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STUDY BY THE STAFF
OF THE
U.S. GENERAL ACCOUNTING OFFICE



ANALYSES OF UNEXPENDED BALANCES
IN THE VETERANS ADMINISTRATION'S
CONSTRUCTION, MAJOR PROJECTS
APPROPRIATION ACCOUNT

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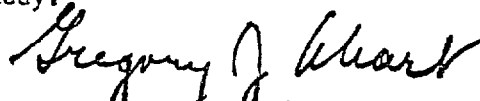
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PREFACE

This staff study by GAO's Human Resources Division analyzes the unexpended balances in the Veterans Administration's Construction, Major Projects appropriation account. It was prepared in partial response to an October 13, 1977, request from the Chairman, Budget Process Task Force, House Committee on the Budget, for a detailed examination of unexpended balances in selected Civil agencies.

A draft of the staff study was informally reviewed by Veterans Administration officials and their views and comments, where appropriate, have been considered in finalizing this study document. We wish to acknowledge the cooperation and assistance provided our representatives by officials of the Veterans Administration's Office of Construction and Office of the Controller during the preparation of this study.


GREGORY J. Hart, Director
Human Resources Division

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ABBREVIATIONS

GAO	General Accounting Office
VA	Veterans Administration

ANALYSES OF UNEXPENDED BALANCES IN THE
VETERANS ADMINISTRATION'S CONSTRUCTION,
MAJOR PROJECTS APPROPRIATION ACCOUNT

SUMMARY

The Veterans Administration (VA) has large unexpended balances in its Construction, Major Projects appropriation account but our review does not show them to be improper. Unobligated balances and unliquidated obligations have risen sharply from fiscal year 1973 due to:

- An expanded construction program,
- Full funding of projects,
- Phased construction of large projects,
- Congressional actions, and
- VA misestimates.

Since creation of the Construction, Major Projects appropriation account in fiscal year 1973, VA has developed a consistent pattern of significantly overestimating obligations and year-end unliquidated obligations and significantly underestimating year-end unobligated balances, and an inconsistent pattern of both overestimating and underestimating cash outlays. Absent marked changes in VA's estimating procedures and practices, we believe these patterns are likely to continue indefinitely into the future.

In discussing our findings in a meeting on February 15, 1978, officials of VA's Office of Construction expressed their sensitivity and concern for the misestimating in recent years of both obligations and outlays. They advised us that, among other things VA has in place and under development new automated systems for improving estimates of both obligations and outlays. Reported early results from these systems, they said, are encouraging.

Although VA has large unobligated balances, these balances are committed, or earmarked, by both VA and the Congress for specific, approved construction projects which, when contracted for, will result in obligation of these funds.

PROGRAM DESCRIPTION

VA is responsible for providing medical care to the Nation's 29.8 million veterans. The Department of Medicine and Surgery administers VA's health care delivery system, primarily through 172 hospitals, 220 outpatient clinics, 89 nursing home care units, and 16 domiciliaries. The laws relating to veterans benefits, including health care, are contained in Title 38 U.S.C.

Title 38 provides authorization for the construction of new hospitals, domiciliaries, and outpatient dispensary facilities, or the replacement, extension, alteration, remodeling or repair of all such facilities. Provision is also made for acquisition and development of lands needed for national cemeteries, also administered by VA.

Construction, Major Projects appropriation

During the annual budget process, funds are appropriated for the line item "Construction, Major Projects." These funds are to be used for purposes authorized in 38 U.S.C. where the estimated cost of the project is \$1,000,000 or more. There is a separate appropriation line item, "Construction, Minor Projects," for projects with an estimated cost of less than \$1,000,000.^{1/} VA construction funds are "no-year" appropriations; all budget authority (appropriations) approved by the Congress remain available until used, regardless of the fiscal year in which appropriated.

Prior to fiscal year 1973 all construction funds were provided through the "Construction of Hospital and Domiciliary Facilities" appropriation. The Construction, Major Projects and Construction, Minor Projects appropriations were established by the Congress in enacting VA's fiscal year 1973 appropriation bill.

^{1/} In its fiscal year 1979 budget submission, VA has proposed a change in these dollar limits from \$1,000,000 to \$2,000,000 to offset the effects of inflation of the past several years.

