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REPORT TO **FILE**
THE CONGRESS OF THE UNITED STATES

IMPROVEMENTS IN THE BUDGET PRESENTATION OF
PROPOSED MAJOR CAPITAL EXPENDITURES

THE ALASKA RAILROAD
DEPARTMENT OF THE INTERIOR



BY
THE COMPTROLLER GENERAL
OF THE UNITED STATES

JUNE 1966

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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

B-114886

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To the President of the Senate and the
Speaker of the House of Representatives

This report presents our findings on our review of the actions taken by the Department of the Interior and The Alaska Railroad to secure congressional approval for the proposed acquisition of two new river barges and indicates the corrective measures taken or proposed by the Department to effect improvements in the budget presentation of proposed major capital expenditures.

Our review showed that the Railroad, without adequately informing the Congress, purchased a river barge costing \$105,000 in February 1964 with nonprogrammed reserve moneys which, according to the Railroad, are for the purpose of providing for minor unforeseen capital expenditures from the Railroad's revolving fund. The Railroad had been specifically instructed by the Congress to furnish details of the proposed acquisition for congressional consideration. The Railroad's revolving fund budget for fiscal year 1965 included \$150,000 for the purchase of a second barge; however, the nature of the proposed transaction was obscured in presenting the budget to the Congress by identifying the barge as nonoperating equipment. In our opinion, the proposals for acquiring the barges were not adequately presented for congressional review because of weaknesses in the preparation and review of Railroad budgets by the Department and the Railroad.

We brought our findings to the attention of the Department and the Railroad and proposed that budget preparations and reviews be strengthened and that the nature and purpose of the nonprogrammed reserve be defined. We proposed also that justification for the barge authorized in the fiscal year 1965 budget, which at the time of our review had not been acquired, be fully disclosed to the Congress prior to procurement.

We were advised by the Department on March 31, 1966, that it agreed with our findings and that steps had been and would be taken to strengthen the preparation and review of Railroad budgets. The Department advised us also that instructions would be issued defining

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the nature and purpose of the nonprogrammed reserve. In regard to the acquisition of the barge authorized in the fiscal year 1965 budget, the Department stated that a full disclosure will be made to the Congress if a firm proposal to acquire the barge is reinstated.

In view of the actions that have been or will be taken by the Department and the Railroad to correct the deficiencies noted during our review, we are making no recommendation at this time.

We are bringing the results of our review to the attention of the Congress because of the particular concern expressed by the Appropriations Committees in expenditures for major capital improvements from the Railroad's revolving fund and to inform the Congress of the corrective actions that have been or are to be taken by the Department and the Railroad on the matters discussed in this report.

As part of our continuing review of Department and Railroad activities, we plan to examine and evaluate at an appropriate time the adequacy of the actions taken.

Copies of this report are being sent to the Director, Bureau of the Budget, and to the Secretary of the Interior.

A handwritten signature in black ink, appearing to read "James B. Axtell". The signature is written in a cursive style with a large initial "J" and "A".

Comptroller General
of the United States

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REPORT ON
IMPROVEMENTS IN THE BUDGET PRESENTATION OF
PROPOSED MAJOR CAPITAL EXPENDITURES
THE ALASKA RAILROAD
DEPARTMENT OF THE INTERIOR

INTRODUCTION

The General Accounting Office has reviewed the steps taken by the Department of the Interior and The Alaska Railroad to secure congressional approval for the proposed acquisition of two new river barges for use by a lessee-operator. This matter came to our attention during an examination of selected Railroad activities pursuant to a request by a member of the Congress. Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

In performing our review, which was directed to an evaluation of those matters which appeared to be in need of attention, we examined pertinent records and interviewed responsible officials of the Department and the Railroad. Our review was conducted at the Department's office in Washington, D.C., and the Railroad's office in Anchorage, Alaska.

The Railroad is directed by a general manager who is under the general supervision of the Assistant Secretary for Public Land Management. The Department's Division of Budget is responsible for the initiation and development of budgetary reporting policy and procedural requirements, including implementation, preparation, and issuance of instructions to the bureaus and offices of the Department pertaining to these functions.

The schedule below shows the results of Railroad operations and capital expenditures for fiscal years 1962 through 1965 and the estimates for fiscal year 1966.

