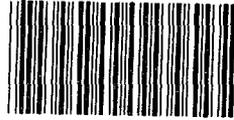




UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

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PROGRAM ANALYSIS  
DIVISION



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IN REPLY  
REFER TO:

JULY 19, 1979

B-160725

The Honorable Ike Skelton  
House of Representatives

Dear Mr. Skelton:

This is in response to your letter of April 23, 1979, in which you asked if any study on a government-wide or agency-by-agency basis has been done on the percentage of annual allocations spent for travel, equipment, and supplies during the last quarter of a fiscal year. You also asked for results of studies or investigations by this office and for our suggestions on how to counter such yearend spending.

GAO has conducted and continues to conduct numerous reviews of agency procurement policies, procedures, and practices. While few of these reviews are directed specifically toward yearend spending issues, we have issued reports that address certain yearend spending practices at the following agencies--General Services Administration, Department of the Army, Maritime Administration, Environmental Protection Agency, Department of Transportation, and the former Office of Economic Opportunity.

These studies have found that funds are sometimes obligated at the end of the year to prevent budget authority from lapsing. This can lead to problems with the validity of yearend obligations, questions on the current needs for supplies or services, as well as the fairness of prices negotiated without competition and under hurried conditions. Recommendations in these reports have generally been directed to improvements in procurement practices for the specific situations involved. We have summarized the findings and recommendations of these reports as they relate to yearend spending and have included them as an enclosure.

We currently have underway studies on yearend spending at the Environmental Protection Agency and the Department of Defense. These studies are not yet complete; however, we can brief you or your representative if you desire. In addition, we have recently received a request from a House Committee to conduct a broad review of yearend procurement in civil agencies.

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(990516)

Letter report

Congress has recognized that excess funds have been used at yearend for items that are not valid requirements of the specified year and has taken action in appropriation acts to limit the amount of obligations that can be incurred at the end of a fiscal year. ~~For example~~, two appropriations acts contain such limitations. Section 819 of the Department of Defense Appropriation Act, 1979 (P.L. 95-457) provides that:

"Not more than 20 per centum of the appropriations in this Act which are limited for obligation during the current fiscal year shall be obligated during the last two months of the fiscal year: Provided, That this section shall not apply to obligations for support of active duty training of civilian components or summer-camp training of the Reserve Officers' Training Corps."

*and*

The Foreign Assistance and Related Programs Appropriation Act, 1979 (P.L. 95-481) provides that:

"Sec. 102. Except for the appropriations entitled 'Contingency fund', 'International disaster assistance', and 'United States emergency refugee and migration assistance fund', not more than 15 per centum of any appropriation item made available by this Act for fiscal year 1979 shall be obligated or reserved during the last month of availability."

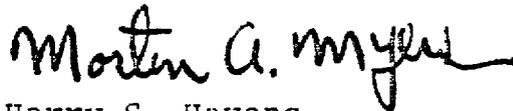
While the above <sup>these</sup> actions ~~by~~ the Appropriations Committees may limit the total amount of obligations to be incurred near the end of a fiscal year, they do not guarantee that such obligations are for goods or services needed at that time or that proper procurement practices are followed. For example, our report on Department of the Army operations and maintenance accounts disclosed that while the Army had complied with the congressional constraints on the rate of yearend obligations, we found several instances where obligations were recorded prematurely and did not represent bona fide needs of that fiscal year (see enclosure, page 3).

While we have made several recommendations related to yearend spending in the reports issued, we believe that a significant underlying problem is that there are no incentives not to spend the funds appropriated. As pointed out in your letter, agencies often fear that future appropriations will be reduced if current funds are not spent by the end of the

fiscal year. Even in instances where multi-year and no-year funds do not expire, and there is no time pressure to obligate the funds prior to the end of the fiscal year, the increased levels of unobligated balances in recent years have been a concern of the Congress. Hence, unobligated balances that are carried forward raise questions as to whether too much funding was provided or whether the programs are being carried out in a timely manner. However, ~~we believe~~ these are not issues that should be generalized about; for the most part they have to be monitored and examined on a program-by-program basis to assess the validity of the needs.