As a result of establishing the new appropriations, many projects initiated prior to fiscal year 1973 continued to be funded for several years through two appropriation accounts. To alleviate this situation, the Congress enacted legislation in 1976 directing that the unexpended balances of the former appropriation--about \$7 million--be transferred to Construction, Major Projects and Construction, Minor Projects, as appropriate, on October 1, 1976.

Program growth

VA's major construction program has experienced significant growth over the past 6 years even though the authorizing legislation has remained relatively stable, the only major new responsibility being the result of enactment of Public Law 93-43 which gave VA responsibility for most of the Government's national cemeteries. During the period covered by our review--fiscal years 1973 to date, new budget authority increased 212 percent, from \$126.0 million in fiscal year 1973 to \$393.7 million in fiscal year 1978. (For fiscal year 1979, VA is requesting \$295.9 million.)

Construction projects that have been emphasized between fiscal years 1973 and 1978 include seismic improvement projects, hospital and domiciliary replacements, outpatient treatment facilities, energy conservation, and new national cemeteries.

Seismic improvement projects

Seismic improvement projects were initiated after the 1971 earthquake that destroyed the VA hospital in San Fernando, California, taking the lives of many VA patients and employees. In 1973, Public Law 93-62 was enacted requiring that VA medical facilities be of fire, earthquake, and other natural-disaster-resistant construction. To meet this requirement VA has contracted for site evaluation studies to identify seismic and geologic hazards at 63 VA hospital sites where moderate or more severe earthquakes have occurred. Seismic reinforcement of these medical facilities, where appropriate, is now being accomplished.

Domiciliary care facilities

VA domiciliary care has changed in emphasis in recent years from custodial care to a therapeutic community concept stressing more preventive health services, rehabilitation, and restoration to the community. A result of this change in emphasis is VA's initiation of a program to modernize existing facilities, where economically feasible, to meet national life-safety and fire standards and the requirements of modern domiciliary living. Where domiciliaries cannot be upgraded because of structural problems and prohibitive costs, plans are being developed for the construction of replacement facilities. Initial funding for this domiciliary replacement and modernization effort was provided in fiscal year 1977 and additional funding is expected to continue annually into the 1990's.

Hospital Construction

VA's hospital construction program was recently accelerated with the President's decision in May 1976 to construct eight hospitals-- seven replacement hospitals and one new hospital. Design funds for all eight hospitals and construction funds for two of the replacement hospitals were provided in VA's fiscal year 1977 Construction, Major Projects appropriation. For fiscal year 1978 the Congress appropriated construction funds for two additional hospitals. Construction funding was expected to continue at the rate of two hospitals per year, with all eight hospitals fully funded by fiscal year 1980. ^{1/}

^{1/} In its fiscal year 1979 budget submission, VA stated that its plans for building the new hospital (which was to have been fully funded in fiscal year 1980 and located in Camden, New Jersey) have been cancelled because the hospital is not needed. Instead, initial funding for construction of an outpatient clinic in Camden and a nursing home care facility in Philadelphia is being proposed in the 1979 budget. Unobligated hospital planning and design funds previously appropriated and amounting to \$7.3 million would be reprogrammed to offset VA's 1979 budget request for these two projects.

Outpatient treatment facilities

Outpatient treatment for veterans was expanded during fiscal year 1974 with the enactment of Public Law 93-52. This law permits VA to furnish pre-hospital and post-hospital medical services on an outpatient basis. To meet the demand generated by this increased accessibility to VA health care, VA established 15 additional outpatient clinics before the end of calendar year 1977. In addition, many VA hospitals have been expanding and upgrading their outpatient programs, resulting in increased construction funding.

Energy conservation projects

Energy conservation has become one of VA's latest objectives. Design criteria for hospitals have been changed to provide for better utilization of energy. The long term effects of the design changes will be more efficient use of energy, but in the short term, construction costs will increase. Although VA had considered energy efficiency in its construction program in prior years, initial funding for energy conservation projects was provided in fiscal year 1975.

