

GAO

Report to the Chairman, Committee on
Government Operations, House of
Representatives

November 1993

BUDGET ISSUES

Assessing Executive Order 12837 on Reducing Administrative Expenses



Notice: This is a reprint of a GAO report.



United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-253335

November 17, 1993

The Honorable John Conyers, Jr.
Chairman, Committee on
Government Operations
House of Representatives

Dear Mr. Chairman:

This report responds to your request that we review the implementation of Executive Order 12837, "Deficit Control and Productivity Improvement in the Administration of the Federal Government." Specifically, you asked that we (1) monitor and comment on efforts by the Office of Management and Budget (OMB) and executive agencies to develop a definition of administrative expenses, (2) review and comment on the presentation of fiscal year 1994 administrative expense budgets, and (3) analyze potential budgetary and management implications of the required administrative cost reductions. As subsequently agreed with your office, it is too soon to determine the effects that the order's across-the-board reduction in administrative expenses will have on program operations. This report describes the steps taken thus far to implement the order and offers several observations about possible implications.

Results in Brief

The success of Executive Order 12837 in helping to control the federal deficit and improve the federal government's administrative productivity will be difficult to determine because of the lack of (1) a commonly accepted and understood definition of administrative expenses and (2) information on agency performance and productivity.

In implementing the order, OMB did not define administrative expenses. Instead, OMB estimated administrative expense reductions based upon each agency's anticipated fiscal year 1993 obligations for certain services and supplies and allowed departments and agencies to allocate the reductions among accounts and object classifications.¹

Although departments and agencies were originally required to provide a separate category for administrative expenses in account-level budget requests for fiscal years 1994 through 1997, only OMB's estimate of agencywide administrative expenses and the required reductions were

¹Object classifications (or classes) are obligations categorized according to the type of goods or services purchased.

reported in the President's fiscal year 1994 budget. OMB and the agencies are now beginning to track administrative expenses, but definitional questions and limitations in existing account structures and object classifications will limit the usefulness of the information they gather.

The budgetary and management implications of these administrative expense reductions could not be determined at the time of our review because the Congress had not taken final action on agency appropriations and, as a result, agencies had not prepared financial plans. Even though the specific effects of the Executive Order are unknown at this time, significant productivity improvements probably will not arise from budget mechanisms such as across-the-board administrative expense reductions. Under such an approach, all programs are equally affected regardless of how well they are managed or whether they are effective. Successful reform is more likely to occur through approaches that focus on specific programs and policies and emphasize reengineering and redesign of key processes used to implement federal programs.

Background

Issued on February 10, 1993, Executive Order 12837 required all federal executive agencies to reduce administrative expenses and to present such costs separately in their appropriation requests. In consultation with the agencies, the Director of OMB was to establish and revise as necessary a definition of administrative expenses for the agencies. Using that definition, agencies were to reduce their budget requests for administrative expenses from a fiscal year 1993 inflation-adjusted baseline by not less than 3 percent in fiscal year 1994, 6 percent in fiscal year 1995, 9 percent in fiscal year 1996, and 14 percent in fiscal year 1997.²

The projected savings from Executive Order 12837 are a key component of the President's economic plan, "A Vision of Change for America," which was released on February 17, 1993. The plan outlined a series of spending cuts and tax increases to reduce the federal budget deficit by \$473 billion over 5 years. The estimated 5-year, \$11.25 billion savings from administrative expense reductions represented the second largest nondefense discretionary spending cut in the budget. It surpassed the \$10.52 billion savings projected from the 100,000 person reduction in the federal work force and was only slightly less than the \$11.31 billion anticipated savings from the federal pay freeze.

²Although Executive Order 12837 only specified percentage reductions through fiscal year 1997, the President's budget and economic plan also reflect a 14-percent reduction for fiscal year 1998 spending.

On February 19, 1993, we briefed members of your office on trends in federal obligations, highlighting expense categories likely to be affected by the order. We also summarized our earlier report documenting data and definitional limitations inherent in analyzing the cost of administrative operations in federal agencies.³ Following this briefing, you requested that we monitor and report on OMB and agency efforts to implement the President's proposal.

