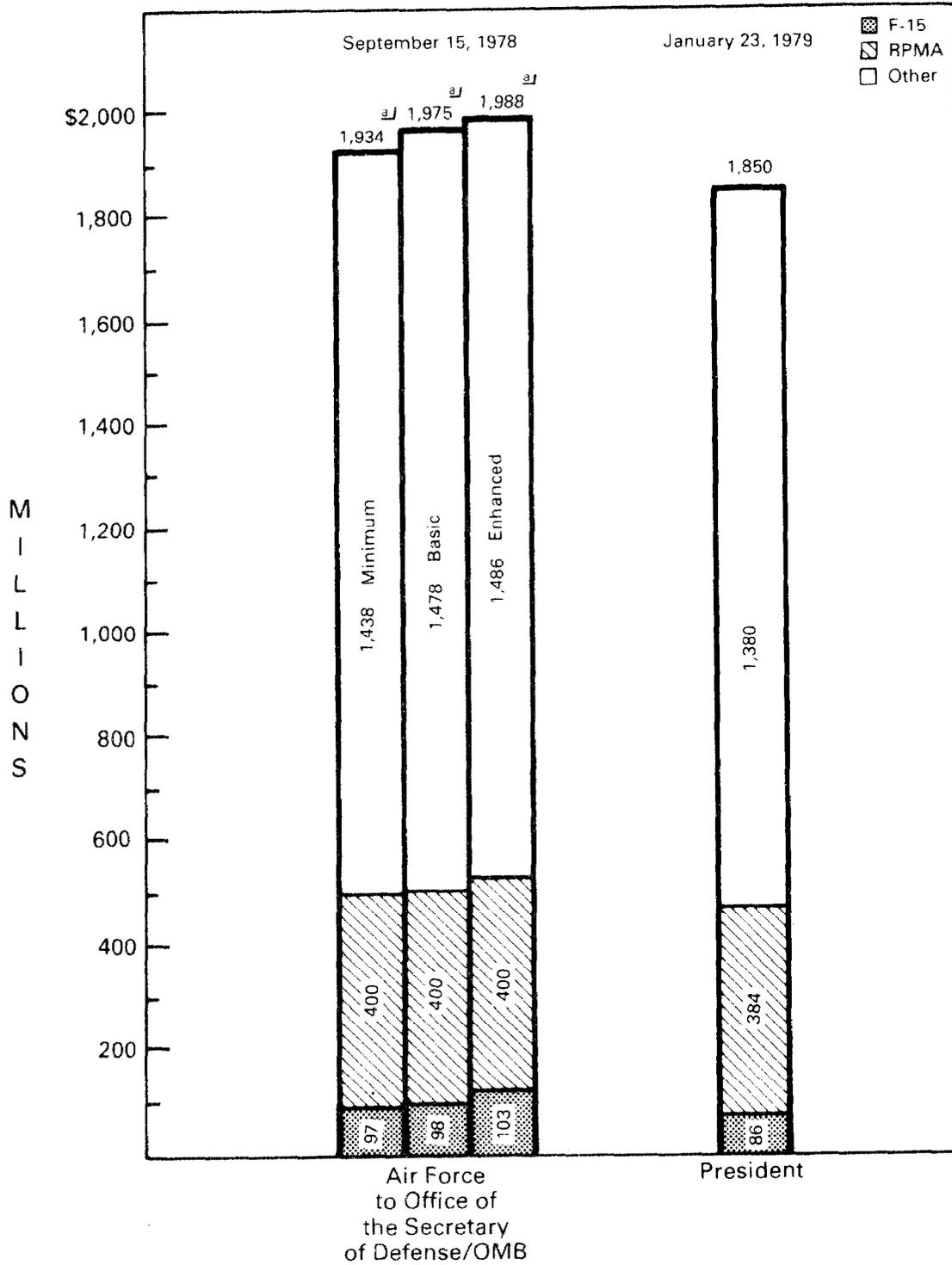
Figure 26
Organizational Level Changes in the Appropriation Request for the Air Force Tactical Air Command Operations and Maintenance: General Purpose Forces Program, Fiscal Year 1980



^a Does not add to bar total due to rounding.

Figure 27

Organizational Level Changes in the Appropriation Request for the Air Force Operation and Maintenance: General Purpose Forces Program, Fiscal Year 1980



^{a/} Does not add to bar total due to rounding.

March 28,
1978

OSD forwarded the final Consolidated Guidance which included revised program and fiscal guidance. The amount identified for the Air Force was \$37.8 billion at the basic level.