National cemeteries

VA was given responsibility in 1973 for maintenance of the National Cemetery System. The National Cemeteries Act of 1973 (Public Law 93-43) transferred to VA responsibility for 52 of the 54 national cemeteries formerly under jurisdiction of the Department of the Army. VA's responsibility under the act also includes land acquisition for, and construction and landscaping of, new cemeteries and supporting facilities. In recent years, VA has received funding for development of several new national cemeteries as well as expansion of existing cemeteries.

The following schedule summarizes the growth in VA's major construction programs between fiscal years 1973 and 1975.

Growth in Major Construction - Fiscal Years 1973 to 1975

(Dollars in millions)

<u>Project Category</u>	<u>Fiscal year 1973</u>		<u>Fiscal year 1975</u>		<u>Net Increase</u>	
	<u>Number of projects</u>	<u>Estimated Cost</u>	<u>Number of projects</u>	<u>Estimated cost</u>	<u>Number of projects</u>	<u>\$</u>
Hospital replacement and modernization	19	\$ 463.3	33	\$ 1,513.7	14	\$
Nursing home care facilities	5	12.9	23	109.0	18	
Domiciliary replacement	-	-	4	33.1	4	
Research and education facilities	9	38.3	12	58.3	3	
Outpatient facilities and improvements	15	33.6	26	103.8	11	
Other improvements:						
--General projects	1	1.8	19	55.6	18	
--Medical facility improvements	-	-	10	139.2	10	
--Clinical improvements	2	2.6	14	57.1	12	
--Air conditioning systems	12	55.0	30	178.3	18	
--Patient support systems	-	-	2	4.0	2	
--Correction of seismic deficiencies	1	12.2	11	25.8	10	
--Correction of electrical deficiencies	-	-	40	58.4	40	
--Elimination of fire and safety hazards	-	-	20	46.0	20	
--Boiler plant systems	2	2.8	5	10.3	3	
--Elevators	1	1.0	3	6.2	2	
--Parking facilities	3	5.3	3	8.8	-	
--Energy conservation	-	-	1	7.6	1	
--Working reserve	-	-	1	1.3	1	
National cemeteries	-	-	25	57.1	25	
Computer center additions and alterations	-	-	2	10.5	2	
Totals	70	\$529.0	281	\$2,485.7	214	\$

a/ Figures do not add to total due to rounding.

AGENCY BUDGET PROCESS
FOR MAJOR CONSTRUCTION

The budget process for VA's major construction projects starts with the individual VA organizations, such as the Department of Medicine and Surgery, the Department of Data Management, and the National Cemetery Service, determining construction projects for which to request funds. Each organization prepares its own construction budget and submits it to VA's Administrator for his review. After this review the departmental construction budgets are consolidated into VA's construction budget and incorporated into the agency's total budget. This tentative budget is then submitted to the Office of Management and Budget and eventually to the Congress, where budget authority is granted to VA.

During the period under review, funds appropriated for major construction projects usually covered design costs in the first budget year and full funding of construction costs in an ensuing year. The period from start of design to completion of construction may be 6 to 7 years and longer, depending on when the construction portion is funded. VA, during the period, interpreted full funding to mean the appropriating of funds to cover full construction costs at one time but not funding for design. VA officials advised us, however, that with the advent of an "advance planning fund" concept,^{1/} VA will attempt to request design and construction funding in the same year. Preliminary project planning and cost estimates will have already been prepared. The cost estimate includes the estimated cost of the project including inflation and contingency factors, the inflation factor having been initially included by VA in project cost estimates during fiscal year 1976. After the budget authority is granted, contracts are then awarded and funds are obligated in the amounts of the contract awards. As progress is reported on monthly progress reports by VA's on-site construction supervisors, the obligations are liquidated through monthly progress payments to the contractors.

