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# Overview of the Development and Execution of the Federal Budget

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The United States Constitution gives Congress the power to levy taxes, to finance government operations through appropriations, and to prescribe the conditions governing the use of those appropriations. This power is referred to as the congressional “power of the purse.” The power derives from various provisions of the Constitution,<sup>1</sup> particularly article I, section 9, clause 7, which provides that

“No money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law; and a regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time.”

Thus an agency may not draw money out of the Treasury to fund agency operations unless Congress has appropriated the money to the agency. At its most basic level, this means that it is up to Congress to decide whether to provide funds for a particular program or activity and to fix the level of that funding. Although the Constitution does not provide detailed instructions on how Congress is to do so, Congress has and continues to implement its power of the purse in two ways: through the enactment of laws that raise revenue and appropriate funds, including annual appropriations acts, and through the enactment of “fiscal statutes” that control and manage federal revenue and appropriations (one such fiscal statute, the Antideficiency Act, is explained in detail in phase 3).<sup>2</sup>

A “budget,” in customary usage, is a plan for managing funds, setting levels of spending, and financing that spending. For purposes of this overview, however, the “federal budget” is used more broadly to include not only the planning through the federal budget process, but also the end result of that plan after the fiscal effect of spending and revenue laws in effect for any given fiscal year are calculated. Those laws consist of permanent laws enacted in prior years, including any permanent appropriations, and the appropriations acts enacted for that fiscal year.

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<sup>1</sup> Some examples of other provisions in the Constitution relating to the spending and control of funds are those to lay and collect taxes, duties, imposts, and excises; to borrow money on the credit of the United States; to “pay the Debts and provide for the common Defence and general Welfare of the United States;” and to “make all Laws which shall be necessary and proper for carrying into Execution the foregoing Powers [listed in art. I, § 8], and all other Powers vested by this Constitution in the Government of the United States, or in any Department or Officer thereof.” These provisions are all found in article I, section 8, of the Constitution.

<sup>2</sup> The budget process and the financial management process (i.e., ensuring that federal financial management systems provide accurate, reliable, and timely financial management information to the government’s managers, the President, and Congress) are closely related.

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Beginning in 1921, Congress enacted laws that provide a framework of procedures for coordinating and planning for federal spending and revenues. The Budget and Accounting Act of 1921 requires the President to submit an annual budget proposal to Congress and established the Office of Management and Budget (OMB) and the Government Accountability Office (GAO) (formerly, the General Accounting Office). In 1974, Congress enacted the Congressional Budget and Impoundment Control Act, which provides for the adoption of a budget resolution and established the House and Senate Budget Committees and the Congressional Budget Office (CBO). These laws overlay the existing processes by which Congress enacts and the President signs into law spending and revenue measures and have come to be known, collectively, as the federal budget process.

The federal budget process provides the means for the federal government to make informed decisions between competing national needs and policies, to determine priorities, to allocate resources to those priorities, and to ensure the laws are executed according to those priorities. The federal budget process can be broken down into four phases: budget formulation, the congressional budget process (during which Congress adopts its budget and enacts laws appropriating funds for the fiscal year), budget execution and control, and audit and evaluation. The discussion that follows describes in detail the four phases of the federal budget process.

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## **Phase 1: Executive Budget Formulation**

The federal government begins to assemble an annual federal budget in a long administrative process of budget preparation and review. This process may well take place several years before the budget for a particular fiscal year is ready to be submitted to Congress. The primary participants in the process at this stage are the agencies and individual organizational units, which review current operations, program objectives, and future plans, and OMB, the office within the Executive Office of the President charged with broad oversight, supervision, and responsibility for coordinating and formulating a consolidated budget submission. (See fig. 1 in app. II.)

