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

CIVIL DIVISION

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MAY 11 1971

BEST DOCUMENT AVAILABLE

Dear Mr. Donaty:

The General Accounting Office has reviewed the status of appropriated funds of the Securities and Exchange Commission as of March 31, 1971, pursuant to a request of November 12, 1970, by the former Chairman, Mr. Hamer Budge. Our review was directed at determining whether the Commission had incurred or could be expected to incur an overobligation of funds during fiscal year 1971.

Our review, which was completed in April 1971, included (1) an examination of selected financial records pertaining to the 9-month period July 1, 1970, through March 31, 1971, (2) an analysis of the events which led to the October 31, 1970, forecast of a possible $310,000 overobligation, (3) an evaluation of actions taken by the Commission to preclude an overobligation of fiscal year 1971 funds, and (4) an evaluation of the Commission's financial reporting system and financial controls to prevent the occurrence of an overobligation in future years.

In December 1970 the Commission imposed limitations on promotions, hiring, and other expenditures to preclude incurring the estimated $310,000 overobligation of its fiscal year 1971 appropriation. As of March 31, 1971, the Commission estimated that the total expenditures of the Commission would amount to about $23,572,800, or about $47,200 less than the estimate of funds available to the Commission for fiscal year 1971. In our opinion the methods used in arriving at the estimated total expenditures were reasonable, and we believe that the Commission will not overobligate its 1971 funds if the planned level of expenditures is maintained and the Commission receives the $1.25 million supplemental appropriation now pending before the Congress.

The March 31, 1971, estimate of total expenditures for fiscal year 1971 is predicated on the assumptions that during the fourth quarter of fiscal year 1971 (1) six employees would resign and (2) eight employees would retire and lump-sum payments to the retiring employees would not exceed $29,871. In the event that either of these assumptions proves incorrect, additional spending limitations may have to be imposed to prevent an overobligation of funds. In this regard, a total of 198 Commission employees are eligible to retire during fiscal year 1971 and the Commission's contingent liability for lump-sum payments to these employees greatly exceeds the amount provided for in the current operating plan.

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Our examination has shown that about 91 percent of the Commission's expense is for personal services and benefits. The number and timing of employee separations during the year largely determines the amount of funds available for hiring new employees and for granting promotions. Assumptions as to employee separations are, therefore, important factors in projecting expenditures for personal services in the Commission's budget estimates. These assumptions are made at least 9 months prior to the beginning of the fiscal year to which they apply. The fact that employee separations during fiscal year 1971 were less than estimated was, in our opinion, the single most important factor leading to the Commission's financial difficulties.

We believe, therefore, that the early detection of variances in the rate of separations is necessary to provide the Commission with the maximum flexibility in adjusting its operating plans. Accordingly, we recommend that the Comptroller (1) analyze, at the beginning of each fiscal year, the Commission's recent rate of employee separations to facilitate necessary adjustments to Commission operations and (2) during the year, periodically analyze employee separations to detect significant variances.

We found that the financial projections normally prepared at September 30 were not prepared at September 30, 1970, because the Commission had not received its appropriation and was operating under a continuing resolution. We believe that such projections, even if prepared for an assumed level of funding, could have been of value in detecting the Commission's financial problem and in effecting timely corrective action. We recommend that in future years regular financial projections be prepared regardless of the status of the Commission's appropriation bill.

We wish to acknowledge the courtesies and excellent cooperation extended to our representatives during the review.

A copy of this letter is being furnished to Mr. Hamer Budge, former Chairman of the Commission.

Sincerely yours,

Irvine M. Crawford

Irvine M. Crawford
Associate Director

Mr. Frank J. Donaty, Comptroller
Securities and Exchange Commission

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