Scope and Methodology

To address your questions concerning the definition and presentation of administrative expenses, we reviewed the order, OMB implementing guidance, and the Budget of the United States Government, Fiscal Year 1994 and interviewed OMB officials responsible for implementation. We reviewed literature and consulted with experts in accounting, budgeting, and management to find criteria for and approaches to determining, presenting, and controlling administrative expenses in public and private organizations. Finally, we reviewed previous attempts by OMB and the Congress to define administrative costs in other policy areas.

To weigh potential budgetary and management implications, we extracted data from OMB's Budget Preparation System (BPS)—the automated system used to collect and process information for the President's budget request—and calculated agency administrative expense bases and required annual reductions according to OMB guidance. We also examined historical BPS data for trends in federal obligations, patterns in obligations across agencies, and the composition of obligations within agencies. We compared the magnitude of anticipated reductions under Executive Order 12837 to other recent budget reductions. We also reviewed our prior studies which commented on the implications and effects of these reductions.

We performed this work in Washington, D.C., from March 1993 through June 1993. We obtained written comments from OMB, who generally concurred with our findings, and have incorporated their views where appropriate. OMB's comments are reprinted in appendix III.

³Budget Issues: Limitations on Analyzing the Cost of Administrative Operations (GAO/AFMD-86-54BR, July 22, 1986).

Required Reductions Determined but Effects Unknown

There is no way to determine if the order's objective to reduce administrative expenses will be accomplished. First, OMB did not define administrative expenses but rather applied the order's percentage reductions to an estimated administrative expense base. Second, agencies reflected these reductions in revised budget requests but were given latitude in determining where the cuts would be absorbed. Third, although it is too early to gauge fully the effects of the reduction, it would appear that the budgetary impact within an agency will be modest. However, due to OMB's implementation approach, there is potential for different effects at various agencies.

Administrative Expenses Were Estimated but Not Defined

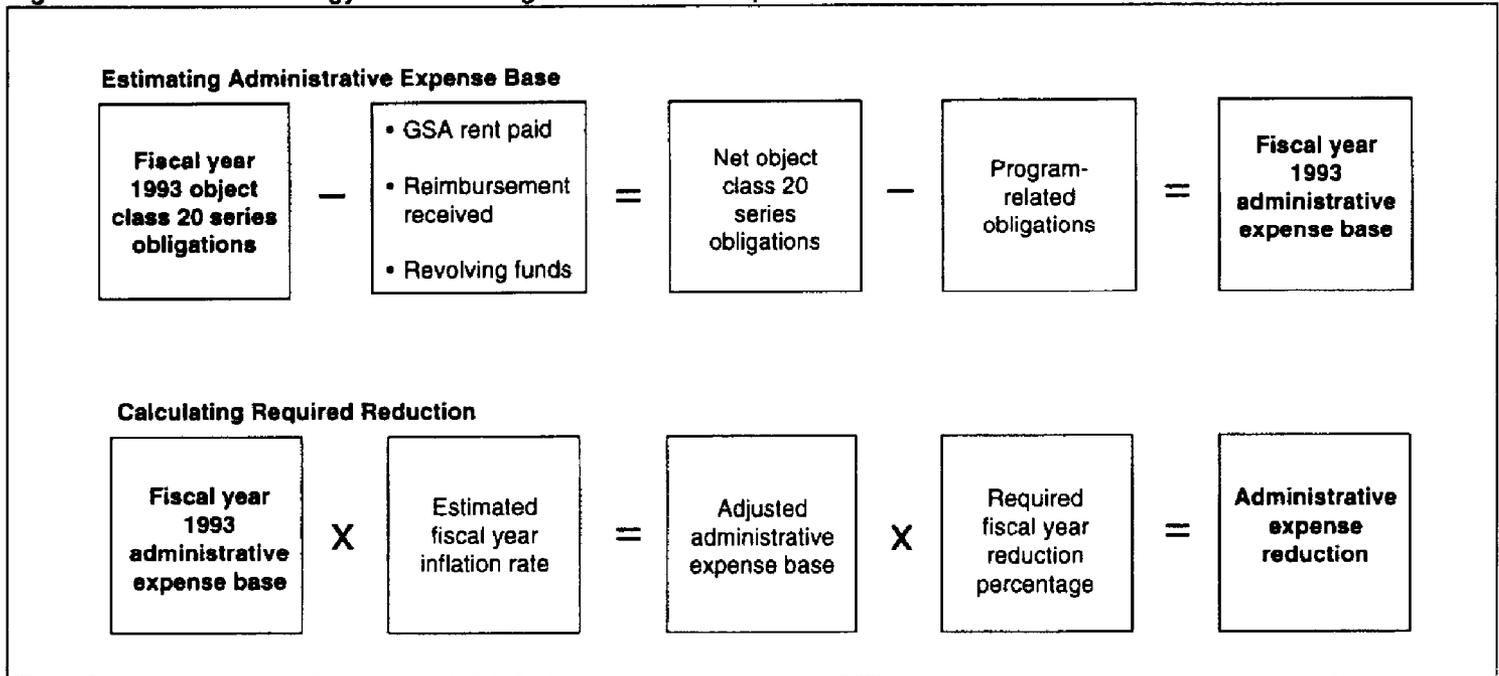
Contrary to the requirements of the order, administrative expenses have not been defined. Rather, OMB developed an estimated administrative expense base using a subset of projected agency obligations and calculated required reductions.