By the first Monday in February, the President submits a budget request to Congress for the fiscal year starting on the following October 1 (i.e., in February 2005 the President submitted the budget request for fiscal year 2006, which runs from October 1, 2005, through September 30, 2006). However, preparation of this particular budget request began about 10 months before it was submitted to Congress. For example, for the fiscal year 2006 budget request, transmitted to Congress in February

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2005, the budget process began in the spring of 2004. Thus, federal agencies must deal concurrently with 3 fiscal years: (1) the current year, that is, the fiscal year in progress; (2) the coming fiscal year beginning October 1, for which they are seeking funds (for purposes of formulation of the President's budget request, this fiscal year is known as the budget year); and (3) the following fiscal year, for which they are preparing information and requests. OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget* (revised annually), provides detailed guidance to executive departments and establishments on preparing budget submissions. The President's budget, which is the sole single document with budget information for the entire government, contains

- a record of actual receipts and spending levels for the fiscal year just completed;
- a record of current-year estimated receipts and spending; and
- estimated receipts and spending for the upcoming fiscal year and 9 years beyond, as proposed by the President.

Executive budget formulation, based upon proposals, evaluations, and policy decisions, begins in agencies' organizational units. During executive budget formulation, federal agencies receive revenue estimates and economic projections from the Department of the Treasury (Treasury), the Council of Economic Advisers (CEA), and OMB.

## Executive Budget Formulation Timetable

### **Spring–Summer: OMB Establishes Policy for the Next Budget Request**

During this period, OMB and the executive branch agencies discuss budget issues and options. OMB works with the agencies to identify major issues for the upcoming budget request; to develop and analyze options for the upcoming reviews of agency spending and program requests; and to plan for the analysis of issues that will need decisions in the future. OMB issues policy directions and planning guidance to the agencies for the upcoming budget request and detailed instructions for submitting budget data and materials for the upcoming fiscal year and following 9 fiscal years.

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## **September–October: Agencies Submit Initial Budget Request Materials**

By law, the President’s budget request must include information on all agencies of all three branches of the federal government.<sup>3</sup> Executive branch departments, agencies that are subject to executive branch review, and the District of Columbia must submit their budget requests and other initial materials to OMB typically the first Monday after Labor Day of the year prior to the start of the year that the budget request covers (i.e., September 8, 2004, for fiscal year 2006, which started October 1, 2005). Agencies not subject to executive branch review (e.g., the Federal Reserve Board) and the legislative and judicial branches are required to submit their budget materials in fall of the year prior to the year that the budget requests cover (e.g., in October 2004 for fiscal year 2006).<sup>4</sup>

## **October–December: OMB Performs Review and Makes Passback Decisions**

OMB staff representatives conduct the fall review. OMB has informal discussions with agencies about their budget proposals in light of presidential priorities, program performance, and any budget constraints. OMB examiners prepare issues for the Director’s review. The Director briefs the President and senior advisors on proposed budget policies and recommends a complete set of budget proposals after a review of all agency requests. The President considers the estimates and makes his decisions on broad policies. In late November, OMB passes back budget decisions to the agencies on their budget requests, the so-called passback. These decisions may involve, among other things, funding levels, program policy changes, and personnel ceilings. The agencies may appeal decisions with which they disagree. If OMB and an agency cannot reach agreement, the issue may be taken to the President.

Final budget decisions will also reflect proposals for management and program-delivery improvements resulting from agency and OMB reviews during the executive budget formulation process. OMB not only assists in making individual budget decisions, it also tracks the result of these decisions. OMB calculates the effect of budget decisions on receipts, budget authority, and outlays. Once final decisions on the budget requests are reached, agencies revise their budget

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<sup>3</sup> 31 U.S.C. § 1105.

<sup>4</sup> The budget requests for the legislative branch and the judicial branch and its related agencies must be submitted to OMB in late fall of each year and included in the President’s budget request without change. The budget requests of several executive branch agencies are not subject to review by OMB. See OMB Circular No. A-11, sec. 25.1. Information on all three branches of government is included in the President’s budget request so that Congress may review one submission that covers the entire government.

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submissions to conform to these decisions. These final estimates are transmitted to Congress in the President's budget request.

**By the First Monday in February: President Submits Budget Request**

In accordance with current law, the President must transmit the budget request to Congress on or before the first Monday in February.<sup>5</sup>

**By July 15: President Submits Mid-Session Review Document to Congress**

The Budget and Accounting Act of 1921, as amended, requires the President to submit to Congress on or before July 15 a supplementary budget summary that provides data to aid in evaluation of the President's budget request.<sup>6</sup> This summary, referred to as the mid-session review, includes updated presidential policy budget estimates, summary updates to the information contained in the budget submission, and budget-year baseline estimates.

