

GAO

Report to the President and the
Congress

March 31, 1986

COMPLIANCE REPORT
FOR FY 1986

Balanced Budget and
Emergency Deficit
Control Act of 1985



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Comptroller General
of the United States

B-221498

March 31, 1986

The President
The President of the Senate
The Speaker of the House of Representatives

Pursuant to section 253 of the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177), we have reviewed the President's order making reductions for fiscal year 1986. This report describes the results of our compliance review.

At the account level, the President's order making fiscal year 1986 reductions complied with the requirements of section 252 of the act. The sequestrable base, and the amounts sequestered for each account, were consistent with the amounts identified in the Comptroller General's report of January 21, 1986 (GAO/OCG-86-1). The order provided for reductions in automatic spending increases and, by reference to section 252, took into account the application of the special rules set out in the act.

The President's order incorporated, by reference, individual reduction reports which the various agencies and departments submitted to the Office of Management and Budget, the Comptroller General, and the Congress. As summarized below, our review of these reports revealed a number of problems in the listing of programs, projects, and activities below the account level.

Identifying Programs, Projects, and Activities

We found widespread confusion among agencies in applying the program, project, and activity definitions. This confusion often reflected the ambiguities of the definitions themselves and, in our view, should not be considered to be material noncompliance with the requirements of the act. In relatively few cases, programs, projects, and activities that were clearly identified in the language of appropriations acts, committee reports, and other definitional source documents were not properly defined by agencies. Appendix I gives specific examples of both types of cases; because we reviewed the program, project, and activity categorization in a sample of cases, the cited examples are illustrative only.

Determining the Sequestrable Base of Programs, Projects, and Activities

Where agency reports traced program, project, and activity base amounts to source materials identified in the applicable definitions, we generally found that, except for minor discrepancies, the program, project, and activity base amounts listed were correct.

In cases where agencies did not define programs, projects, and activities strictly in accordance with the required definitions, however, it was often impossible to verify that amounts listed for individual programs, projects, and activities were correct. Even where program, project, and activity definitions used by an agency were traceable to items in appropriations acts and conference reports (or more detailed information, as required under the applicable definition), it was not always possible to verify the amounts listed as the sequestrable base for each program, project, and activity. This is due to the fact that funding levels actually enacted are usually different from those used as the basis for line-items in committee recommendations. Thus, unless clearly identified in the relevant conference report, it is often impossible to allocate changes at the appropriations act account level to programs, projects, and activities identified in the earlier reports and budget justification documents.

Applying a Uniform Percentage Reduction

In a very small number of accounts, we found minor variations in the percentage reductions applied to individual programs, projects, and activities. In these cases, we contacted agency officials for explanations. A number of agencies provided revised program, project, and activity lists showing the proper sequester amounts. In other cases, agency officials explained that they did not apply a uniform percentage because funds had already been obligated or expended in individual programs, projects, and activities. In the few remaining cases in which agency officials could not explain uneven percentages, the variations were minor and did not appear to change program priorities or eliminate programs.

Appendix I provides a more detailed description of the problems we found with respect to application of reductions to individual programs, projects, and activities within accounts. A description of the background and methodology of our review is found in appendix II.

In conclusion, the correct amounts of budgetary resources were removed from all budget accounts. We are reviewing and approving the warrants prepared by the Treasury Department withdrawing budget authority to ensure that the warrants are consistent with the President's order. In distributing these reductions below the account level, most agencies made concerted efforts either to make reductions at the required levels

or to work out other arrangements with their appropriations subcommittees. Thus, agencies made a conscientious effort to follow congressional priorities in making required reductions. Consequently, despite our finding that reductions at the program, project, and activity levels were not always made in strict conformance with the definitions and requirements of Public Law 99-177, we believe that the goals of those requirements were substantially fulfilled.

Charles A. Bowsher

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Comptroller General
of the United States

Program, Project, and Activity Detail: Definitional Problems

For fiscal year 1986, Public Law 99-177 provides that the committees on appropriations of the House and Senate may define the terms "program, project, and activity," and requires that the President's order sequester funds in accordance with those definitions. A series of definitions was set out in House Report 99-450, the conference report on the continuing appropriations resolution for fiscal year 1986 (Public Law 99-190). Those definitions were specifically incorporated, by reference, in the continuing resolution itself, which designated them to be the program, project, and activity definitions for the President's reduction order for fiscal year 1986.