March 30,
1978

The Air Force board structure (a system of committees) was briefed on exercised requirements and the O&M requirements of TAC were validated at the basic level (\$686.5 million). Briefings continued into May based on program exercises to develop the POM.

May 23,
1978

Air Force submitted the POM (fiscal year 1980-1984) for OSD review. The POM discusses the Air Force basic level program and alternatives necessary to reach the minimum/enhanced levels. The fiscal year 1980 basic level program was estimated to cost \$37.81 billion.

June 30,
1978

OSD issued Budget Estimates Guidance concerning the administrative preparation of budget estimates.

July
1978

After review of the POM and the subsequent issue meetings, OSD issued the Program Decision Memorandum (PDM) which approved the POM with certain tentative changes. The estimate for the Air Force basic level 1980 program was \$39.3 billion. The Air Force responded to the issues with appeal or reclaims.

August 8,
1978

TAC submitted the fiscal year 1979-1980 Base Operating Support budget which provides an update of nonforce changes.

August 15,
1978

Air Force completed budget exercise to adjust the POM with repricing and fact-of-life changes and made all PDM changes.

August 20,
1978

After considering the Air Force appeals of the PDM, OSD issued its Amended Program Decision Memorandum (APDM). The Air Force program elements were given

in three ZBB levels with the basic level for fiscal year 1980 of \$39.25 billion.

August 1978 OSD revised the budget estimates of the ADPM to reflect a higher inflation rate. The Air Force basic level cost increased to \$40.08 billion.

September 12, 1978 Air Force completed the Budget exercise to introduce APDM changes. These exercises modify the OSD basic POM position for changes resulting from the issues cycle and for approved or directed fact-of-life adjustments.

September 15-22, 1978 Air Force completed the Budget Submit Highlights directed fact-of-life adjustment and submitted it for delivery to OSD.

September-December 1978 Jointly, OSD and OMB reviewed the Air Force budget, approving and revising each decision package set.

January 1979 The President's fiscal year 1980 budget was submitted to the Congress, containing a total Air Force program of \$38.4 billion. Of this, \$10.1 billion was for O&M, and \$1.85 billion for O&M/ P-2. The TAC budget was \$852.1 million for O&M: \$796.1 million for O&M/P-2.

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ADDITIONAL SPECIAL WORK

To supplement our review of the role of field offices in budget formulation (see appendix IV), we visited 30 field offices in eight HEW and DOI subdepartmental organizations beyond the case study program organizations. The additional places visited are the following:

DEPARTMENT OF THE INTERIOR ADDITIONAL
FIELD LOCATIONS VISITEDBureau of Mines

Field Operations Centers:

Intermountain Field Operations - Denver, Colorado
Western Field Operations - Spokane, Washington

Mining Research Centers:

Spokane Mining Research Center
Denver Mining Research Center

Administrative Divisions:

Division of Finance - Denver, Colorado
Division of ADP - Denver, Colorado

Bureau of Reclamation

Pacific Northwest Region - Boise, Idaho
Lower Missouri Region - Denver, Colorado

U.S. Geological Survey

Conservation Division:

Central Regional Office - Denver, Colorado

Topographic Division:

Rocky Mountain Mapping Center - Denver, Colorado

Water Resources Division:

Central Regional Office - Denver, Colorado

Geologic Division:

Chemical Resources Branch - Denver, Colorado

Earthquake Tectonics and Risk Branch - Golden,
Colorado
Uranium and Thorium Branch - Golden, Colorado
Engineering Geology Branch - Denver, Colorado
Oil and Gas Resources Branch - Denver, Colorado
Global Seismicity Branch - Golden, Colorado
Central Minerals Resources Branch - Denver,
Colorado
Electromagnetism and Geomagnetism Branch - Denver,
Colorado
Isotope Geology Branch - Denver, Colorado

National Park Service

Rocky Mountain Regional Office - Denver, Colorado

Pacific Northwest Regional Office - Seattle, Washington

Fish and Wildlife Service

Region 1 - Portland, Oregon

Region 6 - Denver, Colorado

HEALTH, EDUCATION, AND WELFARE
ADDITIONAL FIELD LOCATIONS VISITED

Public Health Service

Denver Regional Office

San Francisco Regional Office

Food and Drug Administration

Denver District Office

San Francisco Regional Office

Office of Human Development Services

Denver Regional Office

San Francisco Regional Office

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