

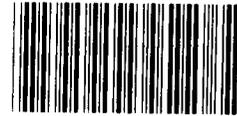
GAO

Briefing Report to the Chairman, Task
Force on the Budget Process, Committee
on the Budget, U.S. House of
Representatives

January 1986

BUDGET ISSUES

Governmentwide
Analysis of the Growth
in Unexpended
Balances



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

ACCOUNTING AND FINANCIAL
MANAGEMENT DIVISION

January 17, 1986

B-221420

The Honorable Butler Derrick
Chairman, House Task Force on
the Budget Process
House Budget Committee
House of Representatives

Dear Mr. Chairman:

On May 8, 1985, you requested that we undertake a study to update our 1978 analysis on unexpended balances both in civil and Defense departments and agencies. On November 6, 1985, we briefed your task force on our analysis of the growth in unexpended balances. This briefing report summarizes the results of that briefing.

Since the 1978 studies, unexpended balances, which are rapidly approaching a trillion dollars, have increased 54 percent. Corresponding to this growth has been a shift in the distribution of unexpended balances from civil agencies to Defense agencies. This redistribution to Defense balances accelerated between fiscal year 1981 and fiscal year 1984. During that time, the civil portion of unexpended balances grew at an average rate of 3 percent, while the Defense portion was 22 percent. A slower rate of growth for civil agencies would be expected given the lower growth in civil appropriations over this time period. However, the aggregate numbers do not reflect that in certain civil accounts the rate of growth has been as great as or greater than the rate of growth in Defense.

We believe the trends presented in this briefing document and the continuing growth in unexpended balances raise many important budget process issues. The three major issues we identified are (1) the fiscal implications of growing unexpended balances, (2) agencies not executing budgets as planned, and (3) the poor quality of information for decisionmaking.

Although all three issues are important, probably the most significant one is the potential fiscal impact that growing unexpended balances could have on deficit reduction goals. These balances could complicate the goal of deficit reduction because they represent substantial future spending that in many cases will be difficult to control. Each account's unexpended balance does not have the same potential impact. Some balances

represent assets, such as the surplus in the Social Security fund. However, a growing portion reflects actual or potential liabilities that will have to be financed through future tax revenues or borrowing. Even those representing assets are normally invested in Treasury securities. If these securities must be redeemed to finance future payments, Treasury will have to borrow equivalent amounts from the public.

The other two issues, which are interrelated, may be contributing to the growth of unexpended balances. The poor quality of information, particularly the accuracy of estimates of obligated and unobligated balances, may affect agency managers' ability to execute budgets as planned. Inflation estimating and other related issues are discussed in a separate report entitled Potential for Excess Funds in DOD (GAO/NSIAD-85-145, September 3, 1985). For the most part, civil as well as Defense agencies overestimate their ability to obligate funds and underestimate ending unobligated balances. Without accurate budget information it is more difficult to make informed resource allocation decisions and perform effective oversight.

As requested, we focused our work on updating the two 1978 studies on civil and Defense balances and identifying what new or recurring issues surround the growth in unexpended balances. The information contained in this document, as agreed upon in the request letter, is based on readily available budget data. Principally the data were taken from the President's budget documents. These budget documents do not reflect subsequent amendments. In particular, data on estimates may differ from detailed agency records.

Our work was divided into two segments: Defense (military) and civil agencies. The two segments covered different time frames. The Defense time frame was from fiscal year 1977 to fiscal year 1984, while the civil was from fiscal year 1978 to fiscal year 1984. The reason for different time periods was so that our analysis would not duplicate our previous work.

Except for the analysis on the accuracy of agencies' estimates, our detailed work on civil unexpended balances was limited to certain civil accounts. This was done in order to facilitate analysis between Defense activities and similar civil activities.

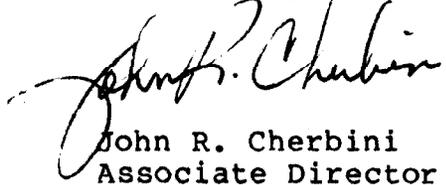
In order to provide your committee with timely information for use in the ongoing budget debates, we did not obtain official agency comments on this report. We did provide the Department of Defense and selected agencies fact sheets on the

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budget data used in the report. We have received oral comments from the Department of Defense and most of the civil agencies. The Department of Defense pointed out differences in its records from some of the estimates used in our analysis. Where appropriate, we footnoted these differences to the corresponding information.

Upon delivery of this document, we will make copies available to other interested parties. If you have any questions on the content of this document, please call me on (202) 275-9487.

Sincerely yours,



John R. Cherbini
Associate Director

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ABBREVIATIONS

BA	budget authority
DOD	Department of Defense
DOE	Department of Energy
EPA	Environmental Protection Agency
FPI	Federal Prison Industries
FY	fiscal year
GAO	General Accounting Office
GNP	Gross National Product
HUD	Department of Housing and Urban Development
NASA	National Aeronautics and Space Administration
O&M	Operations and Maintenance
OMB	Office of Management and Budget
R&D	Research, Development, Test, and Evaluation
TBA	total budget authority available
TVA	Tennessee Valley Authority

**GOVERNMENTWIDE ANALYSIS OF THE GROWTH
IN UNEXPENDED BALANCES**

**PREPARED FOR THE HOUSE TASK FORCE
ON THE BUDGET PROCESS**

SUMMARY OF GOVERNMENTWIDE UNEXPENDED BALANCES

GROWING UNEXPENDED BALANCES MAY BE LOCKING IN FUTURE SPENDING
THAT COULD MAKE THE TASK OF DEFICIT REDUCTION MORE DIFFICULT

Total Unexpended Balances Approaching a Trillion Dollars in FY 1984	<u>Page</u>
• Total unexpended balances increased from \$632.0 billion in FY 1978 to \$974.1 billion in FY 1984, a 54.1 percent increase.	24
• Obligated balances increased from \$380.4 billion in FY 1978 to \$553.3 billion in FY 1984, a 45.5 percent increase.	24
• Unobligated balances increased at a greater rate, from \$251.6 billion in FY 1978 to \$420.7 billion in FY 1984, a 67.2 percent increase.	24
Civil's Growing Unexpended Balances (FY 1978 - FY 1984)	
• Civil unexpended balances averaged 84.7 percent of the total unexpended balances.	54
• Unexpended balances increased \$210.6 billion, or 37.7 percent.	55
• Obligated balances increased \$71.8 billion, or 21.9 percent.	55
• Unobligated balances increased \$138.8 billion, or 60.3 percent.	55
DOD's Growing Unexpended Balances (FY 1977 - FY 1984)	
• Budget Authority (BA) increased \$149.8 billion, or 138.2 percent.	63
• Obligated balances increased \$110.8 billion, or 259.5 percent.	59
• Unobligated balances increased \$31.6 billion, or 158.0 percent.	59
• Outlays increased \$125.2 billion, or 131.0 percent.	63
• Spendout rates in FY 1984 were at an 8-year low and represented a 7.3 percentage point drop since FY 1980.	21

- Obligation rates in FY 1984 had fallen 4.8 percentage points since FY 1981 and were at an 8-year low. Page
21

Military Services' Balances (FY 1977 - FY 1984)

- Air Force
 - BA increased \$54.3 billion, or 169.7 percent. 63
 - Obligated balances increased \$39.2 billion, or 346.9 percent. 60
 - Unobligated balances increased \$11.1 billion, or 209.4 percent. 60
 - The majority of the increases in the unobligated balances occurred between fiscal years 1981 and 1984. 60
- Navy (excluding the Marine Corps)
 - BA increased \$41.7 billion, or 124.5 percent. 63
 - Obligated balances increased \$40.1 billion, or 203.6 percent. 61
 - Unobligated balances increased \$11.2 billion, or 110.9 percent. 61
 - The majority of the increase in the unobligated balances occurred between fiscal years 1982 and 1984. 61
- Army
 - BA increased \$35.7 billion, or 133.7 percent. 63
 - Obligated balances increased \$23.6 billion, or 298.7 percent. 62
 - Unobligated balances increased \$6.5 billion, or 166.7 percent. 62
 - The majority of the increase in the unobligated balances occurred between fiscal years 1981 and 1984. 62

POOR ACCURACY OF ESTIMATES--BUDGET EXECUTION

Civil Agencies:

- Consistently overstated the estimates for the obligated balances, except for the first-year

	<u>Page</u>
estimate in FY 1978 and the second-year estimate in FY 1984. First year overestimates averaged 4.3 percent, while second-year overestimates averaged 3.4 percent.	57
• Consistently understated the estimates for the unobligated balances, except for the first-year estimate for FY 1981. First-year underestimates averaged 14.5 percent, while second-year underestimates averaged 6.9 percent.	42
• Some agencies or organizations continually underestimate unobligated balances by a large percentage. Three of the worst were: NASA by 82 percent, Defense-Civil by 50 percent, and Justice by 52 percent.	44-46
DOD:	
• DOD overestimated the obligated balances, except for the first-year estimates for FY 1982 and second-year estimates for FY 1978 and 1981. Otherwise, first-year overestimates ranged from 1.3 percent to 10.9 percent. Second-year overestimates ranged from 1.2 percent to 5.6 percent.	31
• DOD consistently underestimated the unobligated balances, except for the second-year estimate for 1980. First-year underestimates ranged from 0.7 percent to 26.0 percent. Second-year underestimates ranged from 2.2 percent to 16.7 percent.	32
• Of second-year estimates, unobligated balances for FY 1983 and FY 1984 were understated by 11.3 percent, or \$4.9 billion, and 16.7 percent, or \$8.6 billion, respectively. Second-year estimates were understated more than first-year estimates.	32
<u>POTENTIAL EXCESS FUNDS</u>	
• Excess funds over program needs, inflation dividend, and foreign currency fluctuations.	36, 38, 49
<u>POOR QUALITY OF INFORMATION</u>	
• Difficult to determine what an agency requested, received, and accomplished.	41
• Comparability of aggregate budget data hindered by the lack of consistency in reporting categories, accounting treatment, and disclosure of changes.	41

OBJECTIVES

**ANALYSIS OF UNEXPENDED
BALANCES**

- **UPDATE 1978 STUDIES**
- **ANALYZE GOVERNMENTWIDE TRENDS (FY 1977 - FY 1984)**
- **IDENTIFY POTENTIAL ISSUES FOR ONGOING BUDGET DEBATES**

APPROACH: CIVIL ANALYSIS

ADJUSTED CIVIL BALANCES

EXCLUDE

-
- **TRUST FUNDS**

 - **GUARANTEE AND INSURANCE PROGRAMS**

 - **HUD SUBSIDIZED HOUSING PROGRAMS**

 - **TREASURY'S EXCHANGE STABILIZATION FUND
AND ENERGY SECURITY RESERVE**

Adjusted Civil Balances

In order to facilitate analysis of unexpended balances of civil activities and similar Defense activities we excluded certain programs and activities from the civil total. The programs/activities excluded from our analysis due to their unique nature or relationship of budget authority to outlays were:

Trust Funds - Many trust funds like the Social Security trust fund may treat all income to a fund as budget authority. As long as the fund has adequate receipts, the relationship between budget authority and outlays is unique when compared to other activities. Unlike many other federal activities whose unobligated balances represent potential liabilities to be funded by future taxes or borrowing, unobligated balances of trust funds with dedicated receipts represent assets of those trust funds. However, these are invested in Treasury securities and the cash is used to finance other government activities. If the securities are redeemed to finance trust fund activities, the cash must be raised through additional borrowing from the public.

Guarantee and Insurance Programs - In many programs, notably housing and banking, budget authority is provided for contingency backup, reserve, and debt redemption. Such budget authority is provided, in many cases, with the expectation that it is unlikely ever to be used. These unique programs are affected by economic events and disasters.

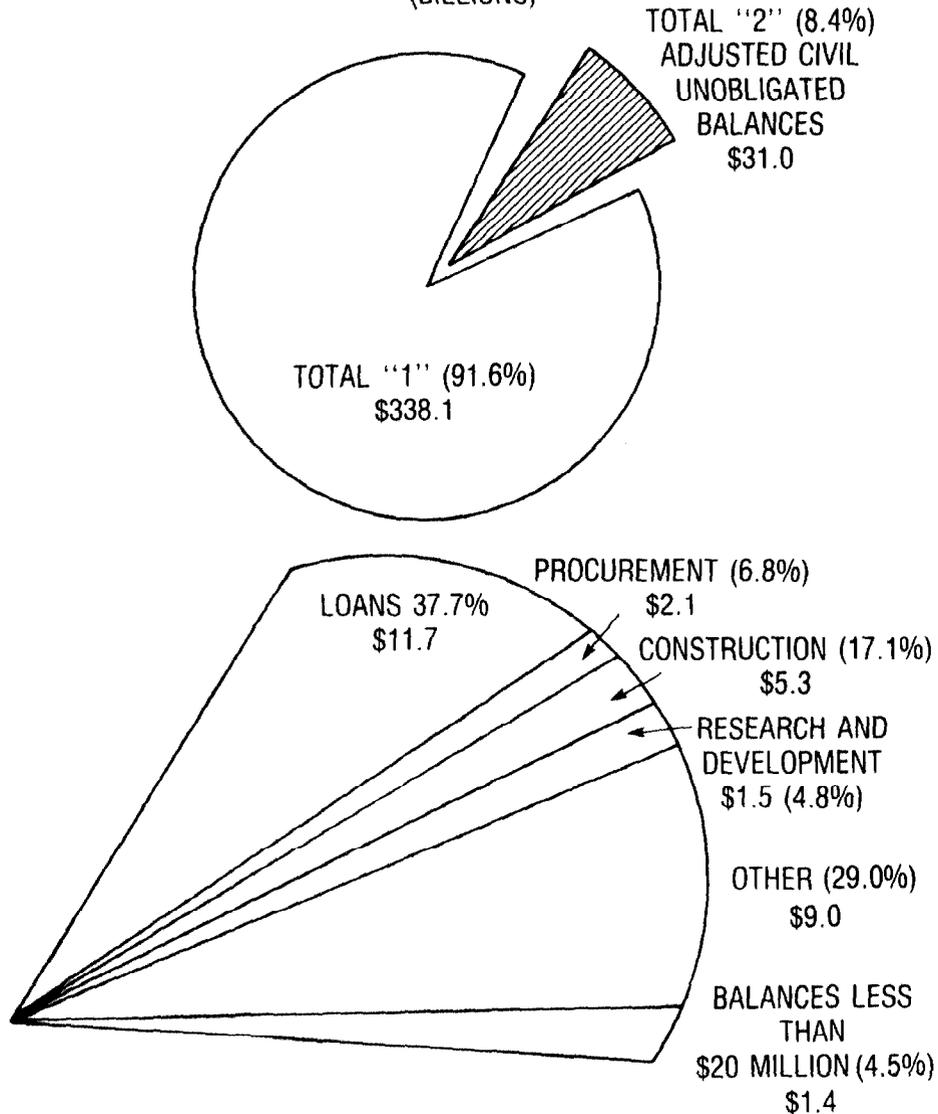
HUD Subsidized Housing Programs - The budget authority associated with these programs is outlayed over a much longer period than most other programs, up to 40 years. In addition, the large balances of unexpended budget authority result in a relatively small amount of outlays. For example, in FY 1984 this program had \$250.6 billion in unexpended balances but only \$8.8 billion in outlays.