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**Phase 2: The Congressional Budget Process**

Once the President submits his budget request, the congressional phase begins. Since the constitutional power of the purse is vested solely in Congress, the President's budget request is just that—a request. Congress, of course, may choose to adopt, modify, or ignore the President's budget proposals when adopting its budget resolution and when enacting appropriations and other laws. (See fig. 2 in app. II.)

The Congressional Budget Act establishes the following key steps in the congressional budget process.

**January–February: CBO Submits Report to the Budget Committees and Congress Receives the President's Budget Request**

Usually in late January, CBO submits to the Budget Committees its annual report, entitled *The Budget and Economic Outlook*. The report contains CBO's projection of federal revenue and spending for the next 10 years, based on its current economic

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<sup>5</sup> 31 U.S.C. § 1105(a).

<sup>6</sup> 31 U.S.C. § 1106.

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forecast and the general assumption that existing laws and policies remain unchanged.

Congress receives the President's budget request no later than the first Monday in February. At the same time, the President transmits current services estimates to Congress. The House and Senate Budget Committees, in preparation for drafting the concurrent resolution on the budget, hold hearings to examine the President's economic assumptions and spending priorities. At the request of the Senate Appropriations Committee, CBO prepares an analysis of the President's request.

### **Committees Transmit the Views and Estimates Reports to Budget Committees**

While the Budget Committees examine aggregate budget levels and budget functions, the other committees of Congress with jurisdiction over federal programs transmit to the Budget Committees their views and estimates on spending and revenue levels for programs under their jurisdiction. The Budget Committees use these reports on views and estimates to develop the total revenue and spending estimates that they will propose in the concurrent budget resolution. In conjunction with these views and estimates reports, the Joint Economic Committee submits its recommendations concerning fiscal policy to the Budget Committees.

### **March–April: Congress Adopts a Budget Resolution**

Typically, during March, the Budget Committees mark-up and report to their respective houses a budget plan in the form of a concurrent resolution on the budget. This budget resolution is drafted using the President's budget request, information from their own hearings, views and estimates reports from other committees, and CBO's reports. The budget resolution is required to set forth (for the upcoming fiscal year and for each of at least the next 4 years) the total level of new budget authority, outlays, revenues, the deficit or surplus, the public debt, and spending by functional category. The budget resolution may include reconciliation instructions to the extent necessary to meet the revenue or direct spending targets in the budget resolution.

The budget resolution is considered in each House under special procedures set forth in the Congressional Budget Act. When the Senate and House have both adopted their respective versions of the budget resolution, it is referred to a conference committee to resolve the differences between the two versions. Each chamber must then vote on the conference report. The Congressional Budget Act sets April 15 as the date by which Congress should complete action on the budget resolution; however, in

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practice, Congress may not meet this date.<sup>7</sup> For example, in 2005 Congress adopted the budget resolution for fiscal year 2006 on April 28, 2005. In 1998 (for fiscal year 1999), in 2002 (for fiscal year 2003), and in 2004 (for fiscal year 2005) Congress did not complete action on budget resolutions.<sup>8</sup>

The joint explanatory statement accompanying a conference report on the budget resolution includes an allocation of budget authority and outlays to the Appropriations Committees (for discretionary spending) and to each authorizing committee (for direct spending) of the House and Senate. The Appropriations Committees subsequently subdivide their allocation among their subcommittees according to jurisdiction.

The concurrent resolution on the budget does not become law; it is not signed by the President. The aggregate levels of revenues, budget authority, and outlays and the committee allocations are guidelines and targets against which subsequent fiscal legislation—appropriation acts; authorizing legislation that provides budget authority; revenue acts; and, if necessary, reconciliation acts (see below)—is measured.