Occasionally contracts are awarded at amounts below VA's estimated costs. When this happens, the difference, considered a "savings," is transferred to a Working Reserve Fund. This working reserve is used to provide funds for projects that have contract bids which are higher than approved cost estimates. Funds are reprogrammed out of the working reserve fund on a first-in, first-out basis. During fiscal year 1976, the transition quarter and the first quarter of fiscal year 1977, VA

^{1/} For fiscal year 1978, VA requested and received \$5 million, as part of its Construction, Minor Projects appropriation, to set up an advance planning fund. Use of this fund, according to VA, would permit the development of projects through the preliminary planning stages in order to prepare a more definitive project cost estimate, based on approved program scope and requirements, prior to requesting design and construction funds. For fiscal year 1979, VA is requesting an additional \$4 million for its advance planning fund.

accumulated about \$50 million in "savings," of which \$30 million was reprogrammed to other projects and about \$20 million was used to reduce VA's fiscal year 1978 appropriation request for major construction. VA's fiscal year 1979 budget submission reflects an additional \$17.5 million in savings being applied against the appropriation requested.

The Working Reserve Fund can only be used to provide funds for projects already approved by the Congress in the budget process. Under an existing understanding with the congressional committees, VA can reprogram funds up to \$250,000 or 10 percent of the project cost, whichever is less, for previously approved projects, without congressional notification. For reprogrammings in amounts above \$250,000, VA must first notify the House and Senate Appropriations and Veterans' Affairs Committees several weeks in advance of the actual reprogramming of funds. Unless any of these committees object, the funds are reprogrammed.

Relevant budget issues

Budget issues relevant to the rapid increases in unexpended balance include the full funding concept, phased construction, and congressional activity.

Full funding concept

Full funding, as applied by VA during the 1973-1978 period, was the appropriating of funds to cover the full cost of project construction prior to award of the initial construction contract for the project, even though the project may not be completed for several years. Although the funds were "earmarked" by the Congress and VA for particular projects, they contributed significantly to the growing year-end unobligated balance.

Phased construction

Phased construction is used by VA for major construction projects that will take several years to complete, on the assumption that this will result in the projects being completed in shorter periods of time. Construction is done in several phases with separate contracts being awarded for the individual phases. Contracts for the later phases usually cannot be awarded until the earlier phases have been completed. Frequently contracts for the early construction phases, such as demolition and excavation, result in relatively low dollar obligations, with the bulk of the obligations being made during the later phases.

Congressional actions

Congressional actions regarding VA's major construction budget submission occasionally may add or delete funds for construction projects VA proposed to undertake, or add funds for completely new projects not proposed by VA. These congressional actions may impact

on the amount of unobligated balances to the extent that they are not anticipated by VA. Three significant examples of congressional actions are: (1) the addition to the fiscal year 1973 budget by the Appropriations Committees of about \$25.5 million to plan and acquire sites and/or perform architectural design work for nine VA hospitals; ^{1/} (2) the addition to the fiscal year 1978 budget, by the Senate Appropriations Committee, of \$112 million in construction funds for the Little Rock, Arkansas VA replacement hospital; and (3) the deletion from the fiscal year 1978 VA budget by the Conference Committee of \$139.1 million in requested construction funds for the Portland, Oregon/Vancouver, Washington VA replacement hospital.

Our review of House and Senate Appropriations Committee reports for fiscal years 1973 through 1978 showed that the Congress occasionally appropriated more money than VA had requested for major construction projects. During the 6-year period, the Congress appropriated a total of \$1,558,157,000, while VA had requested \$1,546,662,000 resulting in a net unrequested funding of \$11,495,000. Actual unrequested funding was substantially greater, however, because VA's budget requests had included the \$139,100,000 for construction of the Portland/Vancouver replacement hospital, but the appropriation received by VA did not include funds for that hospital. Instead, the Congress appropriated during the 6-year period an equivalent of \$139,100,000 for other projects for which VA had not sought funding. In effect, then, unrequested funding totaled \$150,595,000 during the period (\$11,495,000 plus \$139,100,000).

Compounding this situation was congressional approval of an amendment to VA's fiscal year 1977 budget request which provided an additional \$268,316,000 in design funds for eight new hospitals, and construction funds for two of those hospitals. According to VA officials, this budget amendment was a last minute presidential decision. The agency, they said, was unprepared to obligate all of these additional funds in fiscal year 1977 and might not be able to do so until sometime in fiscal year 1978.

^{1/} These nine hospitals included the eight hospitals later approved by the President in May 1976 (see p. 4) plus the Augusta, Georgia VA replacement hospital project which was started in fiscal year 1975 and is still under construction.