Fiscal year	Results of operations			Capital expendi- tures (note a)	Net increase decrease(-) in revolving fund
	Revenues	Expenses (note b)	Net revenues over expenses		
(000 omitted)					
1962	\$14,455	\$11,963	\$2,492	\$1,707	\$ 785
1963	14,894	12,277	2,617	1,950	667
1964	15,285	12,852	2,433	1,584	849
1965	13,759	13,339	420	1,797	-1,377
1966 (Estimate)	13,500	12,109	1,391	5,284	-3,893

^a Does not include capital expenditures for the repair of damages resulting from the Alaska earthquake of March 1964.

^b Does not include depreciation and certain other noncash transactions.

The principal officials of the Department and the Railroad responsible for the administration of activities discussed in this report are listed in appendix I.

FINDINGS

IMPROVEMENTS IN THE PREPARATION AND PRESENTATION OF RAILROAD BUDGETS

The Railroad, without adequately informing the Congress, purchased a river barge costing \$105,000 in February 1964 with nonprogrammed reserve moneys from the Railroad's revolving fund after having been specifically instructed by the Congress to furnish details of the proposed acquisition for congressional consideration. The Railroad's revolving fund budget for fiscal year 1965 included \$150,000 for the purchase of a second barge; however, the nature of the proposed transaction was obscured in presenting the budget to the Congress. After we had brought our findings to the attention of the Department and the Railroad, we were advised that there was not full communication and understanding between Railroad management and appropriate offices in the Department in presenting the proposed acquisitions of the barges to the Congress. We were informed that actions have been or will be taken to strengthen budgetary procedures so that proposed major capital expenditures will be adequately presented for congressional review.

In a decision dated April 3, 1956, to the Secretary of the Interior (B-127121), the Comptroller General ruled that the Railroad was authorized to retain all revenues in its revolving fund and use such revenues for capital expenditures, as well as operation and maintenance expenses. This decision was made pursuant to a request by the Department to clarify the authority of the Railroad to retain certain revenues in its revolving fund and the availability of such revenues for construction purposes. Theretofore, the Congress had appropriated funds direct to the Railroad for capital expenditures.

In view of the Comptroller General's ruling, the Senate Appropriations Committee, in Senate Report No. 1761, dated April 17, 1956, stated in part:

"The committee feels *** that in order to appropriately review the program of the Alaska Railroad it is essential that the annual budget submission reflect a schedule of amounts proposed for capital improvements. Accordingly, the Secretary of the Interior is requested to have appropriate schedules included in the budget annually which will disclose, by major items, the amounts proposed for capital improvements. The committee wishes to make it clear that no major capital improvement or rehabilitation is to be financed from revenues until it has been presented to and approved by the Appropriation Committees of the Congress." (Underscoring supplied.)

In response to this directive, the Railroad's budget submission for fiscal year 1958 and subsequent years included a schedule of estimates for additions, betterments, and replacements that were to be financed from the revolving fund. The annual budget submissions also included a provision for contingent expenditures from the revolving fund, called nonprogrammed reserve funds, for unforeseen capital improvements needed during the year. The nonprogrammed reserve was established at \$500,000 annually for fiscal years 1958 through 1967, except for fiscal years 1962 and 1967 when it was established at \$300,000.

By letter dated December 3, 1962, the General Manager of the Railroad informed the Deputy Assistant Secretary for Public Land Management that two river barges, used by a lessee-operator, were in need of replacement and that congressional approval should be obtained prior to procurement. Railroad records indicated that congressional approval was necessary before March 1963 to enable the Railroad to make the barges available for use during the coming

shipping season which would begin about June 1963. Department and Railroad records did not indicate that further action was taken on the matter until hearings were held on the Railroad's fiscal year 1964 budget request before the Subcommittee on Department of the Interior and Related Agencies, of the Committee on Appropriations, House of Representatives, on February 7, 1963. At that time the General Manager advised the Subcommittee that there was a need for two new river barges that were not included in the current budget submission. The Subcommittee Chairman stated that no action on the request would be taken and requested that the proposal for the acquisition of the barges be submitted, in writing, for consideration by the Subcommittee.

The Railroad prepared written proposals to the appropriate Subcommittees of the House and Senate Committees on Appropriations for the acquisition of the two barges. However, the Assistant Secretary for Administration did not sign the proposals because of a deviation from normal procurement methods. The General Manager subsequently notified the Deputy Assistant Secretary for Public Land Management by letter dated March 11, 1963, that sufficient time did not remain to obtain the barges for the 1963 season. On March 27, 1963, the Assistant to the General Manager notified the Deputy Assistant Secretary that the General Manager now planned to use a portion of the fiscal year 1964 nonprogrammed reserve funds to purchase a single barge.