To determine an agency's administrative expense base, OMB started with each agency's total fiscal year 1993 projected obligations as of January 6, 1993. From these total obligations, OMB isolated estimated obligations for services and supplies displayed in the object class 20 series.⁴ From this remaining subset of agency obligations, OMB removed projected obligations for (1) rents paid to the General Services Administration (GSA), (2) reimbursements received from another federal agency, and (3) revolving fund activities funded through fees collected from users. Removing these items avoided duplication and excluded certain expenses which are generally fixed and thus uncontrollable in the near future. OMB also eliminated estimated obligations which its budget examiners considered to be program-related. The budget examiners did not receive specific guidance from OMB or the agencies in identifying these expenses.

After calculating each agency's administrative expense base, OMB determined required reductions for fiscal years 1994 through 1997 by (1) adjusting the 1993 administrative expense bases for inflation and (2) applying the reduction percentages specified in the order to the inflation-adjusted administrative expense bases. Figure 1 and appendix I summarize these calculations for major departments and agencies.

⁴The object class 20 series includes obligations for travel; transportation of things; rent, communications and utilities; printing and reproduction; other services (such as payments to contractors); and supplies and materials. Obligations for personnel compensation and benefits—object class 10 series—were excluded from agency administrative expense bases. These obligations are treated separately under Executive Order 12839 which mandated the elimination of not less than 4 percent of an agency's full-time equivalent civilian personnel by the end of fiscal year 1995.

Figure 1: OMB's Methodology for Calculating Administrative Expense Reductions



The calculated administrative expense base and required reductions for each agency were published in the Budget of the United States Government, Fiscal Year 1994. Although the Department of Defense and the defense-related portions of the Department of Energy and Federal Emergency Management Agency were subject to the order, they were not required to present administrative reductions in the fiscal year 1994 budget. Administrative savings for these agencies are included in the overall defense spending cutbacks.

OMB Bulletin 93-09, issued March 4, 1993, directed agencies to reduce their fiscal year 1994 budget requests in accordance with the levels determined by OMB. OMB allowed each agency to decide where reductions would be taken but subsequently required that agencies provide written explanation for any reduction taken outside the object class 20 series.⁵ OMB reviewed each agency's revised budget request to ensure that the agency (1) achieved the total required savings and (2) provided the minimum

⁵To make administrative expense reductions in the object class 10 series (personnel compensation and benefits), an agency had to demonstrate that the cuts were in addition to those required by Executive Order 12839.

administrative expenses necessary for the administration's new program initiatives.