Treasury's Exchange Stabilization Fund and Energy Security Reserve - Because of their unique relationship to budget and economic policy, these accounts were not reviewed.

We referred to this new universe in our work as the adjusted civil balances.

DISTRIBUTION OF ADJUSTED CIVIL UNOBLIGATED BALANCES BY INTENDED USE, FY 1984

(BILLIONS)



TOTAL "1" UNOBLIGATED BALANCES NOT EXPECTED TO BE CONVERTED TO OUTLAYS OR OBLIGATIONS IN THE NEAR FUTURE.

TOTAL "2" UNOBLIGATED BALANCES EXPECTED TO BE CONVERTED TO OUTLAYS OR OBLIGATIONS IN THE NEAR FUTURE.

Distribution of Adjusted Civil Unobligated Balances

The Office of Management and Budget (OMB), in its publication of Balances of Budget Authority, places unobligated balances into six mutually exclusive program categories. Accounts with unobligated balances of less than \$20 million are aggregated to a separate category. Among these categories, adjusted civil balances represent 470 widely dispersed accounts. From these mutually exclusive categories, we selected 23 accounts for review which represent 40.5 percent of adjusted civil unobligated balances. (See appendix V for listing of accounts reviewed.) The criteria we used in selecting our accounts were as follow:

- (1) relative size of the accounts' unobligated balances to the categories' total unobligated balances over time, and
- (2) whether the accounts were experiencing an increasing or decreasing level of unobligated balances over time.

Listed below are five of OMB's mutually exclusive categories, the number of accounts we reviewed in each category, and the percentage of the categories' unobligated balances we reviewed.

<u>Categories</u>	<u>Number of accounts reviewed</u>	<u>Dollar percentage of unobligated balances reviewed</u>
Loan programs	2	41.0
Procurement programs	3	59.7
Construction and land programs	7	49.0
Research and development programs	6	93.3
Other ^a	<u>5</u>	24.7
Total	<u>23</u>	40.5

For each account in our sample--where data permitted--we reviewed, for the period FY 1978 to FY 1984, the trend of its (1) budget authority, recoveries, and collections, (2) unobligated balances, (3) obligated balances, (4) spendout rate, and (5) the budget authority which lapsed.

^aOther includes the category balances less than \$20 million.

APPROACH: DEFENSE ANALYSIS

FOCUSED ON

- **THE THREE MAJOR MULTIYEAR FUNCTIONS--PROCUREMENT,
R&D, MILITARY CONSTRUCTION**
- **THE THREE MAJOR SERVICES--AIR FORCE, NAVY, ARMY**
- **SELECTED ACCOUNTS WITHIN FUNCTIONS BY SERVICE**

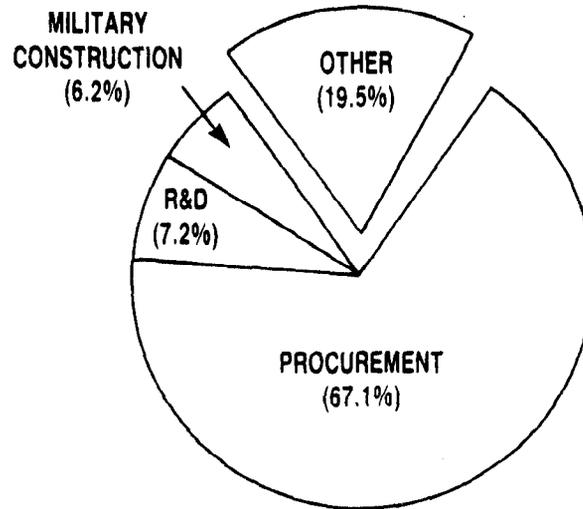
Defense Balances

For our Defense (DOD) analysis, we used readily available data obtained from the Appendix of the United States Budget for fiscal years 1977 through 1986. We also obtained information from our recently published report entitled Potential for Excess Funds in DOD (GAO/NSIAD-85-145, September 3, 1985).

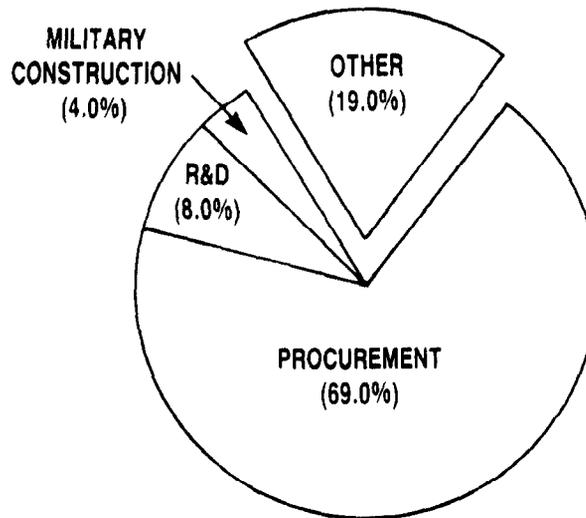
Our initial review of trends in DOD's unexpended balances consisted of analyses of growth in both unobligated and obligated balances of the agency as a whole, declines in both obligation and spendout rates, and relative accuracy in estimates of obligated and unobligated balances and outlays in relation to estimates of new-year budget authority. We then divided the DOD total unexpended balance into service components and proceeded to analyze growth in the unexpended balances of the Army, Navy (excluding the Marine Corps), and Air Force. These three services' combined unexpended balances in FY 1984 comprised 92.6 percent of DOD's total unexpended balances.

In our analysis of the three services, we concentrated on the three functional areas that are funded with multiyear money and thus customarily maintain various levels of unobligated balances of budget authority: Procurement; Research, Development, Test, and Evaluation (R&D); and Military Construction. In terms of the total DOD, the unexpended balances of these three functional areas comprised 81 percent of the FY 1984 unexpended balances. Our analysis of these three functional areas for each service consisted of an analysis of overall growth in unobligated and obligated balances, movement of obligation and spendout rates, relative accuracy in estimates of obligated and unobligated balances and outlays in relation to estimates of new-year budget authority, and other analyses supporting the growth in unexpended balances of budget authority. Where appropriate, service and service/functional comparisons were made to illustrate the ability of a service to execute programs as planned in relation to another service.

DOD'S UNEXPENDED BALANCES BY FUNCTION



FISCAL YEAR 1977



FISCAL YEAR 1984

Note: See page 13 for breakdown of "other" category.

DOD's Unexpended Balances by Function (FY 1977 - FY 1984)

- Over the 8-year period, the functional breakdown of DOD's unexpended balances has seen a slight redistribution.

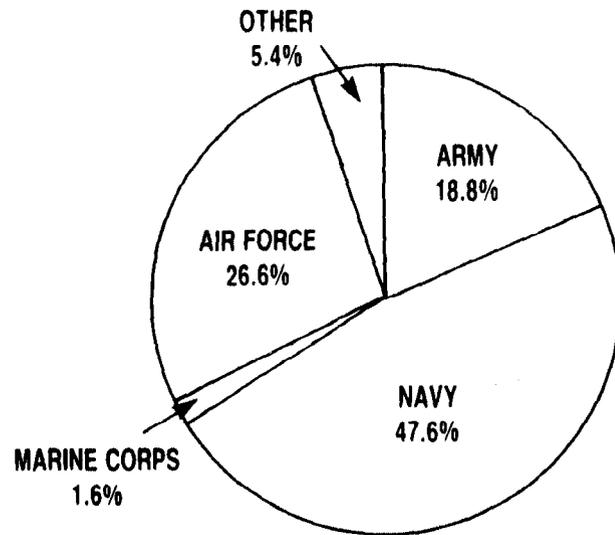
- The procurement function had the largest increase, 1.9 percentage points.

- The military construction function had the greatest decrease, 2.2 percentage points.

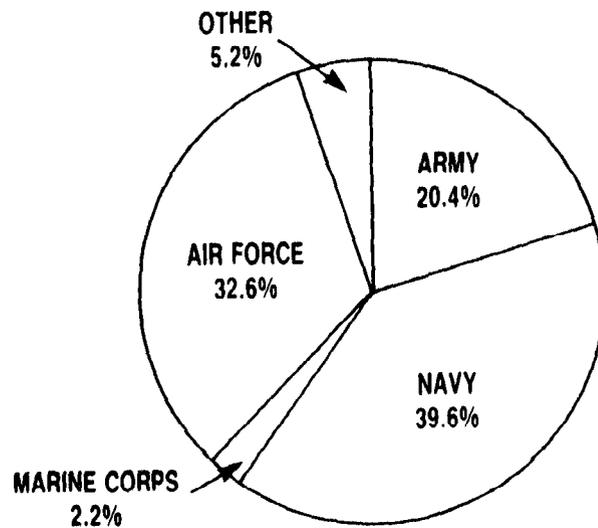
The "other" category includes the following: (See page 12.)

- Military Personnel
- Family Housing, Defense
- Civil Defense
- Special Foreign Currency Program
- Industrial Funds
- Other Revolving and Management Funds
- Trust Funds
- Stock Funds
- Operation and Maintenance

DOD'S UNEXPENDED BALANCE BY SERVICE



FISCAL YEAR 1977



FISCAL YEAR 1984

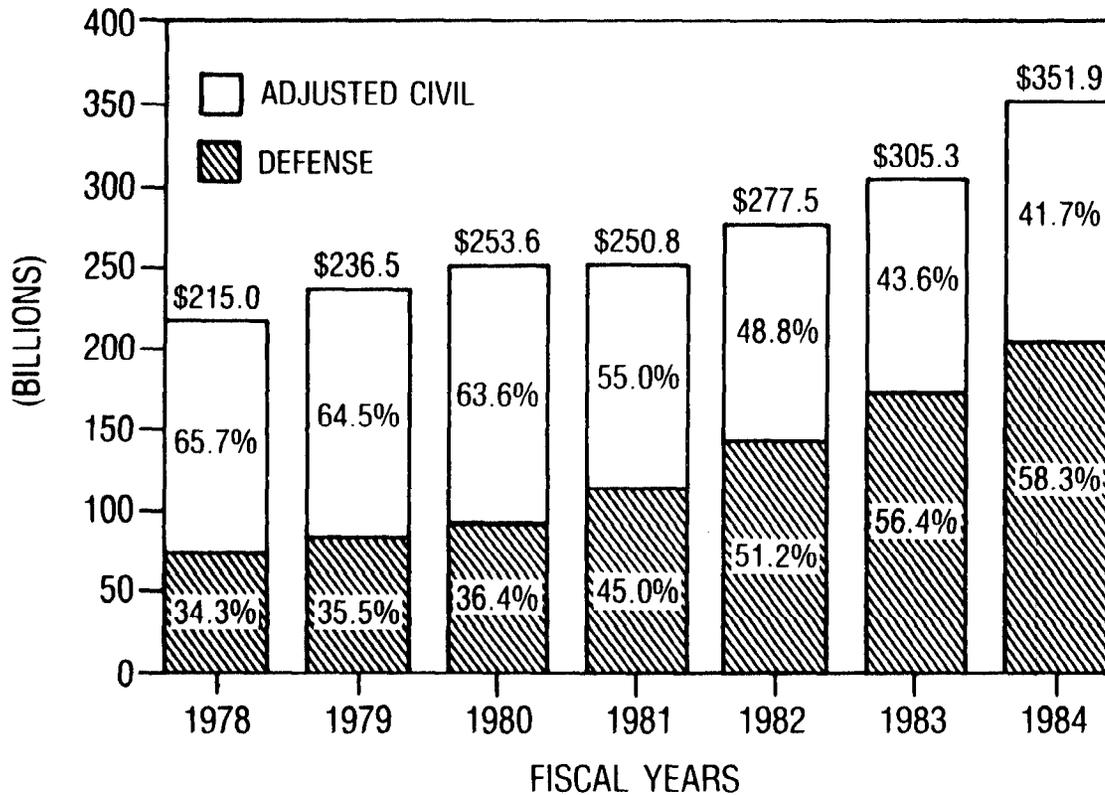
DOD's Unexpended Balances by Service (FY 1977 - FY 1984)

- Over the 8-year period, there has been a redistribution of unexpended balances among the services.

- The Air Force's share of the total increased by 6 percentage points.

- The Navy's (excluding the Marine Corps) share of the total decreased by 8 percentage points.

UNEXPENDED BALANCES ADJUSTED CIVIL AND DEFENSE



Fiscal year	Adjusted civil unobligated balance (billions)
1978	\$40.3
1979	38.0
1980 ^a	40.5
1981	15.5
1982	18.4
1983	22.8
1984	31.0

^aIn FY 1980, the Tennessee Valley Authority (TVA) had \$16.7 billion in unobligated balances for power programs. However, in FY 1981, at the direction of OMB, the reported amount for the power programs' unobligated balances was reduced to zero. The decrease resulted from an accounting change in OMB's policy regarding the presentation of indefinite borrowing authority.

Analysis of Adjusted Civil and Defense Unexpended Balances

- Adjusted civil balances made up the majority of total unexpended balances until FY 1982.

- Since FY 1978, Defense has increased its share of the total, in comparison to civil adjusted balances, by 24 percentage points.

- Between FY 1980 and FY 1981, adjusted civil unobligated balances went from \$40.5 billion to \$15.5 billion in a single year. A major portion of this drop was due to a change in budget presentation, not reductions in programs. This change represents approximately \$16.7 billion of the drop and is attributable to the TVA power programs.

TRENDS
ADJUSTED CIVIL BALANCES

- **UNEXPENDED BALANCES GREW 6.5 PERCENT (FY 1981 - FY 1984)**

- **UNOBLIGATED BALANCES GREW 100 PERCENT (FY 1981 -
FY 1984)**

- **DISPROPORTIONATE GROWTH IN 14 ACCOUNTS REVIEWED**

- **OBLIGATION AND SPENDOUT RATES FELL IN FY 1984**

Adjusted Civil Balances Observations

- Overall, adjusted civil unexpended balances grew 6.5 percent between FY 1981 and FY 1984. (See page 56.)
- Adjusted civil unobligated balances doubled between FY 1981 and FY 1984, a 100 percent increase. (See page 56.)
- In our sample of 23 accounts within adjusted civil balances, we found 14 accounts with considerable growth in unobligated balances between FY 1980 and FY 1984.

<u>Percent increase in unobligated balances between FY 1980 and FY 1984</u>	<u>Number of accounts</u>	<u>Increase in millions</u>
20% - 99%	3	\$ 264
100% - 199%	2	170
200% - 299%	2	338
300% - 399%	0	0
400% +	<u>7</u>	<u>6,991</u>
Total	<u>14</u>	<u>\$7,763</u>

- Spendout and obligation rates for these 14 accounts have been erratic and appear to have no predictable pattern. However, for 8 of those accounts spendout rates declined in FY 1984, and for 9 accounts obligation rates declined in FY 1984.

TRENDS**DEFENSE BALANCES**

- **MAJOR GROWTH IN NEW BUDGET AUTHORITY--44.7 PERCENT
(FY 1981 - FY 1984)**

- **UNOBLIGATED BALANCES GREW 94.7 PERCENT
(FY 1981 - FY 1984)**

- **OBLIGATION AND SPENDOUT RATES FALLING**

- **TRENDS MORE STABLE THAN FOR ADJUSTED CIVIL ACCOUNTS**

Defense Observations

- Between FY 1981 and FY 1984, new-year budget authority grew from \$178.4 billion to \$258.2 billion, a 44.7 percent increase. (See page 63.)
- Major growth in unexpended balances between FY 1981 and FY 1984, \$112.9 billion to \$205.1 billion, an 81.7 percent increase. (See page 59.)
- Between FY 1981 and FY 1984, unobligated balances grew from \$26.5 billion to \$51.6 billion, a 94.7 percent increase. (See page 59.)
- Spendout rates have declined since FY 1980.
- Obligation rates have declined since FY 1981. (See note below.)
- Unlike adjusted civil, spendout and obligation rates for Defense follow a more stable trend, which appears more predictable.