The fiscal year 1986 program, project, and activity definitions vary from agency to agency and often, within agencies, from account to account. The definitions, as set out in House Report 99-450, are separated into categories corresponding to the 13 principal categories of appropriations acts. Each category includes a basic definition of the term, generally tied to appropriations act and committee report language. In addition, many of these definitions refer to other sources, as indicated in table I.1.

Despite this great variety of definitions, our review indicated that most agencies had little difficulty in identifying information sources needed to determine what programs, projects, and activities existed within a given account. Interpretation of the definitional rules as they apply to those information sources, however, proved to be a different matter.

Our review of the program, project, and activity reductions identified a number of instances in which agencies did not define programs, projects, and activities in strict accordance with the definitions found in House Report 99-450. In some cases, there was no clear reason for the omission. In others, the omission on the part of the agency may have been a result of ambiguities in the definitional language, or changes in program execution (definitional source material not reflected current program activities). In yet other cases, the omission reflected a conscious decision on the part of agency officials to report reductions in a format more consistent with that ordinarily used to report budget information. All three categories of problems are described in more detail below.

Omissions and Oversights

Some agencies failed, without apparent reason, to include program, project, and activity breakouts for items clearly identifiable in the definitional source material. Some omissions from agency program, project,

and activity lists appeared to be oversights on the part of agency officials. Typically, the oversights involved failures to include earmarks in committee reports set out in explanatory passages, when those earmarks were not carried into tables or otherwise clearly identified as budget items. For example, the Department of Transportation's program, project, and activity listing did not include as programs, projects, and activities certain lines of effort and associated amounts discussed in the narratives of committee reports. Similarly, the Department of the Interior listing omitted some natural resource management and acquisition items which were identified in explanatory material, along with relevant dollar amounts, in committee reports.

In other instances, agencies ignored items for which the definitional language was clear. For example, House Report 99-450 defines programs, projects, and activities for the Agricultural Stabilization and Conservation Service and the Farmers Home Administration to include individual state and county offices. The two agencies, however, did not specify reductions at this level. Other agencies did not list items clearly identified in appropriations act and committee reports: The National Aeronautics and Space Administration's Research and Program Management account did not include programs, projects, and activities for Scientific Consultation or for the National Commission on Space, each of which was separately identified in the appropriations act; the Agency for International Development did not separately identify the International Development Intern Program or funding provided for dependent schools in its list, even though both are included in the appropriations act; both the Federal Aviation Administration's Operations account and the Coast Guard's Acquisition, Construction, and Improvements account list no programs, projects, and activities, even though both accounts have many separate programs, projects, and activities identified in committee reports.

In many of these cases, we learned from agency officials responsible for compiling program, project, and activity information that they had been advised by their appropriations subcommittee that their program, project, and activity documentation was considered adequate, or that they had made separate arrangements to provide documentation to the subcommittee showing reductions.

Definitional Ambiguities

Many agencies found it difficult to determine exactly which items identified in the acts, reports, and other required sources should be included within a given program, project, and activity list. Given the definitional

language, the confusion is not surprising. For example, it is not readily apparent whether the term "budget item" (used in many of the 13 definitions) was intended to apply to all activities separately delineated in the relevant act or reports, or only to those accompanied by a dollar amount. Similarly, it is not clear whether the program, project, and activity definitions were intended to include items for which the committee reports give additions to or deductions from agency budget proposals or items for which the committee language is not clearly directive. For example, language such as "the committee assumes continuation of" a particular activity at a specified funding level may justify an agency official's decision that the item in question should not be considered a separate program, project, or activity.

In a number of the cases we reviewed, agencies failed to include separate program, project, and activity reductions for a variety of non-programmatic funding limitations or authorization language intended to govern agency operations across ordinary project or activity lines, such as entertainment expense limitations, minimum total program spending limits, or special spending categories.