The lack of a clear definition for administrative expenses is not unique to this initiative. Definitions and reporting of administrative expense data vary across entities—public and private—and even within organizations, depending on the purpose for which management needs the information. In the private sector, administrative expenses are not defined in accounting standards and are not required to be reported separately in audited financial statements. Similarly, as we stated in our 1986 report (see footnote 3), definitions and reporting of administrative expenses vary from one federal agency to another. In a 1992 report to the Congress,⁶ OMB identified wide variations in the administrative costs of credit and grant programs due to significant differences in the nature of each program. Because of these differences, OMB concluded that generalizations about the relative administrative efficiency of programs could not be made. OMB recommended to the Congress that a commonly accepted definition and a reporting system for administrative expenses be developed to overcome these problems.

Detailed Administrative Expense Budgets Were Not Presented for Fiscal Year 1994

The order required that departments and agencies include a separate category for administrative expenses in account-level budget requests. However, OMB Bulletin 93-09 revised the original reporting requirements contained in the order. Although it required that agencies begin to take steps to ensure that administrative expenses are tracked below the agency level, the bulletin stated that such information would not be published until the fiscal year 1995 budget. According to OMB officials, this change reflected the limited time that OMB and the agencies had to react to this policy initiative (about 2 weeks after the issuance of the order).

Because of these revisions to the Executive Order, the President's fiscal year 1994 budget did not contain a separate category for administrative expenses. Instead, the budget document provided only a summary table displaying total estimated administrative expense bases for agencies and the required reductions for fiscal years 1994 through 1998. Administrative expenses were not displayed in the detailed presentation of agency accounts in the budget appendix.

⁶Administrative Costs of Credit and Grant Programs, Executive Office of the President, Office of Management and Budget, May 1992.

After Bulletin 93-09 was issued, OMB instructed its budget examiners to track administrative expense reductions at the bureau, account, and object class levels. Although such tracking should provide additional information about the application of reductions, it appears to be of limited use for controlling or comparing administrative expenses. In addition to the definitional issues discussed above, the existing appropriation account structure and the underlying object classification scheme were not constructed to delineate program and administrative expenses. The account structure has an organizational and functional emphasis that has evolved over time as a means for the Congress to appropriate money. Although the appropriation account nomenclature may suggest a distinction between program and administrative expenses, this generally is not the case. As we stated in our 1986 report on administrative expenses, (1) the budget does not identify an administrative account for all agencies, (2) similar expenses are categorized differently across agencies and within the same agencies from year to year, and (3) administrative accounts do not include all administrative expenses of an agency. (See footnote 3.) Finally, object classifications were designed simply to show the type of service or good purchased without regard to the activity's purpose.

Effects of Administrative Expense Reductions Cannot Yet Be Measured

The budgetary and management implications of administrative expense reductions may not be known with certainty even after agencies receive and execute their final authorized budgets. At the time of our review, agencies did not know what their ultimate fiscal year 1994 budget authority would be and, therefore, could not anticipate fully the actions needed to manage this and other required reductions. Nevertheless, we believe that certain budgetary and management implications can be anticipated.

Budgetary Implications

Even after agency appropriations are passed, it will be difficult to isolate the budgetary effects of administrative expense reductions from the combined impact of other decisions. Our research on the effects of the 1990 sequester on agency operations found that it was difficult to separate the impact of the sequester from other budgetary actions.⁷ For example, agency budgets for 1994, as in 1990, are being affected by other spending priorities, most notably the reduction of full-time equivalent personnel

⁷Budget Issues: Effects of the Fiscal Year 1990 Sequester on the Department of Education (GAO/HRD-90-150FS, August 3, 1990); Budget Issues: Effects of the Fiscal Year 1990 Sequester on the Department of Health and Human Services (GAO/HRD-90-156FS, August 9, 1990); Budget Issues: Effects of the Fiscal Year 1990 Sequester at EPA (GAO/RCED-90-196FS, July 26, 1990); Budget Issues: Effects of the Fiscal Year 1990 Sequester at HUD (GAO/RCED-90-217FS, August 10, 1990); Budget Issues: Effects of the Fiscal Year 1990 Sequester on the Internal Revenue Service (GAO/GGD-90-101FS, July 30, 1990).

and, in a few agencies, net increases in funding to carry out specific presidential policy initiatives.