In August 1963, the General Manager, through the Assistant Secretary for Public Land Management, requested permission from the Department's Division of Budget to purchase one new barge, at an estimated cost of \$150,000, with fiscal year 1964 nonprogrammed reserve funds. The General Manager advised the Director of Budget

that the proposed procurement involved a program change from the 1964 capital budget and that the new barge would replace a barge which was to be retired and which was fully depreciated and beyond economical repair. By letter dated September 9, 1963, the Director of Budget approved the use of 1964 nonprogrammed reserve funds for the purchase of a barge which was acquired at a cost of \$105,000 in February 1964.

We discussed the nature of the nonprogrammed reserve with Railroad officials who advised us that the reserve is, in effect, a "cushion" to provide for minor unforeseen capital expenditures and small overruns in project costs. We were also informed that unforeseen expenditures for major capital improvements, whether such items are to be financed from the nonprogrammed reserve or with other moneys from the revolving fund, are to be submitted to the Appropriations Committees for approval. In regard to the procurement of the barge, Railroad officials stated that they had presumed that the Division of Budget had obtained the approval of the Appropriations Committees.

In September 1965, we discussed the matter with the Director of Budget who advised us that, in his opinion, nonprogrammed reserve funds are available for emergencies that arise during the budget year or for the replacement of in-kind equipment that does not involve an addition or a substantial improvement. According to the Director, any such item of equipment could be purchased for up to \$500,000 without the approval of the Appropriations Committees. The Director stated that he had approved the acquisition of the new barge with nonprogrammed reserve funds because he understood that the purchase was of an emergency nature and involved an in-kind replacement of equipment.

We informed the Director that the replaced barge had not been used for 2 or 3 years and that the capacity of the new barge was greater than the old barge. In addition, the replaced barge was a general cargo-carrying wooden barge, whereas the new barge was a bulk oil-carrying steel barge. The Director stated that, had he had this information, he would have either submitted the barge proposal for the consideration and approval of the Appropriations Committees or requested the Railroad to include the barge proposal in the next budget submission.

We also advised the Director that, in our opinion, expenditures for major capital improvements, whether to be financed from the nonprogrammed reserve or with other moneys from the revolving fund, should be submitted for congressional consideration in accordance with the request contained in Senate Report No. 1761. The Director stated that he believed the criteria, which the Department had been following, of allowing expenditures from the nonprogrammed reserve of up to \$500,000 for capital improvements without congressional approval were inadequate. He stated that procedures would be established to provide that expenditures for capital improvements in excess of a specific dollar amount limitation would be considered and presented for congressional approval.

The Railroad's fiscal year 1965 budget submission as presented to the Congress included a programmed expenditure of \$150,000 from the revolving fund for an item identified only as nonoperating equipment, which we determined to be a second new barge. The 1965 budget was subsequently approved by the Congress without further explanation of the nonoperating equipment item. The General Manager advised us that the barge had been classified as nonoperating equipment because it was to be used by a lessee-operator and not by the Railroad.

The then Deputy Assistant Secretary, Public Land Management, stated that his office knew that the nonoperating equipment item was a second new barge. However, the Director of Budget advised us in March 1965 that he was not aware of the nature of the nonoperating equipment item and that, in his opinion, the request for funds for the second barge was improperly classified. The Director of Budget informed us in September 1965 that, as a result of our inquiry into the Railroad's budget in March 1965, he instructed the General Manager by letter dated April 23, 1965, to henceforth fully disclose, with narrative descriptions, proposed major capital improvements. The Director advised us also that future Railroad budget requests would be given detailed reviews by his office prior to submission to the Bureau of the Budget and the Congress.

In July 1965, we noted that the Railroad had not initiated action to procure the new barge. We discussed the matter on July 21, 1965, with the General Manager who advised us that the Railroad did not contemplate the acquisition of the second new barge at that time.

Agency comments and our evaluation

On the basis of our review we concluded that the Department had not made adequate reviews of Railroad budgetary matters and that, as a result, the Congress had not been fully informed of the proposed major capital expenditures for the new barges despite the fact that the Congress specifically requested such information. We brought our findings to the attention of Department and Railroad officials in October 1965 and proposed that the Secretary of the Interior (1) determine the nature and maximum amount of expenditures that may be made from the nonprogrammed reserve without prior congressional approval and (2) establish procedures to ensure that proposals for major capital improvements are adequately presented in accordance with congressional instructions. We further proposed that full disclosure of and justification for the acquisition of the barge authorized in the fiscal year 1965 budget be made to the Congress prior to procurement.