One of the difficulties with using appropriations acts and committee reports as the principal source of the definitions of programs, projects, and activities is that the language of those documents does not always coincide with functional program or project information used by agency budget officials for actual program execution. That language frequently reflects more general concerns of the Congress and the committees about agency activities; thus, funding limitations or authorizations included in acts or reports often govern an agency's actions within several or all of its programs, projects, and activities. For example, numerous agency appropriations contain specific dollar limitations on representational, travel, or entertainment expenses. Those limitations govern all programs, projects, and activities within a particular appropriations account.

Although a technical reading of the statutory definition of programs, projects, and activities indicates that such funding limitations should be listed separately (they are, in effect, separate "budget items" within an account), agencies have frequently not reported overall funding limitations within an account as separate programs, projects, and activities. For example, the following accounts are among the many that did not include entertainment and official representation limitations as separate programs, projects, and activities: Internal Revenue Service, Salaries

and Expenses; International Trade Commission, Salaries and Expenses; and Peace Corps, Operating Expenses.

Similarly, the following are examples of situations in which agency program, project, and activity lists ignored general funding limitations or authorizations: The Foreign Military Credit Sales account did not separately list a statutory limitation on funding to be made available at concessional rates of interest; and the National Park Service did not separately list an amount provided in the act for high priority projects within the scope of the approved budget to be carried out by the Youth Conservation Corps.

Another type of problem that we identified involved those situations in which committee reports and other definitional source documents do not reflect current programs and activities financed within the account in question. Under such circumstances, failure of the agency involved to follow strictly the program, project, and activity definitions set out in House Report 99-450 was based largely on the difficulties of applying noncurrent definitional items to current program activities.

Rigid application of the definitional rules set out in House Report 99-450 would fail to take into account the flexibility of program execution at levels more specific than those established in appropriations acts. While committee reports are often very specific about programs and projects, unless those projects are carried over as actual line-items in appropriations acts, agencies ordinarily have the flexibility to adjust program execution within the appropriations act account level to suit actual requirements. Such adjustments are generally carried out with the coordination of the appropriations committees through the reprogramming process. As a result, programs, projects, and activities carried out by an agency at any given time may not be fully consistent with those identified in definitional source documents.

Consequently, in several instances, agencies have specified program, project, and activity reductions for many but not all projects identified in committee reports (or other documents, including budget justification documents, identified as the source specified in the program, project, and activity definition). When questioned, agency officials have explained that omissions reflect projects that have been dropped from an overall program, often with the agreement of the appropriations committees. Thus, the Army Corps of Engineers did not include program, project, and activity items for several projects identified in committee reports, on the basis that they had since been disapproved or

discontinued. A similar situation appears to exist with regard to individual State Department acquisition and maintenance program locations.

Use of Standard Budgetary Reporting Format

In several cases, agency program, project, and activity lists merely tracked an agency's budget justification document or other budget reporting documents. Such accounts usually provided more detailed breakdowns of program activities than were reflected in the appropriations act and committee reports. This practice may relate to the fact that House Report 99-450, in addition to setting forth the definitions described previously, provides guidance to a number of agencies to implement required reductions at the "subactivity" level as well, depending on an agency's budget justification document.¹ While we do not consider the practice to be inconsistent with the statute or with the President's order, in some cases activities and earmarks that would otherwise be separately identified as programs, projects, and activities have not been identified in an agency's list. Thus, the list provided by the Federal Communications Commission for its Salaries and Expenses account, and the one provided by the Department of Agriculture for its Foreign Agricultural Service account, included categories ordinarily listed in budget or related justification documents and did not identify separate items and earmarks in the appropriations act.

The foregoing description illustrates a number of the difficulties encountered by agencies in attempting to apply the program, project, and activity definitions set out in House Report 99-450. As indicated earlier, many of these problems may be attributable to the ambiguities of the definitions. As a means of dealing with these ambiguities, many agencies discussed the problems with their appropriations subcommittees and appear to have reached understandings on the structure of their program, project, and activity listings. Other problems may reflect oversight or error on the part of agency officials. In either case, however, most agencies made substantial efforts to implement reductions in the manner required by law.