DOD'S SPENDOUT RATES	
FISCAL YEAR	RATES
1977	59.9%
1978	57.9%
1979	57.9%
1980	58.6%
1981	57.6%
1982	56.0%
1983	53.7%
1984	51.3%

DOD'S OBLIGATION RATES	
FISCAL YEAR	RATES
1977	83.0%
1978	83.4%
1979	84.6%
1980	84.7%
1981	86.2%
1982	85.0%
1983	82.5%
1984	81.4%

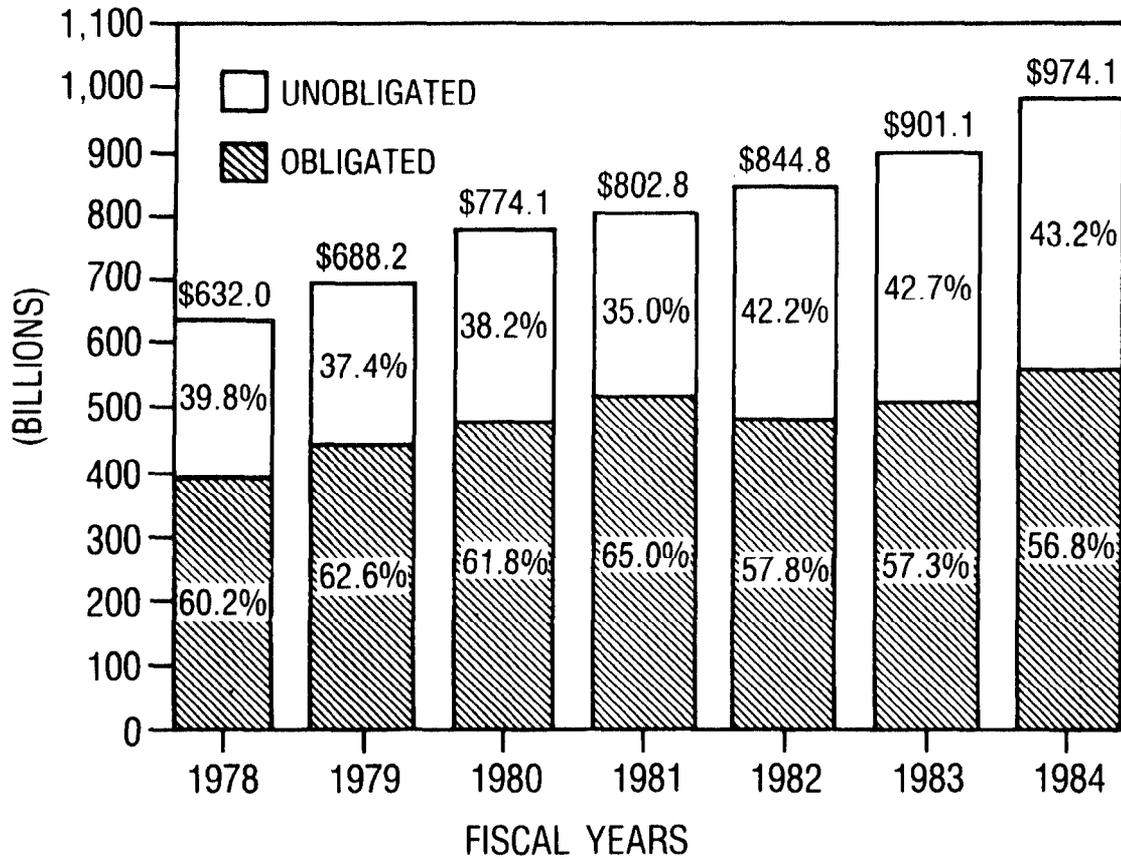
Note based on DOD comments: Obligation rate methodology. In computing a DOD obligation rate we exclude reimbursable obligations due to double counting. DOD's methodology includes reimbursables which result in obligation rates several percentage points higher than ours. While the DOD rate is higher, due to double counting, the trend remains the same using either methodology.

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**GROWING UNEXPENDED BALANCES
RAISE BUDGET PROCESS ISSUES**

- **FISCAL IMPLICATIONS OF GROWING BALANCES**
- **AGENCIES NOT EXECUTING BUDGETS AS PLANNED**
- **POOR QUALITY OF INFORMATION FOR DECISIONMAKING**
- **OTHER OBSERVATIONS**

MAKEUP OF TOTAL UNEXPENDED BALANCES BY OBLIGATED AND UNOBLIGATED BALANCES



(Billions)

FISCAL YEAR	1978	1979	1980	1981	1982	1983	1984
UNOBLIGATED	\$251.6	\$257.1	\$296.0	\$280.7	\$356.9	\$384.8	\$420.7
OBLIGATED	<u>380.4</u>	<u>431.1</u>	<u>478.1</u>	<u>522.2</u>	<u>487.9</u>	<u>516.3</u>	<u>553.3</u>
UNEXPENDED	<u>\$632.0</u>	<u>\$688.2</u>	<u>\$774.1</u>	<u>\$802.8</u>	<u>\$844.8</u>	<u>\$901.1</u>	<u>\$974.1</u>

Note: Balances may not add to total due to rounding.

Unexpended Balances Have Grown

- They grew from \$632.0 billion in FY 1978 to \$974.1 billion in FY 1984, a 54.1 percent increase.
- The obligated portion has gone from \$380.4 billion in FY 1978 to \$553.3 billion in FY 1984, a 45.5 percent increase.
- The unobligated portion has grown at a greater rate, \$251.6 billion in FY 1978 to \$420.7 billion in FY 1984, a 67.2 percent increase.

ISSUE I

FISCAL IMPLICATIONS OF GROWING BALANCES

IMPACT OF GROWING UNEXPENDED
BALANCES HAS NOT BEEN AS SEVERE AS IT COULD HAVE BEEN

• WHAT IF SPENDOUT RATES

* DECLINE

* STABILIZE

* INCREASE

GROWTH IN BALANCES OF UNEXPENDED (UNLIQUIDATED) BUDGET AUTHORITY AND THEIR FUTURE BUDGET IMPLICATIONS.

The future budget implications of the significant growth in unexpended budget authority--at a time when obligation and spendout rates are on the decline--should raise concern about the fiscal impact of these cumulative resource decisions. The fiscal impact (deficit) of these growing balances has not been as severe as it could and ultimately will be if or when these trends reverse themselves. This is true particularly when we consider the significant increases experienced in various accounts within the civil adjusted balances and Defense.

Fiscal Implications

- Growing unexpended balances represent future spending that may make the task of deficit reduction more difficult.
- The impact of growing unexpended balances has not been as severe as it could have been. This will be true as long as spendout rates continue to decline.
- It is more difficult to predict spendout rates for civil accounts, which react to disasters and economic swings. However, Defense spending patterns have historically been more stable and thus potentially more predictable.
- If DOD's spendout rates had maintained their relative highs of the period, the additional outlays could have increased the deficit.
- To illustrate the potential fiscal impact of stable or increasing spendout rates, the chart below shows what additional outlays could have been if spendout rates for DOD had been equal to their highest rates achieved between FY 1980 and FY 1984.

(millions)

Fiscal year	Procurement	R&D	Military Construction	Total
1982	\$2,192	\$ 652	\$ 944	\$ 3,788
1983	3,809	1,123	941	5,873
1984	7,104	2,565	1,178	10,847

Note: Each functional amount shown includes amounts of the Army, Navy, and Air Force but does not include amounts for the Marine Corps or other Defense agencies. Each fiscal year's total is mutually exclusive.

ISSUE II

AGENCIES NOT EXECUTING BUDGETS AS PLANNED

- ISSUE IS FOCUSED ON DOD
- FOUR BUDGET INDICATORS
 - * ACCURACY OF ESTIMATES
 - * SPENDOUT RATES
 - * OBLIGATION RATES
 - * FINANCIAL ADJUSTMENTS

KEY BUDGET INDICATORS AND THE SUBSTANTIAL GROWTH IN RECENT YEARS OF UNEXPENDED BALANCES RAISE CONCERN REGARDING AGENCIES' ABILITY TO EXECUTE THEIR BUDGETS AS PLANNED.

DOD has been experiencing a slowdown in obligation and spendout rates, with corresponding increases in unobligated balances and financial adjustments. These trends are inconsistent with estimates in budget requests.

Our previous Defense report² raised the issue of whether agencies are able to execute their budgets as planned at a time when they are receiving major increases in budget authority. That report concluded that Defense was basically able to execute its budgets over fiscal years 1972 through 1978 but that an initial adjustment period entailing a fall-off in obligation rates might follow a sizable funding increase. Our prior civil report³ only addressed this issue from the perspective of agencies' estimating practices. Since we can only make observations on specific accounts within civil agencies and not for an agency as a whole, this issue is focused on Defense. Although we believe this issue is applicable to civil agencies, it will be addressed as part of the issue on poor quality of information. (See pages 40-43.)

Trends in Defense

- (1) Inaccuracy in the estimating of unexpended balances (obligated and unobligated ending balances). (See pages 31-32 and 64-65.)
- (2) Declines in spendout rates. (See pages 21 and 33.)
- (3) Declines in obligation rates. (See rate and note on page 21.)
- (4) Increases in financial adjustments.
 - recoveries (See page 34.)
 - reprogrammings (See pages 35-36.)
 - lapses (See page 37.)
 - inflation (See page 38.)

²Analysis of Department of Defense Unobligated Budget Authority, (PAD-78-34, January 1978).

³An Overview of Unobligated Balances in Civil Agencies (PAD-78-48, April 1978).

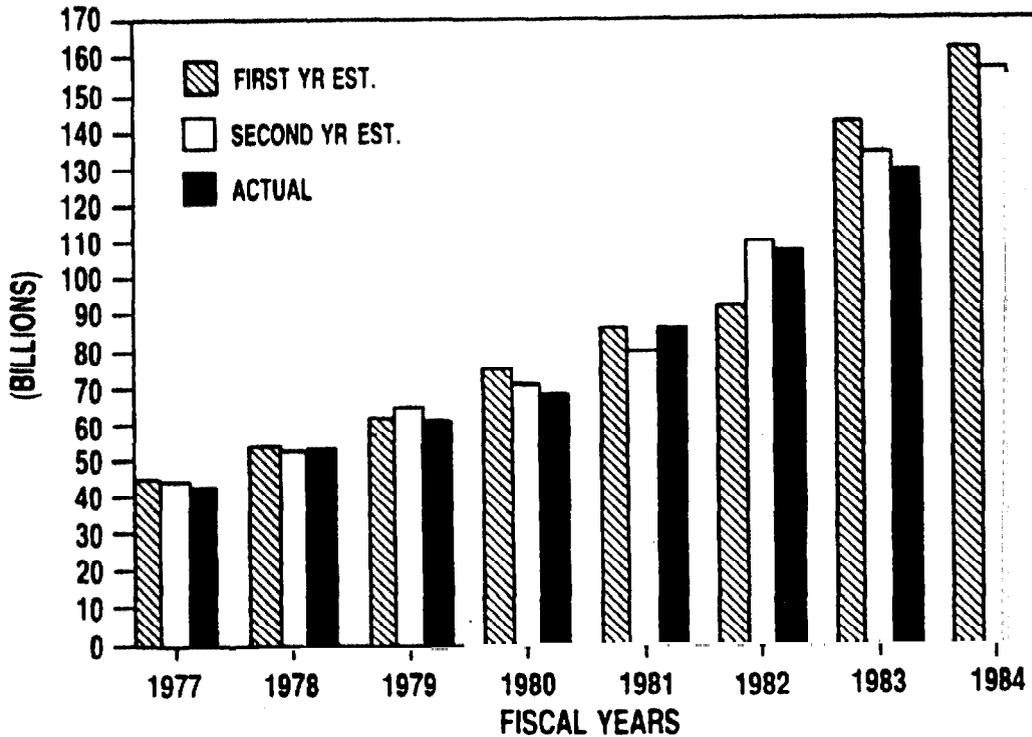
Summary:

The four budget indicators suggest that DOD has had difficulty in absorbing the sustained increases in funding since FY 1980. The stacking-up effect of full funding may affect the three services' ability to execute their budgets as planned to a greater extent than anticipated.

As pointed out in our 1978 Defense report, the "stacking up effect of full funding, involving at any one time balances from several program-year appropriations, produced an automatic growth in unobligated balances prior to FY 1973." At that time, we asserted that after the initial impact of the "stacking up" effect, due to the new concept of full funding, the balances should be examined and explained in terms of program growth and/or a fall-off in obligation rates.

We believe the present fall-off of DOD's obligation and spendout rates and buildup of unobligated balances is, in part, a result of the large sustained increases in funding experienced between fiscal year 1981 and 1984. However, the increased level and types of financial adjustments experienced since the buildup provide indications of potential excess funds.

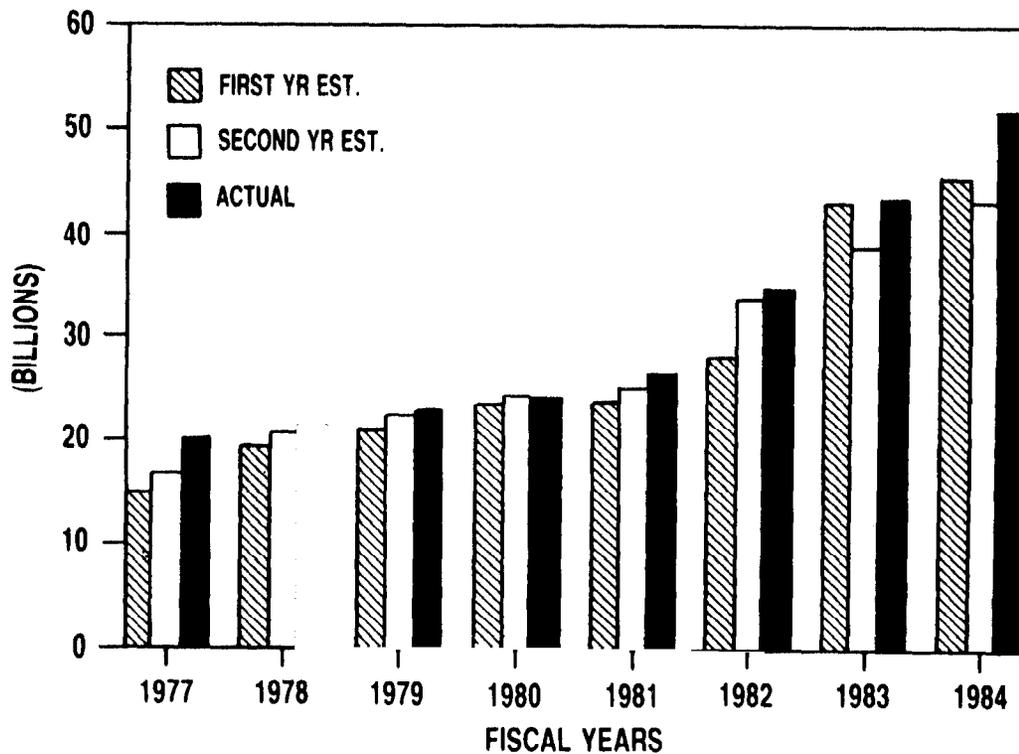
COMPARISON OF DOD'S ACTUAL TO ESTIMATED OBLIGATED BALANCES, FY 77 - FY 84



- DOD first-year estimates were overstated from 1.3 percent to 10.9 percent every year except FY 1982. (See page 64.)
- DOD second-year estimates were overstated from 1.2 percent to 5.6 percent every year except FY 1978 and FY 1981. (See page 64.)
- For fiscal years 1982, 1983, and 1984, second-year estimates were overstated by an average of 2.3 percent, or \$3 billion.