By letter dated March 31, 1966 (see appendix II), the Department advised us that it agreed with our conclusions and proposals. We were advised that guidelines were issued in April 1965 to require the Railroad to include narrative explanation and justification for major capital improvements in budget submissions and that further instructions would be issued. The Department advised us also that instructions would be issued defining the nature and maximum amount of expenditures that may be made from the nonprogrammed reserve without prior congressional approval. The Department's Division of Budget advised us on April 7, 1966, that these instructions may center around the establishment of a dollar amount limitation and the effects of proposed major capital expenditures on future Railroad operations. The Division of Budget advised us

also that more detailed reviews of Railroad budget submissions would be performed.

In regard to the barge authorized in the fiscal year 1965 budget, the Department stated that a full statement will be furnished to the Appropriations Committees if a firm proposal to acquire the barge is reinstated.

In view of the actions that have been or will be taken by the Department and the Railroad to correct the deficiencies noted during our review, we are making no recommendation at this time. As part of our continuing review of Department and Railroad activities, we plan to examine and evaluate at an appropriate time the adequacy of the actions taken.

APPENDIXES

PRINCIPAL OFFICIALS OF
THE DEPARTMENT OF THE INTERIOR AND
THE ALASKA RAILROAD RESPONSIBLE FOR THE
ADMINISTRATION OF ACTIVITIES
DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
<u>DEPARTMENT OF THE INTERIOR</u>		
SECRETARY OF THE INTERIOR:		
Stewart L. Udall	Jan. 1961	Present
UNDER SECRETARY:		
James K. Carr	Jan. 1961	July 1964
John A. Carver, Jr.	Jan. 1965	Present
ASSISTANT SECRETARY--PUBLIC LAND MANAGEMENT:		
John A. Carver, Jr.	Jan. 1961	Dec. 1964
Harry R. Anderson	July 1965	Present
ASSISTANT SECRETARY FOR ADMINISTRATION:		
D. Otis Beasley	Sept. 1952	Dec. 1965
<u>ALASKA RAILROAD</u>		
GENERAL MANAGER:		
John E. Manley	Mar. 1962	Present



UNITED STATES
DEPARTMENT OF THE INTERIOR
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

MAR 31 1966

Mr. James T. Hall, Jr.
Assistant Director
Civil Accounting and
Auditing Division
General Accounting Office
Washington, D. C.

Dear Mr. Hall:

We have reviewed your draft report to the Congress on the Alaska Railroad the subject of which is titled "Need to Adequately Present Proposed Acquisitions of Major Capital Improvements for Required Congressional Review." The report highlights the following issues:

1. What constitutes a major capital improvement to be financed from the revolving fund?
2. Under what conditions may capital improvements be financed from revolving fund contingency; i. e., "non-programmed reserve funds"?
3. What Appropriation Committees authorities are implicit and what types of justification disclosure need be made?

Using the proposed barge purchases as a background, it is our view that (1) major capital improvements are in fact involved; (2) such improvement other than those of a clearly emergent nature should only be financed from non-programmed reserve funds with specific approval of the Committees; and (3) a full disclosure and justification should be supplied to the Congress.

One barge was purchased earlier under conditions in which it is clear that there was not full communication and understanding between Railroad management and appropriate offices in the Department. In the 1964 Hearings before the House Subcommittee on Appropriations, ARR witnesses indicated the need and justification for two barges. The Committee Chairman stated, in substance, that he wished to discuss the matter with other Committee members and that he requested a letter outlining the proposed acquisition of barges to be sent to

the Committee. The only specific question raised by the Chairman was as to why the non-programmed reserve could not be used for barge procurement.

The ARR originated a responsive letter. Because of objections raised in the Department to the proposed method of procurement, however, the letter was not released. At a later date the ARR restated the need for acquiring one barge under normal procurement methods and the Department authorized the Railroad to proceed on that basis.

Purchase of a second barge has been indefinitely postponed. If a firm proposal for this item is reinstated, the Department will see to it that a full statement is furnished to the Appropriations Committees. As a matter of fact, certain guidelines have already been issued to the Alaska Railroad to include in budget submissions narrative explanation or justification for major capital improvement items. The budget presentation for FY 1967, reflects response to this requirement. We plan to issue further instructions geared more precisely to the policy questions above recited.

Sincerely yours,

Director of Survey and Review