¹House Report 99-450 includes guidance to agencies to be followed "in implementing" the President's order under Public Law 99-177. That guidance varies by appropriations category but usually directs that agencies apply the percentage reduction required by the order to programs, projects, activities, and subactivities identified in the budget justification documents of the agency in question. This guidance is not part of the definitions of the terms "program, project, and activity" and, therefore, does not affect the obligation of the President, under Public Law 99-177, to reduce each program, project, and activity within an account by the same percentage. We view the "in implementing" language as comparable to other instructions to agencies contained in the reports accompanying appropriations bills, which are directive in nature and are not legally binding.

Appendix I
Program, Project, and Activity Detail:
Definitional Problems

Table I.1: Program, Project, and Activity Definitions

Appropriations act categories	Basic level of definition	Further specifications
Agriculture, Rural Development, and Related Agencies	"Most specific level of budget items identified" in the appropriations act and accompanying committee reports	—Agricultural Research Service: specific research locations identified in explanatory notes and lines of research identified in committee reports —Soil Conservation Service: individual flood prevention and operational watershed projects —Farmers Home Administration: individual state, district, and county offices —Agricultural Stabilization and Conservation Service: individual state and county offices
Commerce, Justice, State, the Judiciary, and Related Agencies	(same as above)	
Department of Defense	(same as above)	—All accounts: items in classified annexes to committee reports and items in P-1 and R-1 budget justification documents —Military Personnel accounts: budget appendix program and financing schedules, as modified by congressional action —Operations and Maintenance accounts: budget appendix program and financing schedules, as modified —National Foreign Intelligence Program: "expenditure centers" in budget justification documents as modified
District of Columbia	"Any items specifically identified" in written material in appropriations acts and accompanying committee reports	
Energy and Water Development	"Items in the fiscal year 1986 budget submission of the President" as subsequently modified by congressional action and identified in the appropriations act and committee reports	
Foreign Assistance and Related Programs	"Defined at the appropriations act account level," including all appropriations act earmarks, ceilings, and limitations	—Economic Support Fund, Military Assistance, and Foreign Military Credit Sales: country, regional, and central program level funding —Agency for International Development Functional Assistance accounts: central program level funding, as justified to the Congress or as reported to the committees as required by law
HUD and Independent Agencies	(same as Agriculture)	
Interior and Related Agencies	"Any item specifically identified in tables or written material" in the appropriations act and accompanying committee reports	—All accounts: any government-owned or government-run facility and any management unit, including parks, forests, fish hatcheries, refuges, etc.
Labor, Health and Human Services, Education, and Related Agencies	(same as Agriculture)	—All accounts: any item in the tables inserted in the Congressional Record of December 5, 1985, pages H10915-40
Legislative Branch	"Synonymous with each appropriation account" in the act	

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Appropriations act categories	Basic level of definition	Further specifications
Military Construction	"Any item identified as a project activity or line-item listed" in the conference report	
Transportation and Related Agencies	"Any item for which a dollar amount is contained" in the appropriation act and accompanying reports	
Treasury, Postal Service, and General Government	(same as Agriculture)	

Source: House Report 99-450

Comptroller General's Compliance Report: Background and Methodology

On January 15, 1986, the Directors of the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) submitted their joint sequester report for fiscal year 1986 to the Comptroller General.

We reviewed the OMB/CBO report and, on January 21, 1986, transmitted our own report to the President of the United States, President of the Senate, and Speaker of the House of Representatives. Our report, which was based on the joint OMB/CBO report, specified the amounts by which accounts (and programs, projects, and activities within defense accounts) would have to be reduced to eliminate the excess budget deficit for fiscal year 1986.

On February 1, 1986, the President issued his order implementing the reductions specified in the Comptroller General's January 21, 1986, report. The President's order took effect on March 1, 1986.

Section 253 of Public Law 99-177 requires the Comptroller General to submit a report to the Congress and to the President on the extent to which the President's February 1, 1986, order complies with all the legal requirements contained in section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985, either certifying that the order fully and accurately complies with such requirements or indicating the respects in which it does not. A brief description of the requirements of section 252 and a description of the President's order are set out below. These are followed by a summary of our methodology used in conducting the compliance review.