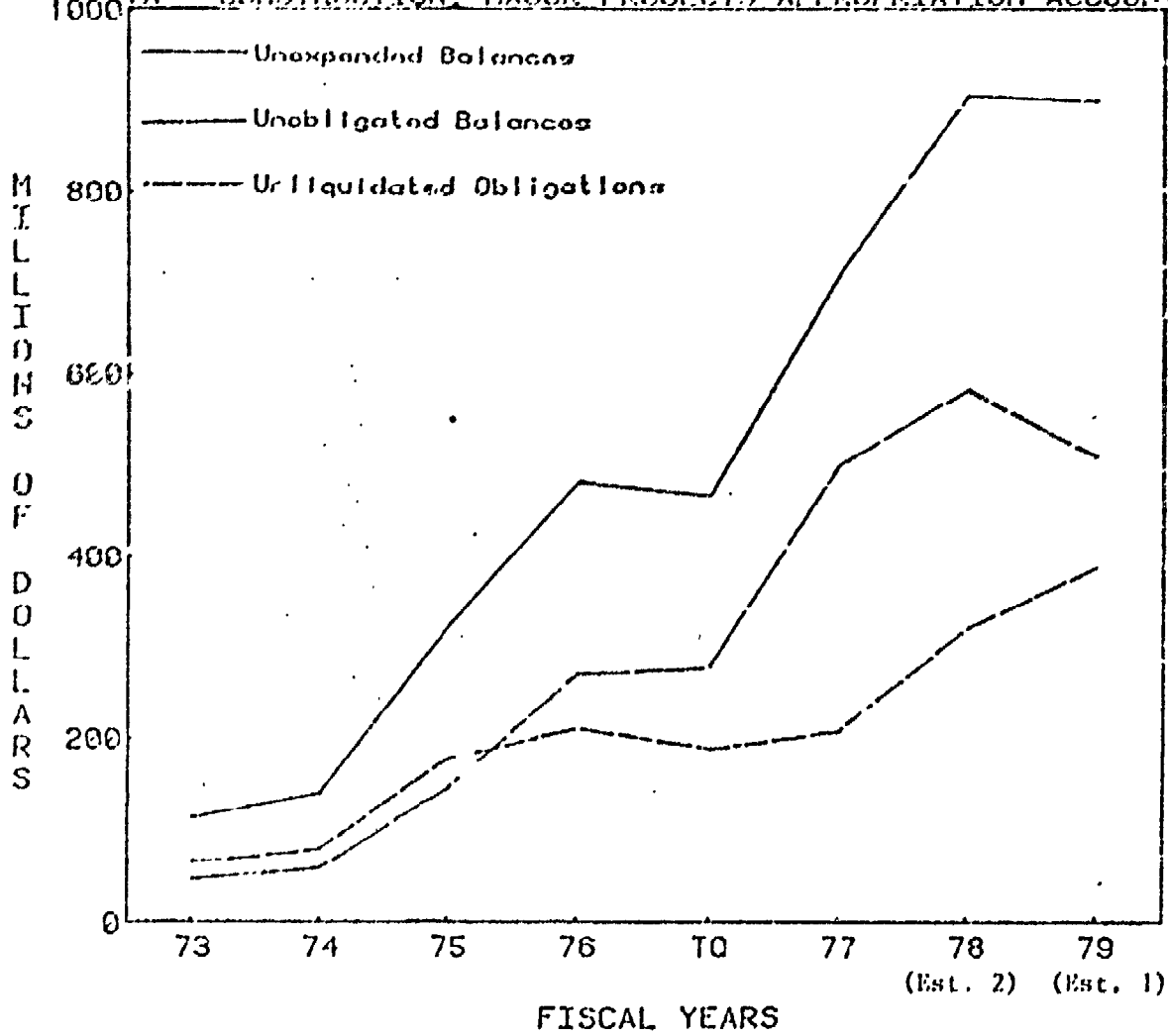
NATIONAL OF UNEXPENDED BALANCES

The unexpended balances in VA's Construction, Major Projects appropriation account have grown sharply between fiscal year 1973 and the end of fiscal year 1977. At the end of fiscal year 1973 actual unexpended balances totaled \$112 million; however, at the end of fiscal year 1977, actual unexpended balances reached \$705.5 million, representing an increase of more than 530 percent. VA's second estimates for fiscal year 1978 indicate a further growth in the unexpended balances to \$908.4 million, representing an increase of more than 700 percent since the end of fiscal year 1973. (See chart on p. 11.)