Note based on DOD comment: DOD estimates for obligated and unobligated balances for the fiscal years 1980 through 1983 differ in several instances from the budget appendix due to subsequent amendments. For example, the largest difference pointed out by DOD was the first-year estimate of obligated balances for FY 1982--the budget appendix shows \$92.3 billion, while DOD's records show \$113.4 billion.

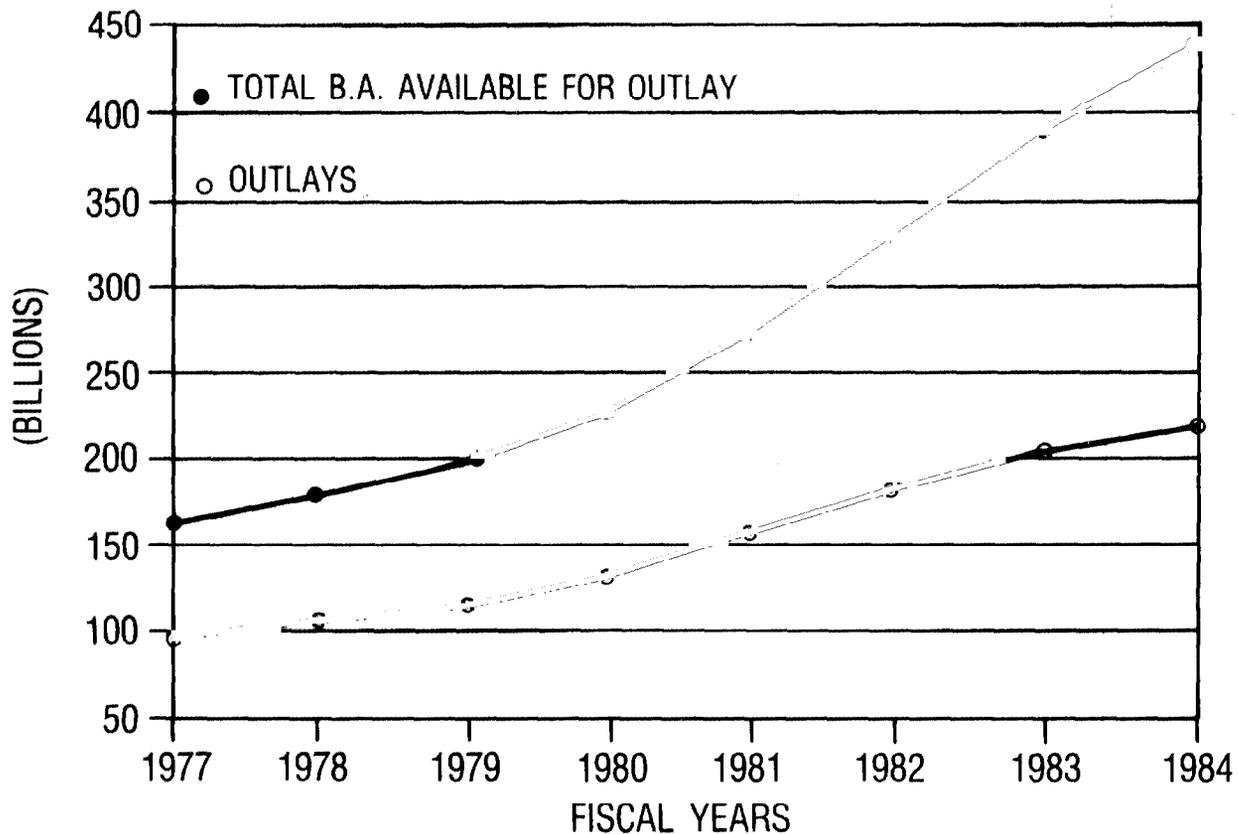
COMPARISON OF DOD'S ACTUAL TO ESTIMATED UNOBLIGATED BALANCES, FY 77 - FY 84



- DOD first-year estimates were understated every year. The range was from 0.7 percent to 26.0 percent. (See page 65.)
- DOD second-year estimates were understated every year, except 1980. The range was from 2.2 percent to 16.7 percent. (See page 65.)
- For fiscal years 1983 and 1984, second-year estimates were understated by 11.3 percent, or \$4.9 billion, and 16.7 percent, or \$8.6 billion, respectively. Second-year estimates were understated more than first-year estimates for both years.

Note: See footnote on page 31.

DOD'S TOTAL BUDGET AUTHORITY AVAILABLE FOR OUTLAY VERSUS ACTUAL OUTLAYS



- Since FY 1977 there has been significant growth in total budget authority available (TBA) for outlays. Between FY 1977 and FY 1984, TBA for outlays increased 169.7 percent, from \$159.7 billion in FY 1977 to \$430.7 billion in FY 1984.
- The relationship between available authority and outlays was relatively constant between FY 1977 and FY 1979. However, since FY 1980 outlays have fallen off in relationship to total budget authority available for outlays.

RECOVERIES OF PRIOR-YEAR OBLIGATIONS

(dollars in millions)

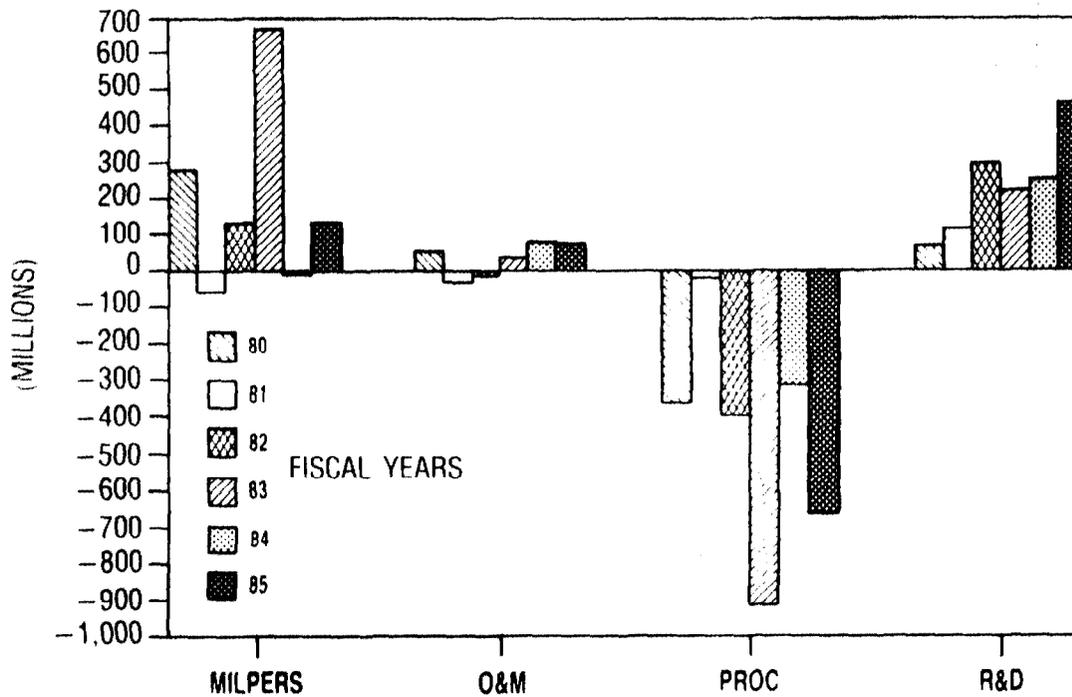
Functional Account	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984
DOD Total	\$1,442	\$ 0	\$ 0	\$ 28	\$ 10	\$1,556	\$1,086	\$1,472
Procurement								
Army	0	0	0	28	1	832	504	815
Navy	0	0	0	0	0	23	54	54
Air Force	0	0	0	0	0	111	390	431
R&D								
Army	0	0	0	0	0	97	25	36
Navy	0	0	0	0	0	21	4	5
Air Force	0	0	0	0	0	3	24	38
Military Construction								
Army	1,441	0	0	0	0	333	1	1
Navy	0	0	0	0	0	8	31	0
Air Force	0	0	0	0	0	15	8	5
Air Force Aircraft Procurement	0	0	0	0	0	97	239	260
Navy Shipbuilding and Conversion	0	0	0	0	0	3	7	7

Note: Schedule includes only three functions and does not include Defense agencies. Therefore, columns will not add to DOD totals.

In FY 1978 and FY 1979, no recoveries occurred. However, there have been significant recoveries over the FY 1980-1984 period. Since FY 1982, recoveries for DOD's three major multiyear functions have averaged over \$1 billion.

REPROGRAMMING GAINS AND LOSSES

NET CHANGE IN FUNCTIONAL TITLES

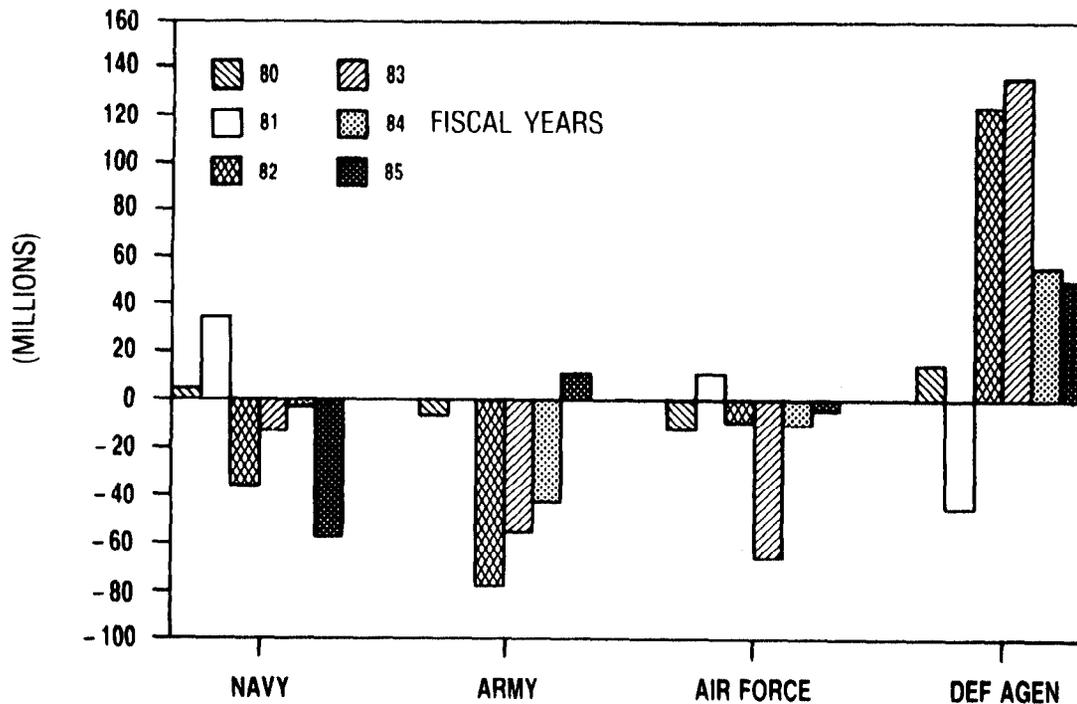


Note: FY 1985 data cover the 10-month period October 1984 through July 1985.

Source: Potential for Excess Funds in DOD (GAO/NSIAD-85-145, September 3, 1985).

- The procurement function has consistently been a source of additional funding for the R&D and military personnel functions.
- These financial adjustments affect the accounts' and functions' ending obligated and unobligated balances.
- The accounts and functions that experienced losses could appear to have done a better job of meeting their unobligated balance estimates.

REPROGRAMMING GAINS AND LOSSES
 NET CHANGE IN MILITARY SERVICES

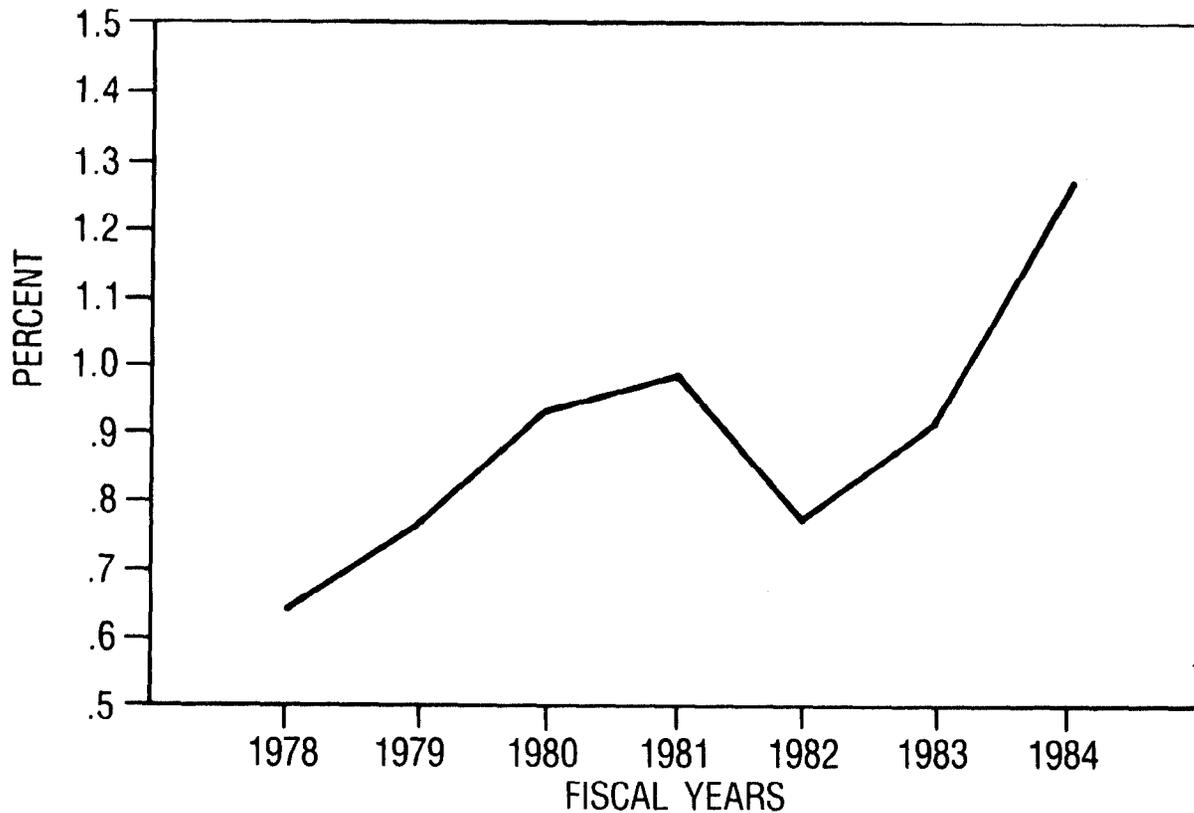


Note: FY 1985 data cover the 10-month period October 1984 through July 1985.