Legal Requirements for the President's Order

Section 252 of the act requires that the President eliminate the full amount of any deficit excess, as identified in the Comptroller General's report, by issuing an order that (1) modifies or suspends automatic spending increases scheduled to take effect during the applicable fiscal year and (2) eliminates the remainder of such deficit excess by sequestering budgetary resources in accordance with the Comptroller General's report. Section 252 further requires the President's order to make uniform percentage reductions, for funds provided in annual appropriations acts, in each "program, project, and activity" within an account. For funds not provided in annual appropriation acts, the order is to make reductions in each "budget account activity" as identified in the program and financing schedules contained in the appendix to the budget of the United States. For fiscal year 1986, the act provides that the appropriations committees of the House and Senate may define the terms "program, project, and activity," and requires that the President's

order sequester funds in accordance with those definitions. The Congress separately established a series of definitions which are described in more detail in appendix I.

Section 252 specifically states that the President's order must incorporate the provisions of the Comptroller General's report and must be consistent with that report in all respects. In addition, section 252 provides that the order may not have the effect of eliminating any program, project, or activity of the federal government, or result in a defense-base closing or realignment that would otherwise be subject to section 2687 of title 10, United States Code. The provision also states that it shall not be construed to give the President new authority to alter relative budget priorities established by law.

The act, in section 252, provides some flexibility to the President to exempt the military personnel accounts from reductions, although reductions in other defense accounts would thereby be increased. These exemptions were taken into consideration in the amounts included in the Comptroller General's report of January 21, 1986. In addition to this exemption authority, the President is permitted, through his order, to deviate from the required reductions specified in the Comptroller General's report within defense programs, projects, and activities by reducing some programs, projects, and activities by up to twice the required amount, and concurrently increasing the budgetary resources of other programs, projects, and activities within the same account by the amount of that additional reduction. The President notified us of the programs, projects, and activities thus adjusted prior to the issuance of our report, and that report consequently included those adjustments in specifying required reductions.¹

**The President's February 1,
1986, Order**

The President's order instructed agency heads "to implement the required sequestration or reduction determined by the Comptroller General in his report dated January 21, 1986." It identified automatic spending increases to be suspended as required under the act. It also required the sequestration of budgetary resources for both defense and nondefense accounts according to the procedures and requirements of the act.

¹Because these adjustments are reflected in our January 21, 1986, report, we have made no attempt to delineate them separately in this compliance report.

In addition, the order required the head of each department or agency to report the programs, projects, and activities' information required by section 252 to the President of the Senate, the Speaker of the House, the Director of the Office of Management and Budget, and the Comptroller General. Those program, project, and activity reports were incorporated, by reference, into the President's order.

Because the program, project, and activity reports submitted to the General Accounting Office by individual agencies provided the most accurate description of actual reductions required by the President's order, they were the primary focus of our compliance review, as described below.

Our Review: Methodology

Our staff analyzed the text of the President's February 1, 1986, order and reviewed the account totals; program, project, and activity categories; and program, project, and activity amounts contained in the order, as it incorporated the individual reports from the various agencies and departments. Our objective was to examine the materials for compliance with the requirements of the act and the Comptroller General's January 21, 1986, report. Because of the large number of accounts and programs, projects, and activities within accounts, it was necessary to conduct a selective analysis.

In conducting our review, we first looked for any obvious and serious errors, such as a failure to submit a required sequester amount. Then, we checked the base and sequester totals at the account level, and totaled base and sequester amounts at the program, project, and activity level to ensure that the amounts were the same. For selected accounts, we reviewed relevant appropriations acts and other source material identified in the various program, project, and activity definitions to determine whether the programs, projects, and activities listed were consistent with the statutory requirements. Finally, for 87 accounts, we performed detailed examinations that—in addition to the foregoing—entailed checking the program, project, and activity amounts in the President's order (as it incorporated agency lists) against the relevant source documents. For these accounts, we also checked the percentage calculation of each program, project, and activity's sequester.

During the course of our review, we contacted agency officials on the problems we identified and, where needed, requested explanatory materials and relevant documents.

In addition, we are reviewing and approving the warrants prepared by the Treasury Department withdrawing budget authority to ensure that the warrants are consistent with the President's order.

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