I trust that the information provided herein will be of use to you. Should you have further questions on these matters, please contact us.

Sincerely,



Harry S. Havens  
Director

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Enclosure

GENERAL ACCOUNTING OFFICE  
REPORTS ON YEAREND SPENDING

GENERAL SERVICES ADMINISTRATION *AG-C00017*

General Services Administration's practices for altering leased buildings should be improved. (LCD-78-338, September 14, 1978).

Findings and Conclusions

The General Services Administration had too much flexibility in funding alteration work in leased buildings in fiscal year 1977. In addition to funds made available by tenant agencies, several Federal Buildings Fund accounts were used. Greater emphasis seems to have been placed on obligating available funds balances by the end of fiscal year 1977 than on adhering to sound contracting practices and effective budgetary controls. Several yearend obligations may be invalid or misclassified. In April 1977 the Commissioner of the Public Buildings Service notified the regions that he was concerned about large unobligated balances in three accounts. The regions were urged to obligate available funds before the end of the fiscal year. The regions responded and the level of obligations increased significantly in September, the last month of the fiscal year. For example, in Region 3, obligations for alterations and major repair funds increased from a monthly average of \$4.4 million for 11 months to \$9.3 million in September, an increase of 111 percent. For another account, about \$4.1 million, or 51 percent of the total amount, was obligated for alterations in September 1977, with \$3.1 million during the last 15 days of the fiscal year.

Recommendations

We recommended that the Administrator of General Services:

- Limit the use of letter contracts as a means of obligating yearend fund balances consistent with the criteria in the Federal Procurement Regulations.
- Take appropriate steps to insure (1) that accelerated yearend spending is avoided, (2) that yearend obligations are valid, and (3) that budgetary controls and contracting procedures are followed.

AGC00279                      AGC00024

MARITIME ADMINISTRATION, ENVIRONMENTAL  
PROTECTION AGENCY, AND THE DEPARTMENT OF TRANSPORTATION AGC00029

Federal agencies' contracting for research  
and development in the private, profitmaking  
sector. (PSAD-77-66, March 24, 1977).

### Findings and Conclusions

We examined 111 research and development contracts awarded to profitmaking firms in fiscal year 1975 by the Maritime Administration, the Environmental Protection Agency, and the Department of Transportation (Federal Aviation Administration, National Highway Traffic Safety Administration, Federal Railroad Administration, and Office of the Secretary).

The agencies awarded 65 percent of their contracts to profitmaking firms in the last month of the fiscal year. The Maritime Administration awarded 73 percent of its contracts during the month of June; 42 percent in the last 2 working days of the fiscal year.

Awarding a large number of contracts at the end of the fiscal year suggests improper planning and implies that funds are obligated to prevent the authority from lapsing or to avoid reductions in future appropriations. EPA and FAA have issued policies discouraging peak buying at the end of the fiscal year. These policies recognize that proper planning would enable the distribution of contract awards throughout the year and minimize bottleneck conditions at year's end. According to the policies, peaks in procurement can cause:

- Inadequate review of projects, inexact work statements, and/or incomplete proposal evaluations.
- Awarding of unnecessary contracts.
- Lower quality proposals because of peaks in contractor workload when most solicitations are issued about the same time.
- Increased cost to the Government due to overtime in the procurement office.

Agency officials believe they are expected to obligate R&D funds in the fiscal year in which they are appropriated,

even if the funds remain available for obligation in the following year; otherwise they will be vulnerable to criticism and congressional action reducing funding in subsequent years if appropriations are carried over to the next fiscal year. If subsequent appropriations are reduced, agencies may be unable to fund needed projects.

There are varying perceptions among agency officials as to why award concentrations occur at the year's end. Some believe it is caused by delays in the procurement offices and others, by poor planning in the R&D program offices. Still other officials attribute this problem to R&D funds not being appropriated before the start of the fiscal year.