Source: Potential for Excess Funds in DOD (GAO/NSIAD-85-145, September 3, 1985).

- In 5 out of the 6 years, reprogrammings from the three services, particularly Army, have provided Defense agencies with additional funding.
- As reported in GAO/NSIAD-85-145, reprogramming actions in FYs 1980-1985 totaled about \$26 billion. Reprogramming actions have provided DOD with flexibility to reapply funds in excess of program needs. In recent years, less money was reprogrammed to solve program problems and more money was reprogrammed to fund unplanned requirements or other items, primarily classified programs.

PERCENT OF LAPSES TO NEW BUDGET AUTHORITY



Source: Potential for Excess Funds in DOD (GAO/NSIAD-85-145, September 3, 1985).

- Lapses have grown as a percentage of new budget authority, from 0.64 percent in FY 1978 to 1.28 percent in FY 1984. This 1.28 percentage of new budget authority is more significant when considering the base (new budget authority) it applies to, which grew 124 percent in that period.
- The 0.64 percent represented \$742 million in FY 1978, while the 1.28 percent in FY 1984 represented \$3.3 billion.

ESTIMATED INFLATION DIVIDENDS IN DOD BUDGETS

(billions)

Fiscal year	Resulting from overestimates of inflation	Resulting from 1.3 multiplier ^a	Total
1982	\$ 6.6	\$0.0	\$ 6.6
1983	9.0	3.3	12.3
1984	7.5	2.8	10.3
1985	4.5	3.1	7.6
Total	\$27.6	\$9.2	\$36.8

^aIn the fall of 1981, OMB granted permission for DOD to project inflation for major weapon systems at 1.3 times the anticipated increase in the GNP deflator.

Source: Potential for Excess Funds in DOD (GAO/NSIAD-85-145, September 3, 1985).

Inflation

- The Defense budget has grown over 100 percent from FY 1980 to FY 1985. During the period, DOD's requested budget authority was based on estimates of inflation that were higher than the actual inflation rate, thus resulting in an inflation dividend.
- We estimated that since FY 1982 DOD budgeted \$36.8 billion more for inflation than was needed, based on actual inflation experience.

The significant level and dollar value of financial adjustments, along with the inflation dividend, could be indicators of potential excess funds. Excess funds, as well as poor estimating practices, could be contributing to the growth in unexpended balances and the difficulty of services to execute their budgets as planned.

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Issue III

**POOR QUALITY OF INFORMATION
FOR DECISIONMAKING**

- **COMPARABILITY**
- **DISCLOSURE**
- **ACCURACY**

INFORMATION ON BUDGET REQUIREMENTS AND RESULTS ARE INSUFFICIENT FOR PERFORMING EFFECTIVE OVERSIGHT.

Many agencies' budget requests are based on estimates that tend to overstate their ability to obligate or use their authority and to understate ending unobligated balances. We believe these consistent misestimates contribute to the unanticipated buildups in unexpended balances and poor quality of information policymakers rely on for resource allocation decisions.

Because the budget is both a policy and fiscal document, the budget documents themselves are not sufficiently useful as a management tool. A policymaker or manager will not find any single year's budget documents to be a straightforward blueprint of what an agency requested compared to what it received and accomplished in any given year. To gain any perspective on what an agency requested, received, and accomplished requires a significant level of analysis and expertise on federal budget and accounting practices. To get basic information on what an agency requested and received will require the analysis of sets of budget documents from three different fiscal years. Even then, one will have very little on actual accomplishment of programs to compare against expenditures or any other financial measure.

Given the fact that extensive analysis must be performed to obtain information necessary for effective oversight, further problems exist regarding the quality of budget information presented. Problems arise in the areas of:

- Comparability. In order to facilitate a comparison of data between years, information must be presented in a consistent manner.
- Disclosure. Adequate explanation should be provided to account for material changes in presentation or reclassification of items.
- Accuracy. A critical element of good budgeting is the ability to accurately estimate budget requirements. The accuracy of estimates can significantly affect the quality of information decisionmakers have to make resource allocation decisions.

The following examples illustrate some of the problems which affect the quality of budget information.

- Until the FY 1985 budget, NASA's space shuttle was included in the R&D account. However, beginning with the FY 1985 budget, the space shuttle was removed from this R&D account and placed in a separate account.

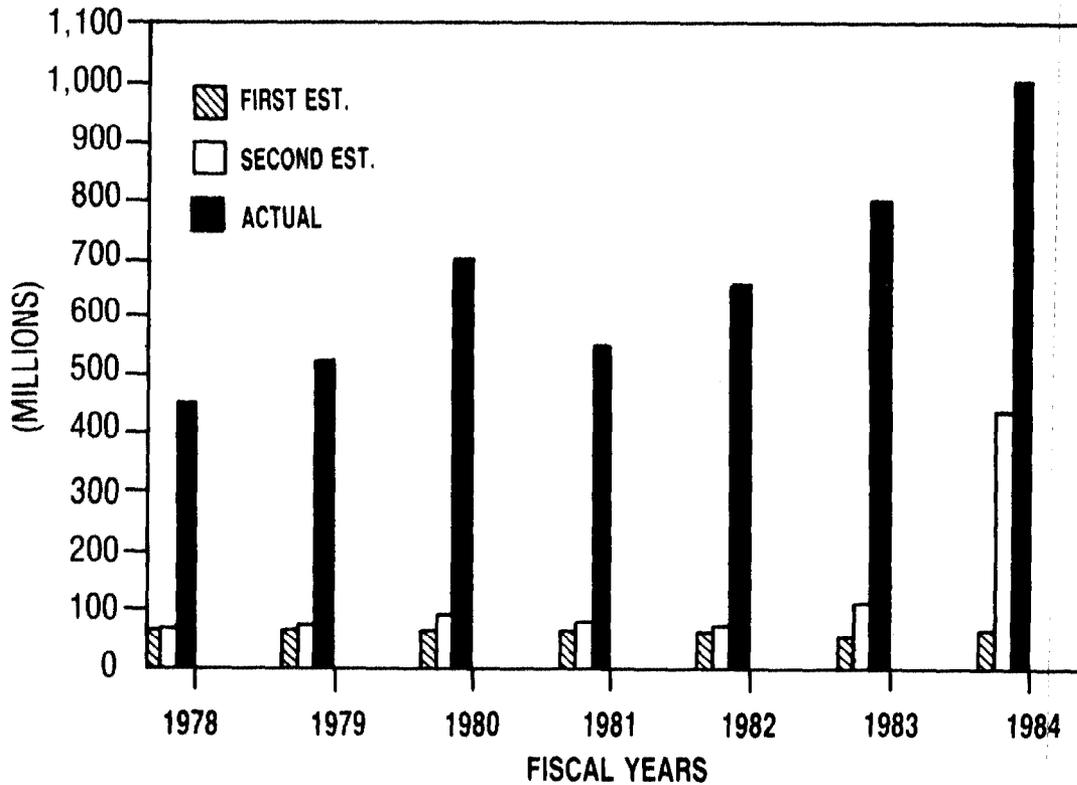
- In FY 1982, HUD's Subsidized Housing Programs, on the basis of a GAO directive, transferred \$60.1 billion from obligated to unobligated balances. No disclosure for this change was provided in the budget.
- The FY 1983 budget proposed the abolishment of the Department of Energy (DOE). When the budget is used as a policy document, its usefulness as a fiscal document is hindered. For example, in the proposed abolishment, DOE's programs and activities were transferred to other departments and agencies. Therefore, the ability to track and compare its accounts was hindered.
- Through FY 1983, the DOD appropriation account "Retired Pay" was classified as a DOD military personnel account, while beginning in FY 1984 it was classified as a DOD civilian account. This represented \$16.5 billion in budget authority and \$40.5 million in obligations which had to be adjusted for in order to compare 1983 and 1984 data.
- Budget data often do not include intermediate levels of detail necessary to track funds. For example, in the budget appendix for DOD there is no accumulation of data by service or by functional totals. The budget appendix contains a DOD total and totals on specific appropriations accounts. However, an intermediate level of detail can only be derived through extensive analysis. Such intermediate levels could be helpful to perform trend analysis for oversight.
- Accuracy of budget information is sometimes questionable because such information is often based on poor estimates. For example, estimates of the unexpended balances for civil agencies were found to be
 - Consistently understated for the unobligated balances, except for the first-year estimate for FY 1981. First-year underestimates averaged 14.5 percent, while second-year underestimates averaged 6.9 percent. (See page 58.)
 - Consistently overstated for the obligated balances, except for the first-year estimate in FY 1978 and the second-year estimate in FY 1984. First-year overestimates averaged 4.3 percent, while second-year overestimates averaged 3.4 percent. (See page 57.)
 - Some agencies continually underestimated their unobligated balances by large percentages for FY 1978 through FY 1984. The averages of some of the worst cases were:

NASA understated by 82 percent. (See page 44.)
Defense/Civil understated by 50 percent.
(See page 45.)
Justice understated by 52 percent. (See page 46.)

Summary

Because budget information is sometimes of poor quality, it is difficult to perform effective oversight and make the best informed resource allocation decisions. We believe the quality of financial information is affected significantly by the lack of integration of the budget and accounting systems in the federal government. Overall, our financial management systems and the data needed to carry out effective oversight and day-to-day management have many deficiencies. These and other governmentwide financial management problems are outlined in greater detail in our published report entitled Managing the Cost of Government: Building an Effective Financial Management Structure (GAO/APMD-85-35 and 85-35A, February 1985).

ACCURACY OF ESTIMATES—NASA UNOBLIGATED BALANCES



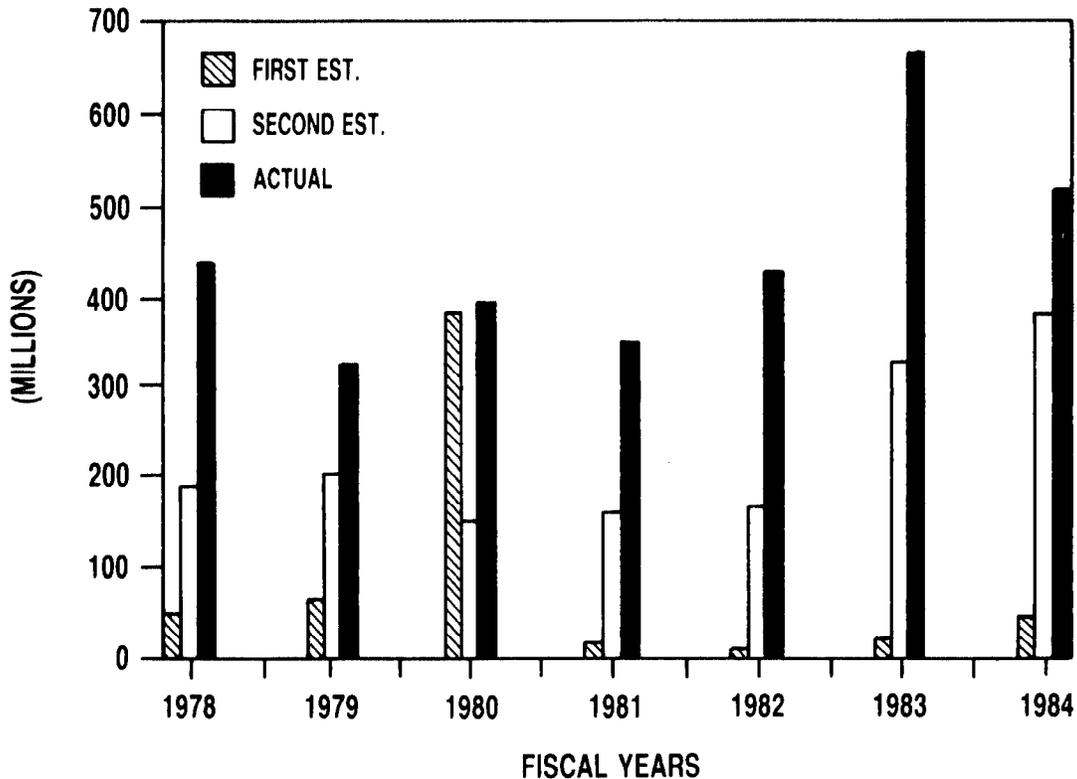
- NASA's estimates for unobligated balances, whether for first or second year, were understated.

Average Percent Difference From Actual Balance

<u>Fiscal years</u>	<u>First estimate</u>	<u>Second estimate</u>
1972-1977	-93	-82
1978-1984	-89	-82

- NASA's first-year estimates are only slightly better than previous work, but improvement is not significant in comparison to how far it is consistently off.

**ACCURACY OF ESTIMATES—DEFENSE/CIVIL
UNOBLIGATED BALANCES**



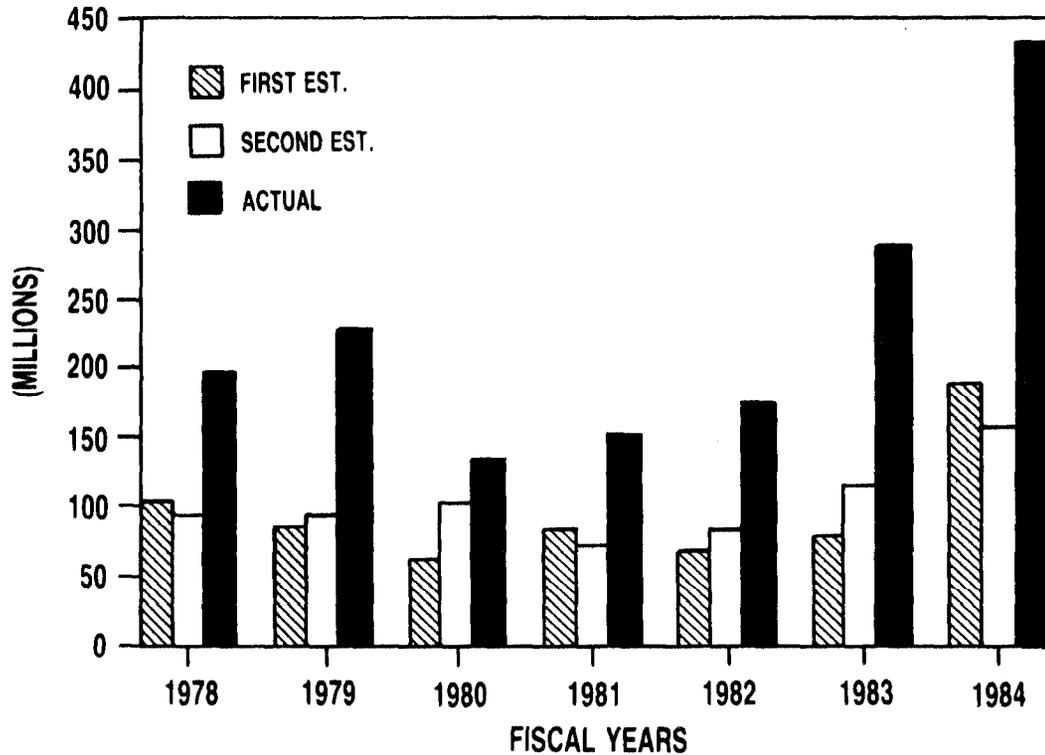
- Every year for the last 7 years, Defense/Civil's estimates for unobligated balances have been understated.
- The FY 1980 first estimate was almost on target, yet the second estimate was significantly understated.