The Congressional Budget Act contains rules of the House and Senate that implement the priorities agreed to and set in the concurrent resolution on the budget. These rules generally prohibit the consideration of legislation that is not in compliance with the committee allocations or the revenue or spending totals in the resolution. Accordingly, if legislation is out of compliance, it is subject to a point of order and, if

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<sup>7</sup> Article I, section 5, clause 2, of the Constitution reserves to each House of Congress the authority to determine the rules governing its procedures. The Budget Act contains several titles and sections that affect the internal procedures of the House and Senate enacted under this constitutional rule-making authority. Congress enacted the Budget Act with the full recognition that each House could change these rules at any time and in a manner consistent with past practice. Rule changes are usually accomplished upon adoption of either a simple resolution (for a change that affects one House) or a concurrent resolution (for changes that may affect both houses). S. Rep. No. 105-67 (revised December 1998).

<sup>8</sup> See Bill Heniff, Jr., *Congressional Budget Resolutions: Selected Statistics and Information Guide* (Washington, D.C.: Congressional Research Service, Jan. 25, 2005).

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the point of order is sustained, Congress is precluded from further consideration of the legislation until it is brought into compliance.<sup>9</sup>

If changing economic circumstances or policy requirements dictate, Congress may revise its budget resolution during the fiscal year, thereby altering the spending and revenue totals.

### **May–September: Congress Addresses Fiscal Legislation**

#### *Reconciliation Measure*

When the concurrent resolution on the budget contains reconciliation instructions, the committees must submit legislative language that changes laws in their jurisdiction to the Budget Committee of their house on the date specified in the instructions. The Budget Committees may make no substantive changes to the submissions, but must report the submissions to the House or Senate as a single reconciliation bill. If, however, a reconciled committee fails to meet the numerical targets included in its reconciliation instruction, procedures exist to modify the bill on the floor so that the targets are met. (If only one committee is instructed, that committee reports its recommendations directly to the House or Senate.)

The reconciliation legislation is a unique vehicle through which Congress enforces its budget plan for revenue and direct spending set forth in the budget resolution. Both the House of Representatives and the Senate consider the reconciliation legislation reported to them from their respective Budget Committees under special rules. (The Appropriations Committees are not subject to reconciliation instructions.) Generally, in the House, the legislation is considered under a special rule, a simple resolution adopted by the House prior to consideration of the reconciliation legislation that governs the debate and the amendments that are in order. In the Senate, reconciliation legislation is considered under special procedures set forth in the Congressional Budget Act, which limits the period of debate and the types of amendments that are in order and subjects the legislation and amendments to the Byrd Rule, which prohibits “extraneous material.” (See Byrd Rule for more detail.)

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<sup>9</sup> In fiscal year 1994, Congress began including overall limits on discretionary spending in the budget resolution, known as spending caps or discretionary caps. Congress established these caps to manage its internal budget process, while the Budget Enforcement Act (BEA) statutory caps continued to govern for sequestration purposes. The caps were enforceable in the Senate by a point of order that prohibited the consideration of a budget resolution that exceeded the limits for that fiscal year. While the BEA limits expired at the end of fiscal year 2002, Congress continues to use the budget resolution to establish and enforce overall discretionary spending limits.

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The differences between the two houses are typically resolved in a conference committee and the resulting legislation is passed by both houses and must be signed by the President to become law.

*Appropriations and Other Fiscal Legislation*

Generally, throughout this period, Congress considers revenue legislation and legislation affecting spending, including the regular appropriations acts.<sup>10</sup> All legislation considered by Congress that affects revenue or spending must comply with the committee allocations and the total levels of revenues and spending in the concurrent resolution on the budget.<sup>11</sup>

Appropriations bills are developed by the House and Senate Appropriations Committees and their subcommittees. Each subcommittee has jurisdiction over specific federal agencies or programs and is responsible for one of the general appropriations bills.<sup>12</sup> The Constitution requires that all revenue (tax) bills originate in the House; by custom, the House also originates appropriations measures.

The Congressional Budget Act requires that the House and Senate Appropriations Committees subdivide the amounts allocated to them under the budget resolution

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<sup>10</sup> Less than 40 percent of total budget authority is appropriated through the annual appropriations process. The remainder of the budgetary resources spent by the federal government are provided by law other than annual appropriations acts. (For further explanation, see the definitions of Backdoor Authority, Budget Authority, Direct Spending, Obligational Authority, and Outlay.)