Nevertheless, the budgetary impact of the administrative expense reductions within an agency will probably be rather modest, especially when compared to previous cuts. As shown in appendix II, administrative expense reductions are comparatively slight and only reduce requested funding, as opposed to earlier reductions in appropriated budgetary resources. For example, fiscal year 1990 sequestrations in the agencies we reviewed were, in most cases, many times greater than either fiscal year 1994 or estimated fiscal year 1997 administrative expense reductions. Similarly, fiscal year 1993 reductions to meet discretionary spending limits in several agencies were significantly larger than estimated fiscal year 1994 reductions.

Although the reduction's impact on a given agency's budget may be slight, the budgetary impact across agencies, regardless of their relative administrative efficiencies, may vary significantly due to the approach used to calculate administrative expense bases. Three elements of OMB's estimating approach—focusing on only one category of agency obligations, eliminating reimbursements and user charges, and removing program-related costs without a consistent definition—had the effect of producing very different reduction estimates among major departments and agencies. Examples include the following:

- The Department of Energy's estimated nondefense object class 20 series obligations (\$10.2 billion) are more than twice those of the Department of Labor (\$4.7 billion), although Labor's total fiscal year 1993 obligations (\$67.7 billion) were more than twice those of Energy's (\$28.8 billion). This reflects differences in missions and roles—Labor's obligations are predominantly for insurance and grant activities (object class 40 series), while Energy relies extensively on contractor support (object class 25) to meet its defense and nondefense mission needs. Combined with differences in estimated program-related costs, OMB's focus on object class 20 series obligations resulted in an administrative expense base for Energy that is 13 times greater than Labor's.
- The decision to eliminate reimbursements and revolving funds had the effect of essentially excluding two central administrative agencies, GSA and the Office of Personnel Management (OPM), from the requirements of the order. GSA and OPM receive over 98 percent of their object class 20 series obligations through fees paid into revolving funds by other agencies. In

contrast, reimbursements and revolving funds account for less than 42 percent of object class 20 series obligations in all other agencies.

- As shown in appendix I, the percentage of net object class 20 series obligations⁸ considered to be program-related varied from 92 percent for Labor to about 23 percent for Treasury. Overall, six major departments and agencies had program-related exclusions of 85 percent or greater, while four were estimated at less than 50 percent. Since OMB budget examiners did not have a formal definition or guidance, they may not have used the same criteria in determining program-related expenses. Therefore, administrative expense bases may not reflect differences in administrative expenses accurately or consistently.

Management Implications

Given current budget and accounting practices, it may never be possible to determine whether managers translate required administrative expense reductions into increased administrative productivity. As stated above, new reporting requirements may help to quantify certain classes of expenses, but this may not be useful because a commonly understood definition of such costs is lacking.

Moreover, gauging changes in an agency's administrative productivity will require performance data in addition to new cost accounting procedures. As we observed in a recent report,⁹ agencies are beginning to develop such information, but significant gaps remain. At present, agencywide productivity data are rarely reported and tracked. Only 9 of 103 agencies surveyed reported that they had the necessary planning, measurement, and reporting systems to do so. Furthermore, program performance data collected for internal management purposes are not necessarily reported to potential external users such as the Congress or OMB.

Observations

The public, the Congress, and the administration are all concerned about the cost of the federal government—both in terms of persistently high deficit levels and the cost of delivering programs and services. Executive Order 12837 addresses these concerns through a prescribed across-the-board reduction of administrative expenses. However, the order's required reductions, as envisioned, probably will not significantly affect the federal budget deficit or improve the efficiency and effectiveness of government programs. While allowing agency managers

⁸Net object class 20 series obligations are total object class 20 obligations less rents paid to GSA, and reimbursable and revolving fund expenses.

⁹Program Performance Measures: Federal Agency Collection and Use of Performance Data (GAO/GGD-92-65, May 4, 1992).

flexibility to apply reductions within their agencies is appropriate, we believe that a governmentwide rethinking and reengineering of agency operations would more effectively achieve the order's objectives of deficit control and productivity improvement.