Average Percent Difference From Actual Balance

<u>Fiscal years</u>	<u>First estimate</u>	<u>Second estimate</u>
1972-1977	-90	-36
1978-1984	-79	-50

- If FY 1980 was eliminated from the total, the average misestimate for first-year estimates would be -92 percent.
- During the period FY 1978 through FY 1984, second-year estimates for Defense/Civil have, on the average, been less accurate than the previous 6 years.

**ACCURACY OF ESTIMATES—DEPARTMENT OF JUSTICE
UNOBLIGATED BALANCES**



- The Department of Justice has consistently underestimated its unobligated balances.

Average Percent Difference From Actual Balance

<u>Fiscal years</u>	<u>First estimate</u>	<u>Second estimate</u>
1972-1977	-76	-60
1978-1984	-57	-52

- While still significantly off mark, the Department of Justice's estimates for unobligated balances for FYs 1978-1984 have been on the average more accurate than the estimates made for FYs 1972-1977.

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ISSUE IV

OTHER OBSERVATIONS

- **FOREIGN CURRENCY FLUCTUATION ACCOUNTS**

- **EPA CONSTRUCTION GRANTS**

- **FEDERAL PRISON INDUSTRIES' UNOBLIGATED BALANCES**

DOD'S FOREIGN CURRENCY FLUCTUATION ACCOUNT ACTIVITY HAS GROWN SIGNIFICANTLY. THIS ISSUE IS SIMILAR TO THE INFLATION ISSUE.

Governmentwide, there are many agencies with special programs that are affected by foreign currency fluctuations. Most of the programs are involved in construction, research, agriculture assistance, operations and maintenance activities (O&M), personnel costs, and education.

One account that we looked at in DOD was the Foreign Currency Fluctuation account. The account was created to provide the Secretary of Defense the ability to deal with currency fluctuations without seeking supplemental appropriations. Through this account, the Secretary can transfer out funds to meet downward fluctuations (unfavorable) in the exchange rate or transfer in funds from the O&M accounts when upward fluctuations (favorable) occur.

We made the following observations regarding this particular account:

- Funds transferred from specific O&M accounts that are one-year funds are merged and become no-year funds.
- DOD recently argued in hearings that the \$970 million cap on the account applies only to certain unobligated balances unrelated to currency transactions and they intended to, or believe they can, exceed this cap by transferring in other sources of funds.
- There has been considerable movement in and out of this account over its 7-year history regardless of whether the foreign currencies variances have been favorable or unfavorable.

Summary

The observations on this special account raise budget concept, accountability, and control issues that have governmentwide applicability. Some of the issues we believe should be addressed are:

- What is the basis of agency estimating practices for foreign currency fluctuations?
- How do agencies identify and recapture surplus funds during periods of favorable exchange rates?
- How do agencies control and account for the transfers or reprogramming of funds due to favorable or unfavorable variances?

- What should be the appropriate cap for special accounts, such as DOD's Foreign Currency Fluctuation account, and what should its basis be?
- What authority and/or flexibility do agencies have for increasing the cap by transferring in budget authority (or any other mechanism such as reprogramming and transfer thresholds)?
- How do other agencies with similar currency fluctuation accounts operate and control these accounts?

EPA'S CONSTRUCTION GRANT ACCOUNT HAS CONSISTENTLY HAD LARGE RECOVERIES.

The EPA Construction Grants account is used to make grants to local public agencies for construction of municipal wastewater treatment facilities. In FY 1978, this account had unobligated balances of \$3.7 billion. However, the unobligated balances have declined to \$613 million in FY 1984. As would be expected with a rapid decline in unobligated balances, the obligation rate for this account has rapidly increased over this time period. In FY 1978, the account's obligation rate was 43.8 percent, while in FY 1984 it was 85.8 percent. However, in our recently issued report--Federal Year-End Spending Patterns for Fiscal Years 1982, 1983, and 1984 (GAO/AFMD-85-75, revised November 4, 1985)--we noted that according to Treasury reports, EPA obligated over 44 percent of its total grant money in the fourth quarter of FYs 1982, 1983, and 1984. Over 90 percent of EPA's obligations in the grant object class come from EPA's Construction Grants account.

This account had the largest amount of recoveries of any account in our adjusted civil balances sample. Listed below are the recoveries the account has experienced in the last 7 years.

FY	Gross obligations (millions)	Recoveries (millions)	Recoveries as a percent of gross obligations
1978	\$2,860	\$474	17
1979	4,257	378	9
1980	4,673	297	6
1981	3,942	330	8
1982	2,117	682	32
1983	3,737	544	15
1984	3,717	685	18

Summary

This civil account raises the same issue of possible excess funds as may be suggested by the increase in recoveries Defense has experienced. Defense has had major growth in recoveries over the FY 1980-1984 period. (See page 34.) However, unlike Defense, this account has seen its unobligated balance decline dramatically. Thus, the question that may be more appropriate to address is the legitimacy of the obligations being made in the first place.

FEDERAL PRISON INDUSTRIES HAS SIGNIFICANT LEVELS OF UNOBLIGATED BALANCES.

The Federal Prison Industries, Incorporated account provides funding to the Federal Prison Industries (FPI), a wholly owned government corporation created by the Congress in 1934. The FPI account was one of the 23 accounts in our sample. We noted that for the past 7 years (FYs 1978-1984) the account's percentage of unobligated balances to its total funds available for obligation never dropped below 32 percent. During this same time period, the total funds available for obligation increased from \$158 million to \$305 million--a 93 percent increase in total funds available for obligation. The \$112 million in unobligated balances in FY 1984 for this account made up 26 percent of the total unobligated balances in the Department of Justice.

The account receives no direct appropriations from the Congress. As an intragovernmental fund, it recovers its funding from collections from other federal agencies in exchange for its goods and services.

Any profits generated by the corporation in excess of its capital projects, program funding, or other strategic requirements may be returned to the Treasury. Since its inception, FPI has returned a total of \$82 million of retained income in excess of the corporation's needs. The last payment was in 1970, when \$5 million was returned to the Treasury.

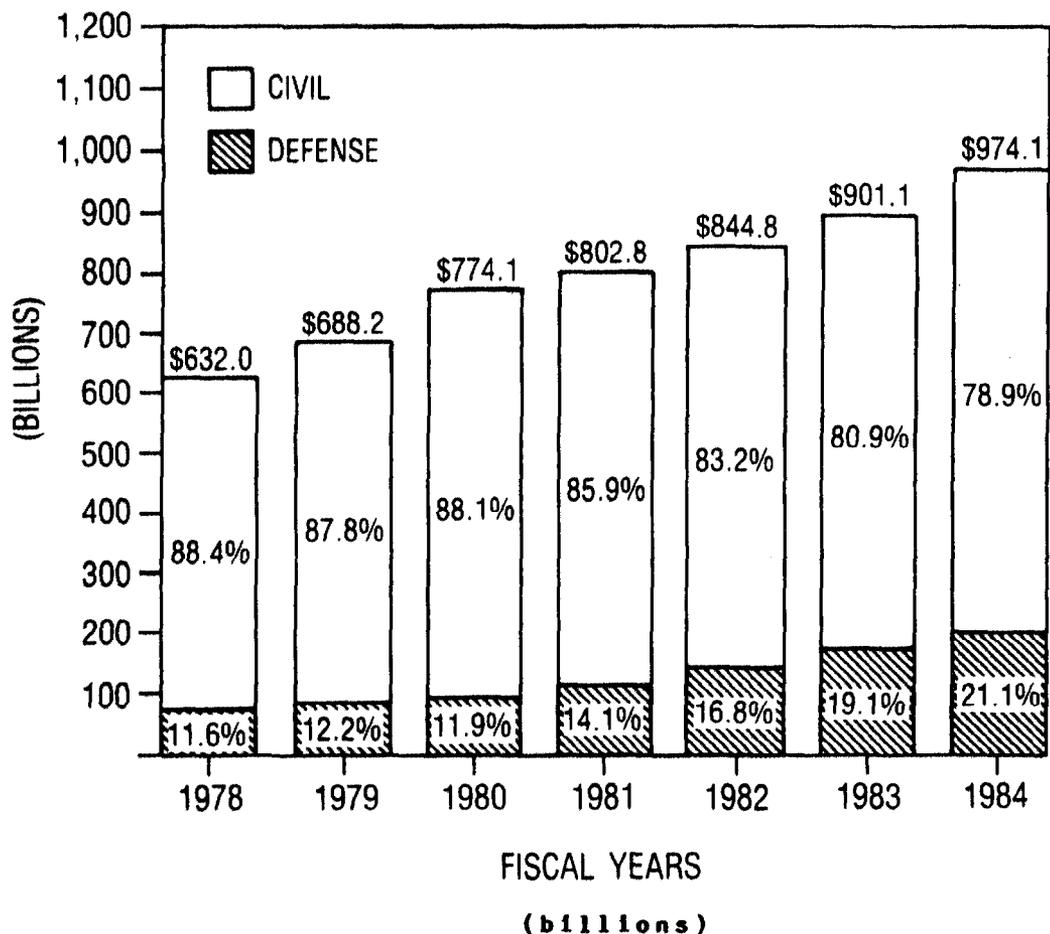
Summary

These sustained high levels of unobligated balances may indicate excess profits from collections from other federal agencies.

DETAILED SCHEDULES AND GRAPHS SHOWING
OVERALL TRENDS

-
- GOVERNMENTWIDE TRENDS
 - CIVIL TRENDS
 - DOD TRENDS

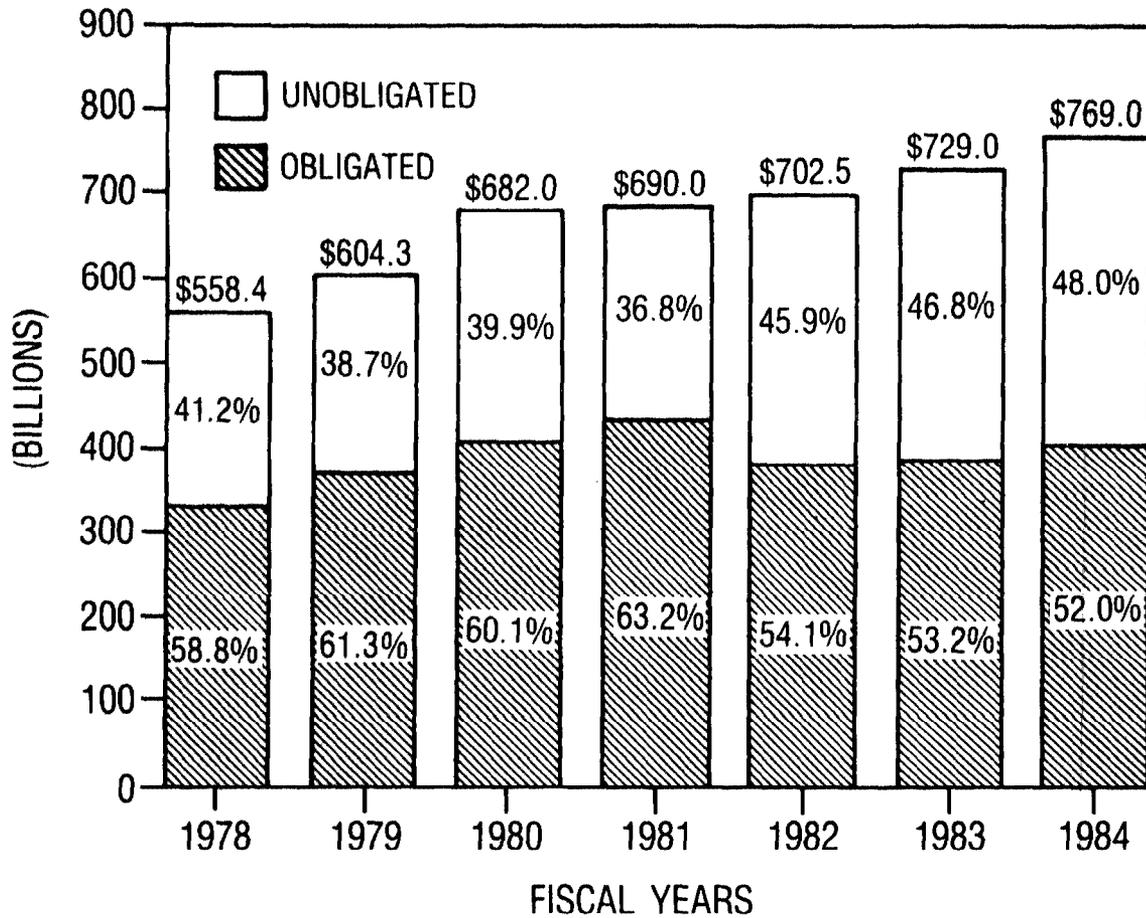
MAKEUP OF TOTAL UNEXPENDED BALANCES BY CIVIL AND DEFENSE



FISCAL YEAR	1978	1979	1980	1981	1982	1983	1984	1981 - 1984 average percent increase
DEFENSE								
RATE OF INCREASE	N/A	14%	9.9%	22.5%	26.0%	21.0%	19.2%	22.2%
AMOUNT	\$ 73.6	\$ 83.9	\$ 92.2	\$112.9	\$142.2	\$172.1	\$205.1	
CIVIL								
RATE OF INCREASE	N/A	8.2%	12.9%	1.2%	1.8%	3.8%	5.5%	3.1%
AMOUNT	\$558.4	\$604.3	\$682.0	\$690.0	\$702.5	\$729.0	\$769.0	
UNEXPENDED	\$632.0	\$688.2	\$774.1	\$802.8	\$844.8	\$901.1	\$974.1	

Note: Balances may not add to total due to rounding.