<sup>11</sup> The rules of the House of Representatives also prohibit consideration of appropriations bills for expenditures not previously authorized by law. See Rule XXI, Rules of the House of Representatives. A similar, but more limited provision exists in Rule XVI, Standing Rules of the Senate. (See Point of Order.) (Some agency programs or functions are reauthorized every year, while others are authorized for several years or permanently.) The effect of such rules is that an appropriation bill is subject to a point of order if it is not preceded by an authorization of appropriation.

<sup>12</sup> As of March 2005, the House of Representatives has 10 appropriation subcommittees: Agriculture, Rural Development, Food and Drug Administration, and Related Agencies; Defense; Energy and Water Development, and Related Agencies; Foreign Operations, Export Financing and Related Programs; Homeland Security; Interior, Environment, and Related Agencies; Labor, Health and Human Services, Education, and Related Agencies; Military Quality of Life and Veterans Affairs and Related Agencies; Science, the Departments of State, Justice, and Commerce, and Related Agencies; and Transportation, Treasury, and Housing and Urban Development, the Judiciary, and the District of Columbia. The Senate has 12 appropriation subcommittees: Agriculture, Rural Development, and Related Agencies; Commerce, Justice, and Science; Defense; District of Columbia; Energy and Water; Homeland Security; Interior and Related Agencies; Labor, Health and Human Services, Education and Related Agencies; Legislative Branch; Military Construction and Veterans Affairs; State, Foreign Operations, and Related Programs; and Transportation, Treasury, the Judiciary, Housing and Urban Development, and Related Agencies.

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among their subcommittees (Section 302(b) allocations).<sup>13</sup> Once the subcommittees receive their allocations, the subcommittees begin drafting their appropriations bills to fund discretionary spending programs. Proposed legislation that would cause the section 302(b) allocations to be exceeded is subject to a point of order.

CBO prepares a cost estimate on each appropriations bill, just as it provides cost estimates for any legislative measure reported by a committee of Congress. The Budget Committees use this information to determine whether the legislation complies with a committee's allocation, a subcommittee's suballocation, and the budget totals in the budget resolution.

Congress must enact these regular appropriations bills by October 1 of each year. If these regular bills are not enacted by the deadline (and they usually are not), Congress must pass a continuing resolution prior to the beginning of each fiscal year to fund government operations into the next fiscal year. When an agency does not receive its new appropriation before its current appropriation expires, it must cease ongoing, regular functions that are funded with annual appropriations, except for those related to emergencies involving the safety of human life or the protection of property.

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### **Phase 3: Budget Execution and Control**

The body of enacted laws providing appropriations for a fiscal year becomes the government's financial plan for that fiscal year. The execution and control phase refers generally to the period during which the budget authority made available by appropriations remains available for obligation. An agency's task during this phase is to spend the money Congress has given it to carry out the objectives of its program legislation in accordance with fiscal statutes and appropriations, while at the same time beginning phase 1 for the next budget.

The Antideficiency Act is one of these fiscal statutes. It is a funds control, financial management statute, and it achieves this funds control objective through a system of apportionments, allotments, suballotments, and allocation of funds. It requires that agency heads prescribe, by regulation, a system of administrative control of funds. The system is also called the funds control system, and the regulations are called funds control regulations.

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<sup>13</sup> 2 U.S.C. § 633.

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OMB is responsible for apportioning appropriated amounts to the executive branch agencies, thereby making funds in appropriation accounts (administered by Treasury) available for obligation. The apportionment is intended to achieve an effective and orderly use of available budget authority and ensure that obligations and expenditures are made at a controlled rate to reduce the need for supplemental appropriations, and prevent deficiencies from arising before the end of a fiscal year.

Once OMB apportions funds, it is the agency's responsibility to allocate the funds in accordance with its funds control system and regulations. The purpose of the funds control system and regulations is (1) to prevent overobligations and expenditures and (2) to fix accountability for obligations or expenditures. An obligation or expenditure that exceeds the amount of the appropriation, the apportionment, or the allotment violates the Antideficiency Act. For a more detailed explanation of these controls, see [GAO/OGC-92-13, \*Principles of Federal Appropriations Law\*](#), volume II, second edition (available at [www.gao.gov/legal.htm](http://www.gao.gov/legal.htm)), and OMB Circular No. A-11, part 4, *Instructions on Budget Execution*.