Administrative Expenses Are Not a Primary Driver of the Deficit

Executive Order 12837 is estimated to achieve savings ranging from \$681 million in fiscal year 1994 to \$3.5 billion in fiscal year 1997. Although deficit reduction is one of the underlying goals of the order, these savings represent marginal reductions for fiscal year 1994—a 0.04 percent reduction in spending and a 0.2 percent reduction in the deficit. In fiscal year 1997, when the order requires a 14-percent administrative expense reduction, the \$3.5 billion estimated savings would amount to 0.2 percent of total projected spending and 1.2 percent of current deficit projections.

By applying the order to nonprogrammatic object class 20 series obligations, OMB has focused on a small and shrinking slice of the federal budget. This class of expenses has decreased from 22 percent of total federal obligations in fiscal year 1981 to 16 percent in fiscal year 1992. Much of this change results from increasing obligations in other areas of the budget, notably in the object class series for insurance and interest. However, real average annual growth in the object class 20 series has also been slight—only 0.3 percent since fiscal year 1981, while total federal obligations grew at more than eight times this rate. Notably, printing and supplies, two of the more commonly accepted administrative components of this object class series, actually declined (in inflation adjusted dollars) during this period by 0.4 percent and 3.5 percent, respectively.

As we have noted in several recent reports,¹⁰ there are no quick and painless solutions to the deficit crisis, and the task is made more challenging if major areas of spending are “off the table.” Real deficit reduction will likely occur only by focusing on the large and/or growing areas of the budget—mandatory spending, defense, domestic discretionary spending, and revenues. Administrative cost reductions, at least as calculated in this initiative, are not likely to be a major part of the solution.

In the context of overall caps on domestic discretionary spending, as specified by the Budget Enforcement Act of 1990 and extended through 1998 by the Omnibus Budget Reconciliation Act of 1993, savings achieved

¹⁰For a discussion of the deficit, see *Budget Issues* (GAO/OCG-93-1TR, December 1992); *Budget Policy: Long-Term Implications of the Deficit* (GAO/T-OCG 92-4, June 5, 1992); *Budget Policy: Prompt Action Necessary to Avert Long-Term Damage to the Economy* (GAO/OCG-92-2, June 5, 1992); and *The Budget Deficit: Outlook, Implications, and Choices* (GAO/OCG-90-5, September 12, 1990).

through Executive Order 12837 may not result in actual deficit reduction. Because discretionary spending is constrained by the caps, savings realized from this order may be used to fund other policy priorities. Thus, deficit reduction resulting from this order can only be ensured if the caps on discretionary spending are reduced by an amount equal to the anticipated administrative savings.

Productivity Improvements May Not Be Realized Through Across-the-Board Budget Cuts

As noted above, across-the-board budget reductions are blunt instruments, indiscriminately affecting both efficiently managed programs and wasteful activities. Moreover, applying arbitrary definitions of administrative expenses without regard for the varying missions and roles of federal agencies can create a bias toward specific service delivery options and approaches, regardless of their relative efficiency. As implemented under this order, reductions in administrative expenses may have a greater impact on programs and services delivered through private contractors than on programs administered directly by the federal government or those administered largely by the states and funded through grants. We believe that a more targeted and long-term approach is needed to significantly improve the productivity of federal programs and activities.

It could be argued that the multiyear reductions required by Executive Order 12837 may prompt agencies to undertake such long-term efforts. However, merely reducing administrative expenses, especially as calculated under this current initiative, could undermine agency efforts to modernize human, financial, and information management systems that are crucial to improving and sustaining efficiency and effectiveness. Over the past decade, our management reviews of large federal agencies have repeatedly revealed the lack of such systems, which are fundamental to well-run organizations.¹¹ Too frequently, agencies have coped with budget cutbacks by failing to improve their administrative systems and processes, thus seriously eroding their capacity to measure and evaluate performance and to provide even the most basic financial data.