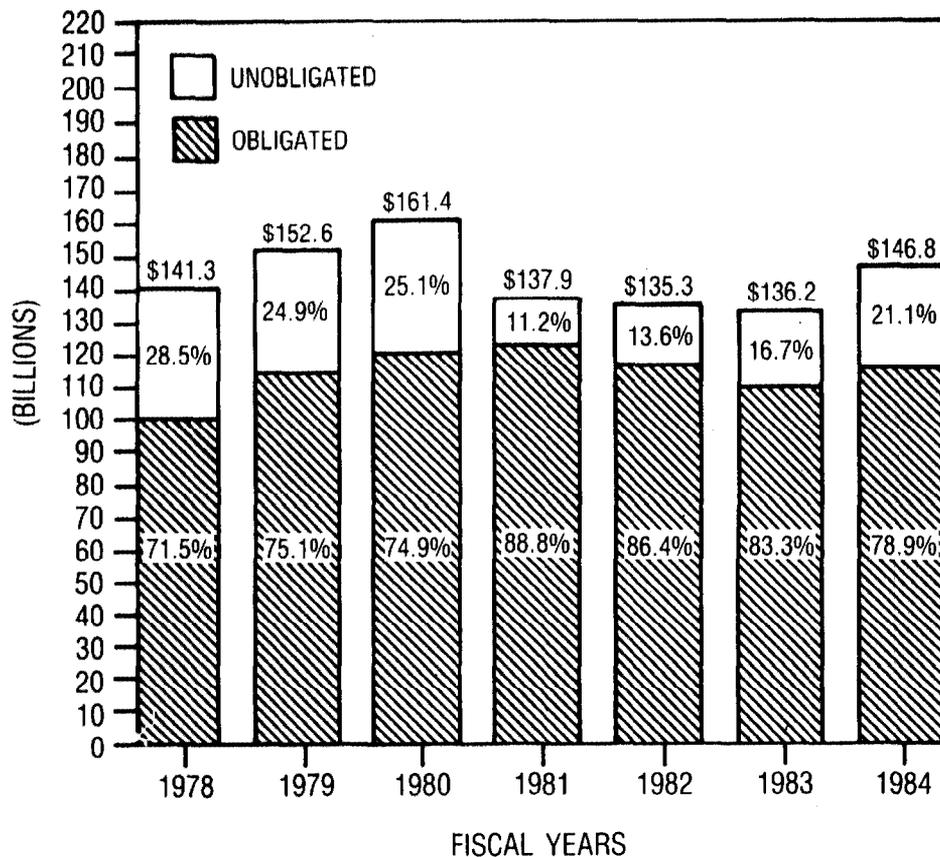
CIVIL UNEXPENDED BALANCES



(billions)

Fiscal year	1978	1984	1978 - 1984	
			\$ Increase	(Percent)
UNOBLIGATED	\$230.3	\$369.1	\$138.8	(60.3%)
OBLIGATED	<u>328.1</u>	<u>399.9</u>	<u>71.8</u>	(21.9%)
UNEXPENDED	<u>\$558.4</u>	<u>\$769.0</u>	<u>\$210.6</u>	(37.7%)

ADJUSTED CIVIL UNEXPENDED BALANCES



(billions)

FISCAL YEAR	1978	1979	1980	1981	1982	1983	1984	Percent change 1981 - 1984
ADJUSTED CIVIL BALANCES UNOBLIGATED	\$ 40.3	\$ 38.0	\$ 40.5	\$ 15.5	\$ 18.4	\$ 22.8	\$ 31.0	100.0%
ADJUSTED CIVIL BALANCES OBLIGATED	<u>101.0</u>	<u>114.6</u>	<u>120.9</u>	<u>122.4</u>	<u>116.9</u>	<u>113.4</u>	<u>115.8</u>	-5.4%
ADJUSTED CIVIL BALANCES UNEXPENDED	<u><u>\$141.3</u></u>	<u><u>\$152.6</u></u>	<u><u>\$161.4</u></u>	<u><u>\$137.9</u></u>	<u><u>\$135.3</u></u>	<u><u>\$136.2</u></u>	<u><u>\$146.8</u></u>	6.5%

**CIVIL ACTUAL AND ESTIMATED OBLIGATED BALANCES,
FY 1978 - FY 1984**

(billions)

FISCAL YEAR	1978	1979	1980	1981	1982 ^a	1983	1984
First estimate	\$298.2	\$393.5	\$424.3	\$463.2	\$500.6	\$407.6	\$404.1
Actual	<u>328.1</u>	<u>370.2</u>	<u>410.2</u>	<u>435.9</u>	<u>380.3</u>	<u>387.6</u>	<u>401.9</u>
\$ Difference	<u>\$-29.9</u>	<u>\$ 23.3</u>	<u>\$ 14.1</u>	<u>\$ 27.3</u>	<u>\$120.3</u>	<u>\$ 20.0</u>	<u>\$ 2.2</u>
Percentage difference	-9.1%	6.3%	3.4%	6.3%	31.6%	5.2%	0.5%
Second estimate	\$341.8	\$382.0	\$417.8	\$463.5	\$422.6	\$393.7	\$396.1
Actual	<u>328.1</u>	<u>370.2</u>	<u>410.2</u>	<u>435.9</u>	<u>380.3</u>	<u>387.6</u>	<u>401.9</u>
\$ Difference	<u>\$ 13.7</u>	<u>\$ 11.8</u>	<u>\$ 7.6</u>	<u>\$ 27.6</u>	<u>\$ 42.3</u>	<u>\$ 6.1</u>	<u>\$ -5.8</u>
Percentage difference	4.2%	3.2%	1.9%	6.3%	11.1%	1.6%	-1.4%

^aIn FY 1982, the Department of Housing and Urban Development adjusted its actual ending balances by approximately \$60 billion. Because this adjustment materially distorts the computation of average misestimates, FY 1982 figures were excluded from our analysis.

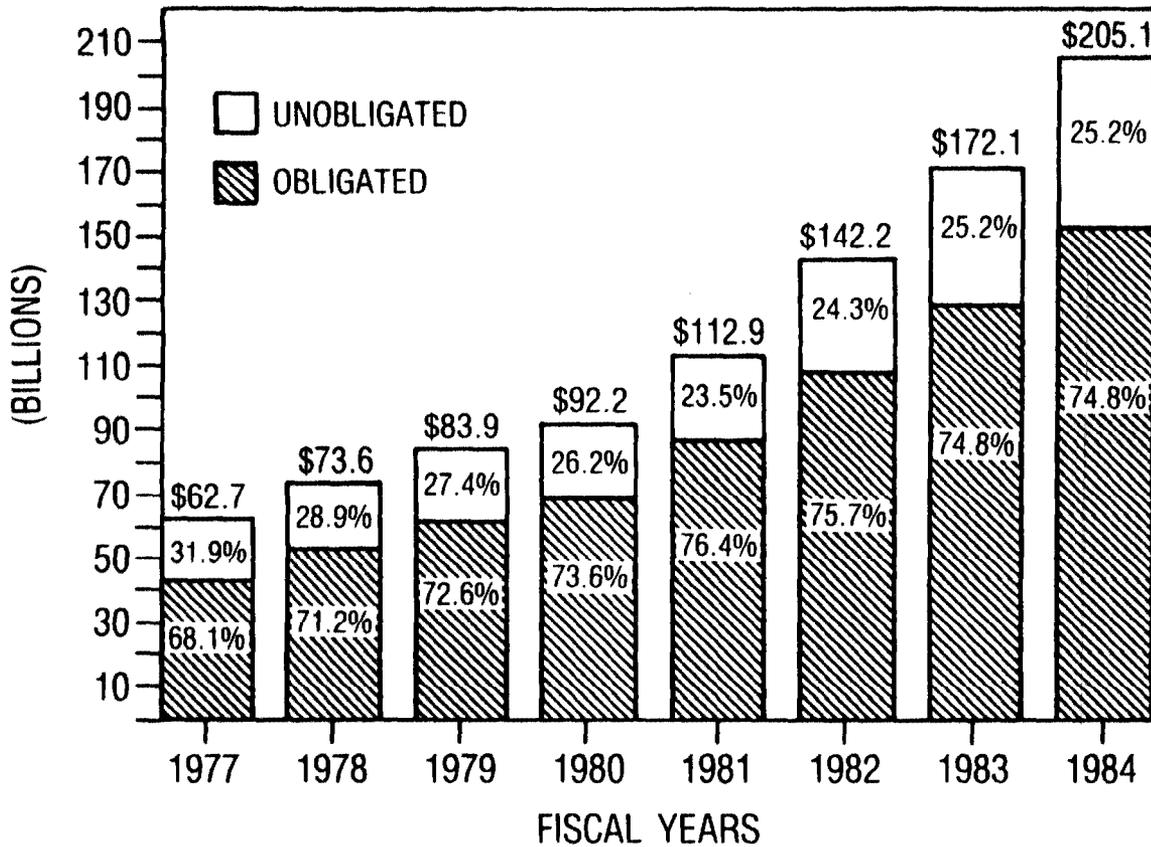
**CIVIL ACTUAL AND ESTIMATED UNOBLIGATED BALANCES,
FY 1978 - FY 1984**

(billions)

FISCAL YEAR	1978	1979	1980	1981	1982 ^a	1983	1984
First estimate	\$197.3	\$203.3	\$243.8	\$273.5	\$251.4	\$276.8	\$310.4
Actual	<u>230.3</u>	<u>234.1</u>	<u>271.8</u>	<u>254.1</u>	<u>322.2</u>	<u>341.4</u>	<u>369.1</u>
\$ Difference	<u>\$-33.0</u>	<u>\$-30.8</u>	<u>\$-28.0</u>	<u>\$ 19.4</u>	<u>\$-70.8</u>	<u>\$-64.6</u>	<u>\$-58.7</u>
Percentage difference	-14.3%	-13.2%	-10.3%	7.6%	-22.0%	-18.9%	-15.9
Second estimates	\$199.7	\$215.3	\$262.7	\$239.5	\$264.8	\$315.3	\$356.2
Actual	<u>230.3</u>	<u>234.1</u>	<u>271.8</u>	<u>254.1</u>	<u>322.2</u>	<u>341.4</u>	<u>369.1</u>
\$ Difference	<u>\$-30.6</u>	<u>\$-18.8</u>	<u>\$ -9.1</u>	<u>\$-14.6</u>	<u>\$-57.4</u>	<u>\$-26.1</u>	<u>\$-12.9</u>
Percentage difference	-13.3%	- 8.0%	- 3.3%	- 5.7%	-17.8%	- 7.6%	-3.5%

^aIn FY 1982, the Department of Housing and Urban Development adjusted its actual ending balances by approximately \$60 billion. Because this adjustment materially distorts the computation of average misestimates, FY 1982 figures were excluded from our analysis.

MAKEUP OF DOD'S UNEXPENDED BALANCES FOR FISCAL YEARS 1977 THROUGH 1984

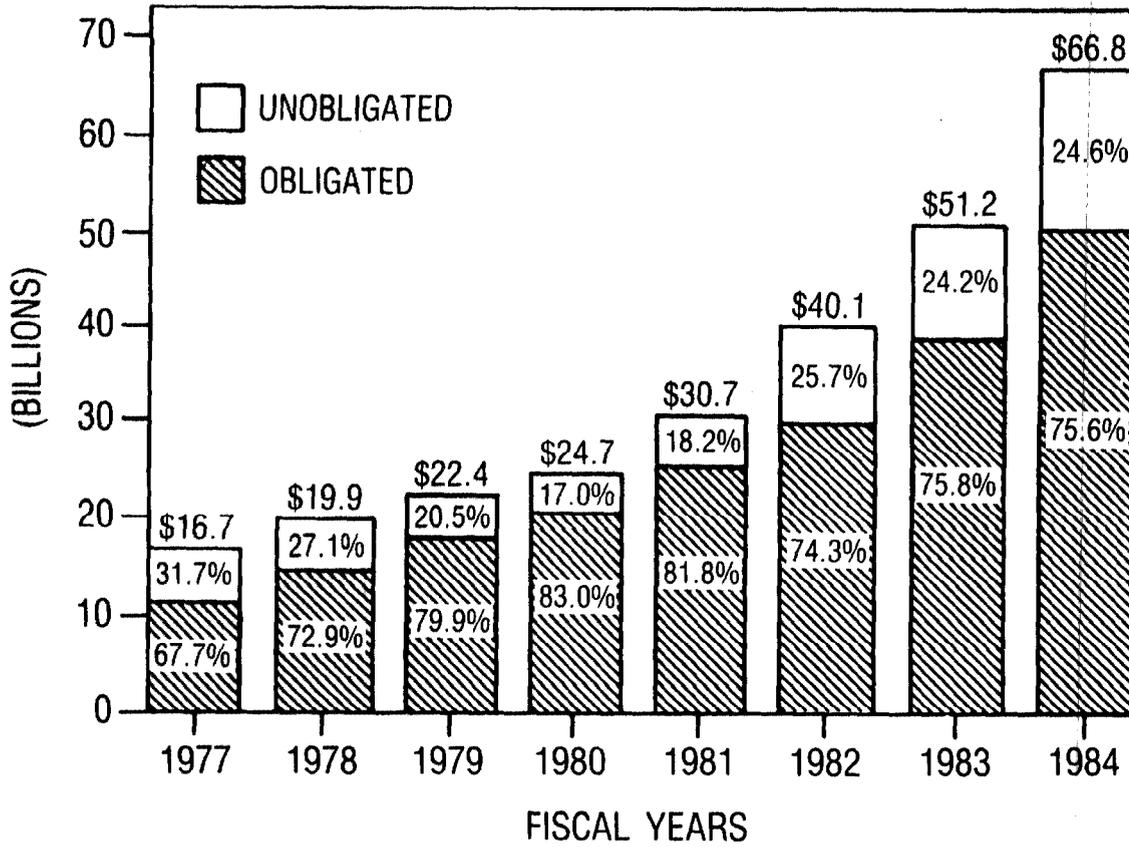


(billions)

FISCAL YEAR	1977	1978	1979	1980	1981	1982	1983	1984	1981 - 1984	
									\$ Increase	(Percent)
UNOBLIGATED	\$20.0	\$21.3	\$23.0	\$24.2	\$26.5	\$34.6	\$43.4	\$51.6	\$25.1	(94.7%)
OBLIGATED	<u>42.7</u>	<u>52.4</u>	<u>60.9</u>	<u>67.9</u>	<u>86.3</u>	<u>107.6</u>	<u>128.7</u>	<u>153.5</u>	<u>67.2</u>	(77.9%)
UNEXPENDED	\$62.7	\$73.6	\$83.9	\$92.2	\$112.9	\$142.2	\$172.1	\$205.1	\$92.2	(81.7%)

Note: Balances and/or percentages may not add to total due to rounding.

MAKEUP OF AIR FORCE'S UNEXPENDED BALANCES

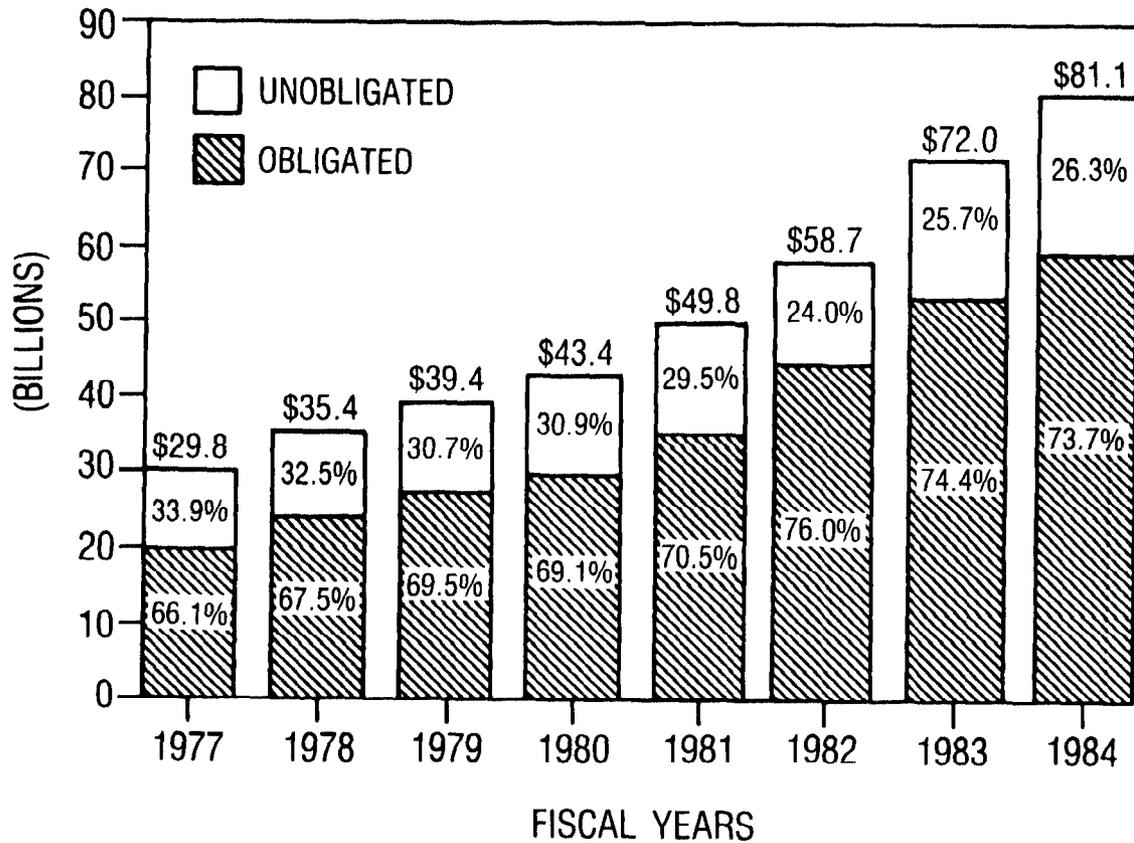


(billions)

FISCAL YEAR	1977	1978	1979	1980	1981	1982	1983	1984	1977 - 1984	
									\$ Increase	(Percent)
UNOBLIGATED	\$ 5.3	\$ 5.4	\$ 4.6	\$ 4.2	\$ 5.6	\$10.3	\$12.4	\$16.4	\$11.1	(209.4%)
OBLIGATED	<u>11.3</u>	<u>14.5</u>	<u>17.9</u>	<u>20.5</u>	<u>25.1</u>	<u>29.8</u>	<u>38.8</u>	<u>50.5</u>	<u>39.2</u>	(346.9%)
UNEXPENDED	\$16.7	\$19.9	\$22.4	\$24.7	\$30.7	\$40.1	\$51.2	\$66.8	\$50.1	(300.0%)
	=====	=====	=====	=====	=====	=====	=====	=====	=====	

Note: Balances and/or percentages may not add to total due to rounding.