Contributing to this significant overall growth in unexpended balances are:

- an 1,160 percent increase in year-end unobligated balances, from \$46.3 million in fiscal year 1973 to \$533.4 million estimated for fiscal year 1978.
- a 357 percent increase in year-end unliquidated obligations, from \$35.7 million in fiscal year 1973 to \$120 million estimated for fiscal year 1978.
- a rather stable cumulative obligational rate, as recomputed annually, averaging 63.5 percent of the cumulative budget authority (appropriations) since 1973.
- a significantly low rate of annual cash outlays averaging only 16.8 percent of the total funds available annually for cash expenditure (beginning unexpended balances plus new budget authority) since 1973.

UNEXPENDED BALANCES (millions of dollars)
 VA - CONSTRUCTION, MAJOR PROJECTS APPROPRIATION ACCOUNT



Following is a summary of the year-end unexpended balances in VA's Construction, Major Projects appropriation account (dollars in millions):

Fiscal year	Total unexpended balances ^{a/}	Unliquidated obligations		Unobligated balances	
		Amount	Percent	Amount	Percent
1973	\$ 112.0	\$ 65.7	58.7%	\$ 46.3	41.3
1974	139.2	79.4	57.0%	59.7	42.9
1975	322.4	177.6	55.1%	144.8	44.9
1976	481.1	210.8	43.8%	270.3	56.2
T.Q.	465.1	186.9	40.2%	278.3	59.8
1977	708.5	207.4	29.3%	501.0	70.7
1978 ^{b/}	903.4	320.0	35.4%	583.4	64.6
1979 ^{c/}	897.5	387.6	43.2%	509.9	56.8

^{a/} Figures may not cross-foot due to rounding.

^{b/} Second estimates appearing in VA's fiscal year 1979 budget submission.

^{c/} First estimates appearing in VA's fiscal year 1979 budget submission.

As can be seen in the above table and the chart on p. 11, while both unliquidated obligations and unobligated balances have grown significantly over the years, the unobligated balances in recent years have become the greatest portion of the total unexpended balances--70.7 percent at the end of fiscal year 1977 and a projected 64.6 percent at the end of fiscal year 1978, as compared to 41.3 percent at the end of fiscal year 1973. Barring unforeseen circumstances, VA officials expect unobligated balances to peak during fiscal year 1979 and, as indicated in the above table and chart, they estimate that the unobligated balances as of September 30, 1979, will be about \$509.9 million, a decrease of \$73.5 million from the projected \$583.4 million at the end of fiscal year 1978. Absent a very sharp increase in VA's obligation rate in fiscal year 1979, however, VA's past obligational experience would suggest an even higher unobligated balance at the end of that year than is currently projected for the end of fiscal year 1978. The following table summarizes VA's obligational experience (dollars in millions)

<u>Fiscal year</u>	<u>Total funds available for obligation</u>	<u>Obligations during the period</u>		<u>Unobligated balances</u>	
		<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
1973	\$126.0	\$79.7	63.3%	\$ 46.3	36.7%
1974	114.6	54.9	47.9%	59.7	52.1%
1975	313.9	166.1	53.4%	144.8	46.6%
1976	442.2	171.9	38.9%	270.3	61.1%
T.Q.	236.2	7.9	2.8%	276.3	97.2%
1977	690.0	189.0	27.4%	501.0	72.5%
1978	894.7	<u>a/</u> 311.3	34.8%	<u>a/</u> 583.4	65.2%

a/ Second estimates appearing in VA's fiscal year 1979 budget submission.