Many private sector organizations, recognizing that they must change to survive in a rapidly changing world, have decentralized authority, flattened organizational structures, increased employee involvement, and focused more on customer needs. The federal government reform agenda could similarly employ modern reengineering techniques and perspectives and seek more ways to integrate emerging information technologies. However,

¹¹For a bibliography of reports dealing with management reform and central management agencies, see *Government Management Issues* (GAO/OCG-93-3TR, December 1992).

that agenda must also be based on a careful review of agency missions and roles and a clear understanding of the management concepts and systems agencies currently use to achieve their objectives. Two recent events—the enactment of the Government Performance and Results Act of 1993 (Public Law 103-62, August 3, 1993) and the completion of the Vice President's National Performance Review—may provide a framework to support this reform agenda.

Reassessing and changing the processes and systems used to accomplish the federal government's many and varied missions is a challenge whose time has come. Executive Order 12837, however, is inherently limited in its capacity to address such issues and could, as implemented, even worsen current problems facing the federal government.

We are sending copies of this report to the Ranking Minority Member of your Committee, interested Members of the Congress, and the Directors of the Office of Management and Budget and the Congressional Budget Office. We will also make copies available to others upon request.

Please contact me at (202) 512-9573 if you or your staff have any questions. Major contributors to this report are listed in appendix IV.

Sincerely yours,



Paul L. Posner
Director, Budget Issues

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Abbreviations

BPS	Budget Preparation System
EPA	Environmental Protection Agency
GAO	General Accounting Office
GSA	General Services Administration
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
OMB	Office of Management and Budget
OPM	Office of Personnel Management

Fiscal Year 1993 Administrative Expense Base Calculations for Major Departments and Agencies

Dollars in thousands

Department or agency	Obligations for services and supplies^a	GSA rent paid^a
Health and Human Services	\$11,853,390	\$157,002
Energy	10,217,875	80,983
Agriculture	10,195,597	87,090
Treasury	4,176,856	778,863
Interior	3,923,595	212,597
National Aeronautics and Space Administration	13,314,448	35,097
Justice	6,401,660	521,027
Transportation	9,691,646	131,040
State	2,268,671	89,800
Commerce	1,807,350	202,498
Veterans Affairs	6,264,727	118,462
Labor	4,681,760	125,530
Environmental Protection Agency	2,472,638	133,397
Housing and Urban Development	1,083,082	78,778
General Services Administration	10,380,014	81,232
Education	611,835	31,535
Office of Personnel Management	17,051,126	39,873

**Appendix I
Fiscal Year 1993 Administrative Expense
Base Calculations for Major Departments
and Agencies**

Less		Net obligations	Less		Program-related obligations as a percent of net obligations
Reimbursement received ^a	Revolving funds ^a		Program-related obligations ^b	Administrative expense base ^c	
\$441,731	\$479,925	\$10,774,752	\$6,205,732	\$4,569,000	57.60
668,088	2,790,040	6,678,764	2,201,764	4,477,000	32.97
394,702	3,836,585	5,877,220	3,716,220	2,161,000	63.23
304,514	693,611	2,399,868	548,868	1,851,000	22.87
286,420	371,686	3,052,892	1,748,892	1,304,000	57.29
1,116,687	0	12,162,664	10,874,664	1,288,000	89.41
501,315	732,788	4,646,530	3,534,530	1,112,000	76.07
316,915	502,622	8,741,069	7,788,069	953,000	89.10
488,101	67,348	1,623,422	697,422	926,000	42.96
364,954	131,926	1,107,972	497,972	610,000	44.94
87,058	1,118,498	4,940,709	4,486,709	454,000	90.81
18,021	132,526	4,405,683	4,067,683	338,000	92.33
79,031	2,635	2,257,575	1,996,575	261,000	88.44
86,620	340,511	577,173	374,173	203,000	64.83
85,260	10,130,633	82,889	^d	83,000	^d
67,150	1	513,149	451,149	62,000	87.92
7,274	16,864,889	139,090	105,090	34,000	75.56

^aObligation data extracted from the April 1993 BPS.

^bGAO estimated program-related obligations by subtracting the published administrative expense base from our calculated net obligations.

^cPublished in Budget of the United States Government, Fiscal Year 1994.

^dThe published administrative expense base slightly exceeded our calculated net obligations.