MAKEUP OF NAVY'S UNEXPENDED BALANCES



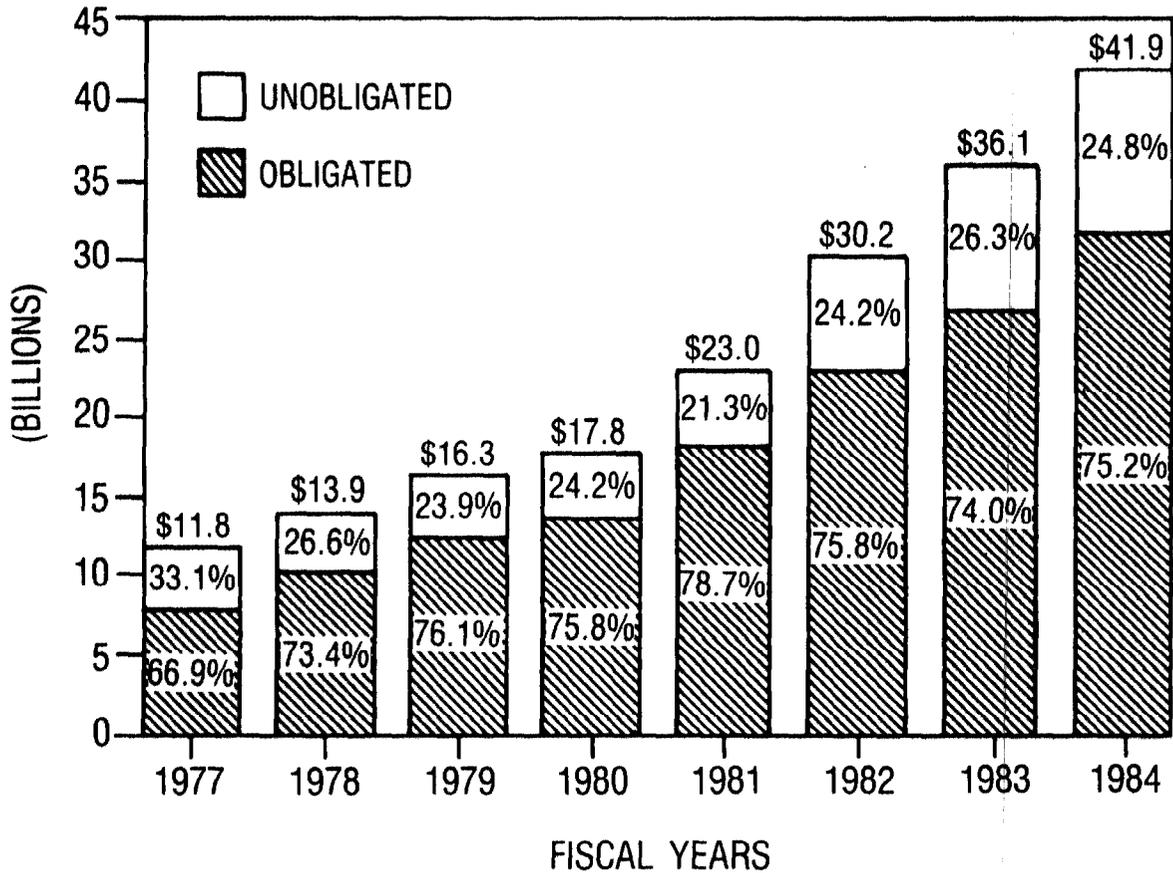
(billions)

FISCAL YEAR	1977	1978	1979	1980	1981	1982	1983	1984	1977 - 1984	
									\$ Increase	(Percent)
UNOBLIGATED	\$10.1	\$11.5	\$12.1	\$13.4	\$14.7	\$14.1	\$18.5	\$21.3	\$11.2	(110.9%)
OBLIGATED	<u>19.7</u>	<u>23.9</u>	<u>27.4</u>	<u>30.0</u>	<u>35.1</u>	<u>44.6</u>	<u>53.6</u>	<u>59.8</u>	<u>40.1</u>	(203.6%)
UNEXPENDED	<u>\$29.8</u>	<u>\$35.4</u>	<u>\$39.4</u>	<u>\$43.4</u>	<u>\$49.8</u>	<u>\$58.7</u>	<u>\$72.0</u>	<u>\$81.1</u>	<u>\$51.3</u>	(172.2%)

Notes: Balances and/or percentages may not add to total due to rounding.

Data on Navy's unexpended balances exclude the Marine Corps.

MAKEUP OF ARMY'S UNEXPENDED BALANCES



(billions)

FISCAL YEAR	1977	1978	1979	1980	1981	1982	1983	1984	1977 - 1984	
									\$ Increase	(Percent)
UNOBLIGATED	\$ 3.9	\$ 3.7	\$ 3.9	\$ 4.3	\$ 4.9	\$ 7.3	\$ 9.5	\$ 10.4	\$ 6.5	(166.7%)
OBLIGATED	<u>7.9</u>	<u>10.2</u>	<u>12.4</u>	<u>13.5</u>	<u>18.1</u>	<u>22.9</u>	<u>26.7</u>	<u>31.5</u>	<u>23.6</u>	(298.7%)
UNEXPENDED	\$ 11.8	\$ 13.9	\$ 16.3	\$ 17.8	\$ 23.0	\$ 30.2	\$ 36.1	\$ 41.9	\$ 30.1	(255.1%)

Note: Balances and/or percentages may not add to total due to rounding.

DOD-MILITARY'S OUTLAYS AND NEW BUDGET AUTHORITY

(billions)

<u>Fiscal year</u>	<u>Outlays</u>	<u>New budget authority</u>
1977	\$ 95.6	\$108.4
1978	103.0	115.3
1979	115.0	125.0
1980	132.8	142.6
1981	156.1	178.4
1982	182.8	213.8
1983	205.0	239.5
<u>1984</u>	<u>220.8</u>	<u>258.2</u>

1984	\$220.8	\$258.2
1977	<u>95.6</u>	<u>108.4</u>
\$ Increase	<u>\$125.2</u>	<u>\$149.8</u>
Percentage increase	131.0%	138.2%

BALANCES OF NEW BUDGET AUTHORITY AND INCREASES FOR THREE
MILITARY SERVICES BETWEEN FY 1977 and FY 1984

(billions)

<u>Fiscal year</u>	<u>Army</u>	<u>Navy^a</u>	<u>Air Force</u>
1984	\$ 62.4	\$ 75.2	\$ 86.3
1977	<u>26.7</u>	<u>33.5</u>	<u>32.0</u>
\$ Increase	<u>\$ 35.7</u>	<u>\$ 41.7</u>	<u>\$ 54.3</u>
Percentage Increase	133.7%	124.5%	169.7%

^a Data on Navy's Unexpended Balances exclude the Marine Corps.

**DOD-MILITARY'S ACTUAL AND ESTIMATED OBLIGATED
BALANCES, FY 1977 - 1984**

(billions)

FISCAL YEAR	1977	1978	1979	1980	1981	1982	1983	1984
First estimate	\$45.0	\$53.8	\$61.7	\$75.3	\$86.4	\$ 92.3	\$142.0	\$161.6
Actual	<u>42.7</u>	<u>52.4</u>	<u>60.9</u>	<u>67.9</u>	<u>86.3</u>	<u>107.6</u>	<u>128.7</u>	<u>153.5</u>
\$ Difference	\$ 2.3	\$ 1.4	\$ 0.8	\$ 7.4	\$ 0.1	\$-15.3	\$ 13.3	\$ 8.1
Percentage difference	5.4%	2.7%	1.3%	10.9%	0.1%	-14.2%	10.3%	5.3%
Second estimate	\$44.2	\$51.8	\$64.3	\$70.4	\$79.7	\$109.7	\$133.8	\$155.4
Actual	<u>42.7</u>	<u>52.4</u>	<u>60.9</u>	<u>67.9</u>	<u>86.3</u>	<u>107.6</u>	<u>128.7</u>	<u>153.5</u>
\$ Difference	\$ 1.5	\$-0.6	\$ 3.4	\$ 2.5	\$-6.6	\$ 2.1	\$ 5.1	\$ 1.9
Percentage difference	3.5%	-1.1%	5.6%	3.7%	-7.6%	2.0%	4.0%	1.2%

Note based on DOD comment: DOD estimates for obligated and unobligated balances for the fiscal years 1980 through 1983 differ in several instances from the budget appendix due to subsequent amendments. For example, the largest difference pointed out by DOD was the first-year estimate of obligated balances for FY 1982--the budget appendix shows \$92.3 billion, while DOD's records show \$113.4 billion.

**DOD-MILITARY'S ACTUAL AND ESTIMATED UNOBLIGATED
BALANCES, FY 1977 - FY 1984**

(billions)

FISCAL YEAR	1977	1978	1979	1980	1981	1982	1983	1984
First estimate	\$14.8	\$19.6	\$21.0	\$23.7	\$23.8	\$ 28.2	\$43.1	\$ 45.5
Actual	<u>20.0</u>	<u>21.3</u>	<u>23.0</u>	<u>24.2</u>	<u>26.5</u>	<u>34.6</u>	<u>43.4</u>	<u>51.6</u>
\$ Difference	\$-5.2	\$-1.7	\$-2.0	\$-0.5	\$- 2.7	\$- 6.4	\$-0.3	\$- 6.1
Percentage difference	-26.0	-8.0	-8.7	-2.1	-10.2	-18.5	-0.7%	-11.8%

Second estimate	\$17.0	\$20.7	\$22.5	\$24.4	\$25.1	\$33.8	\$38.5	\$43.0
Actual	<u>20.0</u>	<u>21.3</u>	<u>23.0</u>	<u>24.2</u>	<u>26.5</u>	<u>34.6</u>	<u>43.4</u>	<u>51.6</u>
\$ Difference	\$-3.0	\$-0.6	\$-0.5	\$ 0.2	\$-1.4	\$-0.8	\$-4.9	\$-8.6
Percentage difference	-15.0%	-2.8%	-2.2%	0.8%	-5.3%	-2.3%	-11.3%	-16.7%

See note on page 64.

LISTING OF 23 ACCOUNTS REVIEWED BY
MAJOR CIVIL DEPARTMENTS AND AGENCIES

Health and Human Services

--Grants to States for Medicaid (75-0512-0-1-551)

Funds Appropriated to the President

--Disaster Relief Fund (11-0039-0-1-453)

Justice

--Federal Prison Industries, Inc. (15-4500-0-4-753)

Education

--Student Financial Assistance (91-0200-0-1-502)

--Vocational and Adult Education (91-0400-0-1-501)

Agriculture

--Forest Service Permanent Appropriation (12-9922-0-2-302)

State

--Acquisition, Operations and Maintenance of Buildings
Abroad (19-0535-0-1-153)

Veterans Administration

--Construction, Major Projects (36-0110-0-1-703)

--Construction, Minor Projects (36-0111-0-1-703)

--Medical and Prosthetic Research (36-0161-0-1-703)

National Aeronautics and Space Administration

--Construction of Facilities (Space Flight)
(80-0107-0-1-253)

--Research and Development (Space Flight) (80-0108-0-1-253)

Energy

--Atomic Energy Defense Activities (89-0220-0-1-053)

--Fossil Energy Research and Development (89-0213-0-1-271)

--Energy Supply Research and Development (89-0224-0-1-271)

--Strategic Petroleum Reserve (89-0218-0-1-274)

Environmental Protection Agency

--Construction Grants (68-0103-0-1-304)

General Services Administration

--Federal Buildings Fund (47-4542-0-4-804)

Tennessee Valley Authority

--Tennessee Valley Authority Fund (64-4110-0-3-271)

Transportation

--Acquisition, Construction and Improvements
(69-0240-0-1-403)

--Grant to National Railroad Passenger Corporation
(69-0704-0-1-401)

Labor

--Advances to Unemployment Trust Fund and Other Funds
(16-0327-0-1-600)

Housing and Urban Development

--Housing for the Elderly or Handicapped Fund
(86-4115-0-3-371)

GLOSSARY OF BUDGET TERMS

Budget Authority - is the authority provided by law for agencies to obligate the government to spend. The term "new budget authority" is used in this document to denote the new authority provided each year by law.

Obligated Balances - are the amounts of obligations already incurred (e.g. contracts signed) for which payment has not been made.

Unobligated Balances - are the amounts of budget authority that have not been obligated. They are only carried forward when the authority to incur obligations in subsequent years is specifically provided by law.

Unexpended Balances - are the sum of obligated and unobligated balances.

Outlays - are obligations liquidated when either a check is issued or cash is disbursed.

Total Budget Authority Available for Obligation - is made up of the sum of beginning-year unobligated balance, new-year budget authority, and recoveries of prior-year obligations, plus (or minus) net transfers of unobligated balances.¹ (Note: At the appropriation account level, any reimbursables would also be added to this total.)

Total Budget Authority Available for Outlay - is made up of the sum of beginning-year obligated balance plus total budget authority available for obligation minus recoveries of prior-year obligations.

First Estimates - those estimates appearing in the President's budget in the year the budget is proposed.

Second Estimates - those estimates appearing in the President's budget 1 year after the budget is proposed.

¹In computing a DOD obligation rate we exclude reimbursable obligations due to double counting. DOD's methodology includes reimbursables which result in obligation rates several percentage points higher than ours. While DOD's rate is higher, due to double counting, the trend remains the same using either methodology.

(935010)

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