## Impoundment

At various times, the executive branch has refused to execute appropriations laws, that is, refused to spend money appropriated by Congress because the executive branch disagreed with the use of the funds. Under the Impoundment Control Act of 1974 whenever the President, the Director of OMB, or an agency or other federal government official does not make an appropriation or any part of an appropriation available for obligation, that official is impounding funds. The act permits the President, the Director of OMB, or an agency or other federal government official to impound funds only for certain reasons and under certain circumstances. The act also requires that impoundments be reported to Congress and the Comptroller General of the United States. The act requires the Comptroller General to monitor the performance of the executive branch in reporting proposed impoundments to Congress. For more information on impoundments, see section D.3 (Budget Execution and Control: Impoundment) in *Principles of Federal Appropriations Law*, volume I, third edition, [GAO-04-261SP](#) (available at [www.gao.gov/special.pubs/redbook1.html](http://www.gao.gov/special.pubs/redbook1.html)).

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## Phase 4: Audit and Evaluation

Individual agencies are responsible—through their own review and control systems—for ensuring that the obligations they incur and the resulting outlays adhere

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to the provisions in the authorizing and appropriations legislation as well as to other laws and regulations governing the obligation and expenditure of funds. OMB Circular No. A-11 provides extensive guidance to agencies on budget execution. In addition, a series of federal laws are aimed at controlling and improving agency financial management. The Inspector General Act of 1978, Pub. L. No. 95-452 as amended, established agency inspectors general to provide policy direction for and to conduct, supervise, and coordinate audits and investigations relating to agency programs and operations. The Chief Financial Officers Act of 1990 established agency chief financial officers to oversee all financial management activities relating to agency programs and operations. The Government Management Reform Act of 1994 requires the audit of agency financial statements and the preparation and audit of a consolidated financial statement for the federal government. And the Federal Financial Management Improvement Act of 1996 directs auditors to report on whether agency financial statements comply with federal financial management systems requirements, federal accounting standards, and the *U.S. Standard General Ledger (SGL)*.

In 1993, Congress enacted the Government Performance and Results Act (GPRA) to improve congressional spending decisions and agency oversight through performance budgeting. GPRA holds federal agencies accountable for achieving program results and requires agencies to clarify their missions, set program goals, and measure performance toward achieving those goals. Among other things, the act requires each agency, on an annual basis, to submit a performance plan and performance report to OMB and Congress covering each program activity in the agency's budget. The agency plan must establish goals that define the level of performance to be achieved by a program activity and describe the operational processes and resources required to achieve goals. The program performance reports present the agency's performance in comparison to the plan for the previous fiscal year.

OMB reviews program and financial reports and monitors agencies' efforts to attain program objectives. Congress exercises oversight over executive branch agencies through the legislative process, formal hearings, and investigations. Congress uses oversight hearings, for example, to evaluate the effectiveness of a program and whether it is administered in a cost-effective manner, to determine whether the agency is carrying out congressional intent, and to identify fraud or abuse.

GAO regularly audits, examines, and evaluates government programs. Its findings and recommendations for corrective action are made to Congress, to OMB, and to the agencies concerned. GAO also has the authority to settle all accounts of the United

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States government and to issue legal decisions and opinions concerning the availability and use of appropriated funds.<sup>14</sup> GAO develops government audit and internal control standards. *Government Auditing Standards* (the “Yellow Book”) contains standards for audits of government organizations, programs, activities, and functions, and of government assistance received by contractors, nonprofit organizations, and other nongovernmental organizations. These standards, often referred to as U.S. generally accepted government auditing standards, are to be followed by auditors and audit organizations when required by law, regulation, agreement, contract, or policy. The internal control standards, *Standards for Internal Control in the Federal Government*, provide the overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk for fraud and mismanagement. Also, as mentioned above, the Impoundment Control Act of 1974 requires the Comptroller General to monitor the performance of the executive branch in reporting proposed impoundments to Congress.

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<sup>14</sup> 31 U.S.C. §§ 3526, 3529.