#### Recommendations

None

DEPARTMENT OF THE ARMY *AGC00020*

Policies and practices for obligating operations and maintenance appropriations funds during the last 2 months of fiscal years 1969 and 1970. (B-174211, October 26, 1971). Note: Although this report is about 8 years old, it illustrates the role of stock funds in yearend obligations.

#### Findings and Conclusions

For fiscal years 1969 and 1970, the Department of the Army had complied with congressional restraints regarding the rate of obligations to be incurred in the last 2 months of the year. We noted, however, several instances at Fort Carson and Pueblo Army Depot where funds had been obligated contrary to DOD and Army regulations or were not for bona fide needs of the current fiscal year or for replacing stocks used in that year.

At Fort Carson we found that \$181,000 of items requisitioned from the stock fund in June 1969 were turned in shortly after the beginning of fiscal year 1970 and were credited to 1970 obligational authority. The intent of these transactions had been to use 1969 funds to procure items for which there were continuing requirements and to alleviate the impact on 1970 funds.

At Pueblo we found that \$131,600 had been prematurely obligated on June 30, 1969, for requisition that were not delivered until July.

At Pueblo we found that June 1970 requisitions valued at \$17,526 were not supported by demand history data and were not valid fiscal year 1970 requirements.

At Pueblo one of the techniques used to ensure full utilization of funds at year-end was the submission of requisitions on the stock fund on a fill-or-kill basis. If items requisitioned on this basis were available in the stock fund inventory, they were issued and an obligation was established prior to year-end. If the items were not in stock, however, the requisition was cancelled, instead of backordered, and the requisitioning organization then was notified that the funds were available for other requirements.

#### Recommendations

We recommended that the Secretary of the Army:

- issue guidance near the end of each fiscal year emphasizing the requirements of DOD and Army instructions that pertain to the establishment of valid obligations.
- take specific action to (1) prevent the manipulation of stock fund transactions for the purpose of transferring obligational authority for annual appropriations from one fiscal year to the next and (2) preclude the acceleration of stock fund issues that were programmed for a subsequent fiscal year solely for the purpose of obligating funds available near the end of the current year.
- issue instructions that requisitions on local stock funds not be issued on a fill-or-kill basis unless there is a valid operating need to procure the items elsewhere if the stock fund cannot fill the requisition promptly.

THE FORMER OFFICE OF ECONOMIC OPPORTUNITY  
 (Now the Community Services Administration)

AGC00957  
 AGC00177

Contract award procedures and practices  
of the Office of Economic Opportunity  
need improving. (B-130515, December 15, 1971).

Note: Although this report is about 8 years old, it is still illustrative of the problems that can be encountered by agencies with large amounts of contracts to be awarded.

### Findings and Conclusions

The Office of Economic Opportunity (OEO) had awarded a large volume of contracts in June, the final month of the fiscal year.

In June 1969 OEO awarded 149, or 45 percent, of the 332 contracts awarded throughout fiscal year 1969. The June awards amounted to \$22.7 million or 18 percent, of the \$128.4 million for all new contracts awarded in fiscal year 1969.

June 1970 awards represented 56 percent of the 169 contracts awarded by OEO throughout fiscal year 1970 and 69 percent of the \$22.9 million for all 1970 new contracts. GAO's follow-up review showed that a large percentage of contracts still were being awarded in June 1971.

A combination of circumstances resulted in OEO's disproportionately large volume of June contract awards.

- Program offices were not submitting their procurement requests until late in the fiscal year.
- Many June contracts were for activities of a continuing nature and were being reawarded in the final month of each fiscal year.
- Late enactment of OEO appropriation laws caused a delay in funding new projects. OEO had authority, however, to fund continuing activities until appropriations were received.

### Recommendations

We recommended that OEO:

- Require program and regional offices to prepare annual procurement plans that show their contract needs for each fiscal year quarter.
- Stagger contract performance periods so that contracts for continuing activities will reach completion in months other than June.