Comparison of Previous Across-the-Board Reductions to Administrative Expense Reductions

Table II.1: Fiscal Year 1990 Reductions at Selected Agencies

Dollars in thousands

Department or agency	Fiscal year 1990 sequestrations	Executive Order 12837 administrative expense reductions	
		Fiscal year 1994	Fiscal year 1997
Education	\$266,100	\$2,000	\$10,000
EPA	73,000	8,000	40,000
HHS	839,700	142,000	726,000
HUD	175,300	6,000	31,000

Table II.2: Fiscal Year 1993 Reductions at Selected Agencies

Dollars in thousands

Department or agency	Fiscal year 1993 reductions specified in appropriation laws	Executive Order 12837 administrative expense reductions	
		Fiscal year 1994	Fiscal year 1997
Agriculture	\$234,104	\$67,000	\$335,000
Commerce	65,000	19,000	95,000
HHS	286,027	142,000	726,000
Interior	103,602	40,000	202,000
Labor	49,326	10,000	52,000
Education	190,000	2,000	10,000

Sources: BPS, fiscal years 1991 and 1994, and Budget of the United States, Fiscal Year 1994.

Comments From the Office of Management and Budget

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

W/ 12837

Honorable Donald H. Chapin
Assistant Comptroller General
United States General
Accounting Office
Washington, D.C. 20548

Dear Mr. Chapin:

We have reviewed the draft report "Assessing Executive Order 12837 on Reducing Administrative Expenses". We found it to be generally accurate and were pleased that it described the problems involved in defining and controlling administrative overhead without affecting program activities.

The draft points out that across-the-board reductions are blunt instruments, indiscriminately affecting both efficiently managed programs and wasteful activities. This is the reason that agency managers were allowed the flexibility to allocate the executive order reductions among the programs, accounts and object classes within their agencies. Since the agencies were given latitude in determining where the cuts would be taken, it follows that all programs and accounts would not be, as the draft noted, equally affected.

The draft states a preference for reducing specific programs and policies and emphasizing re-engineering and redesign of key processes rather than making this type of across-the-board spending cut. We share that preference. Indeed, the reductions in administrative expenses are a small part of an overall strategy for bringing down the deficit. That strategy includes the Vice President's National Performance Review efforts to re-engineer and streamline agencies' processes and programs. It also includes living within the tough limits on discretionary spending and the mandatory savings set in the 1993 Omnibus Budget Reconciliation Act.

The draft alludes to definitional questions that will limit the usefulness of the information on administrative expenses that is being gathered by OMB and the agencies. There are no hard and fast definitions for administrative expenses that can be used in every context. The fundamental challenge is to distinguish administrative work from work essential to carry out Federal programs. In addition, definitions depend on judgments made in the context of specific situations. For example, Federal employee salaries and benefits were excluded from the executive order reduction because of the reduction in Federal employment required by Executive Order 12839. If there had been no separate reduction in Federal employment, the administrative expense definition would have included appropriate salaries and benefits.

See comment 1.

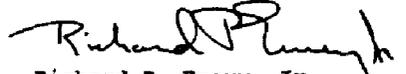
**Appendix III
Comments From the Office of Management
and Budget**

2

We have noted some additional technical concerns in the enclosure.

Thank you for the opportunity to provide our views. If you have any questions, please call Edward Rea at (202)395-3172.

Sincerely,



Richard P. Emery, Jr.
Deputy Assistant Director
Budget Review and Concepts Division

Enclosure

See comment 2.

The following are GAO's comments on the Office of Management and Budget's letter dated October 26, 1993.

GAO Comments

1. We agree with OMB that allowing managers flexibility in implementing the required administrative reductions is appropriate and, therefore, that not all programs and accounts within a given agency would be equally affected. However, OMB has limited this flexibility by subsequently issuing requirements that agencies provide written explanations for any reductions taken outside the object classes OMB has specified. In addition, the flexibility given to agency managers was applied after OMB calculated administrative expense bases without agency input.

2. We have incorporated OMB's views in our report where appropriate but have not included the enclosure detailing OMB's technical concerns.

Major Contributors to This Report

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