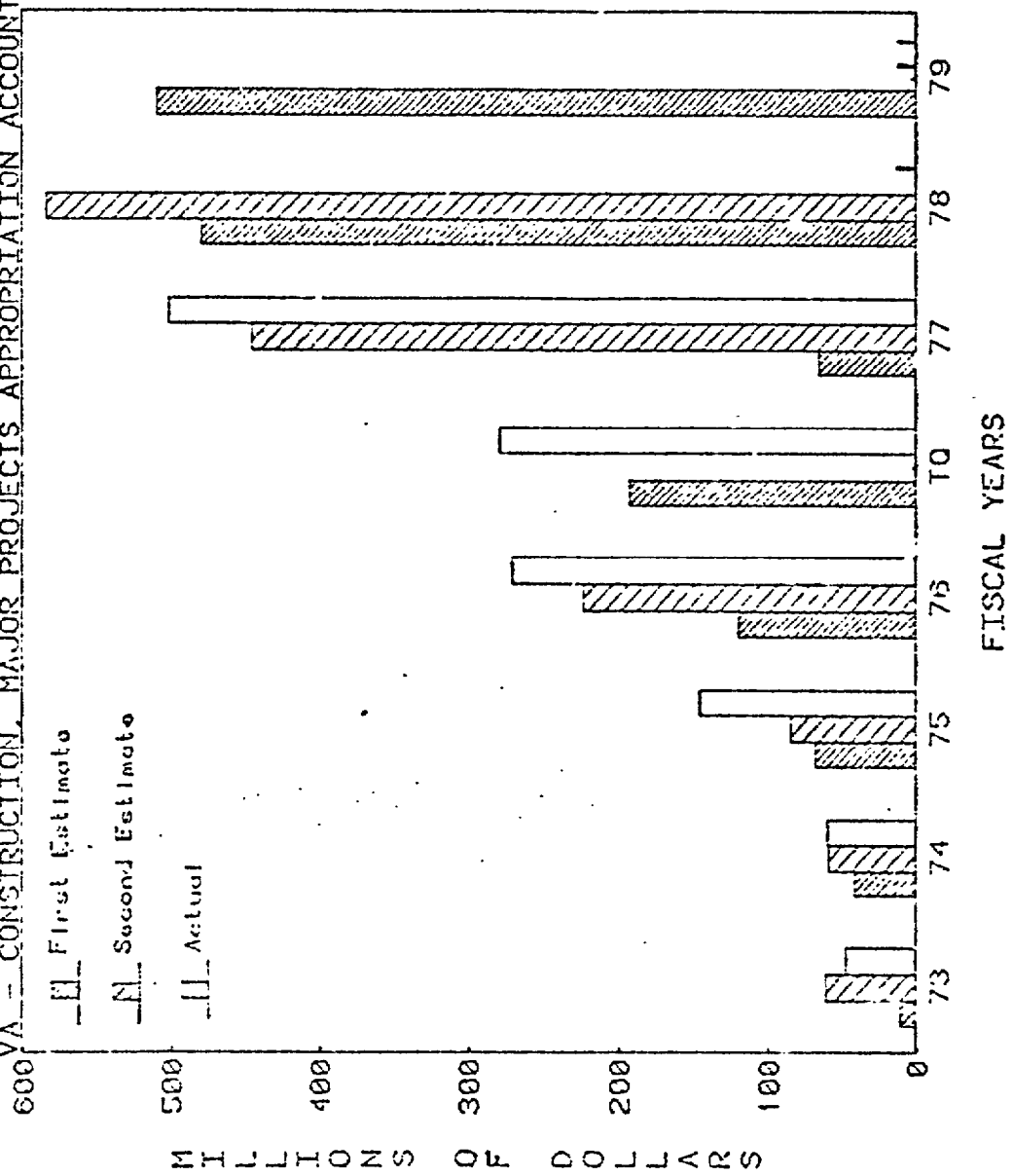
The table clearly shows that, as the total funds available each year for obligation have continued to grow, and at an accelerated rate--from \$126 million in fiscal year 1973 to \$894.7 million in fiscal year 1978, the percentage of those funds being obligated annually has declined sharply--from 63.3 percent in 1973 to a projected 34.8 percent in 1978--and conversely, unobligated balances have increased sharply--from 36.7 percent of the total funds available for obligation in 1973 to a projected 65.2 percent in 1978.

VA misestimates

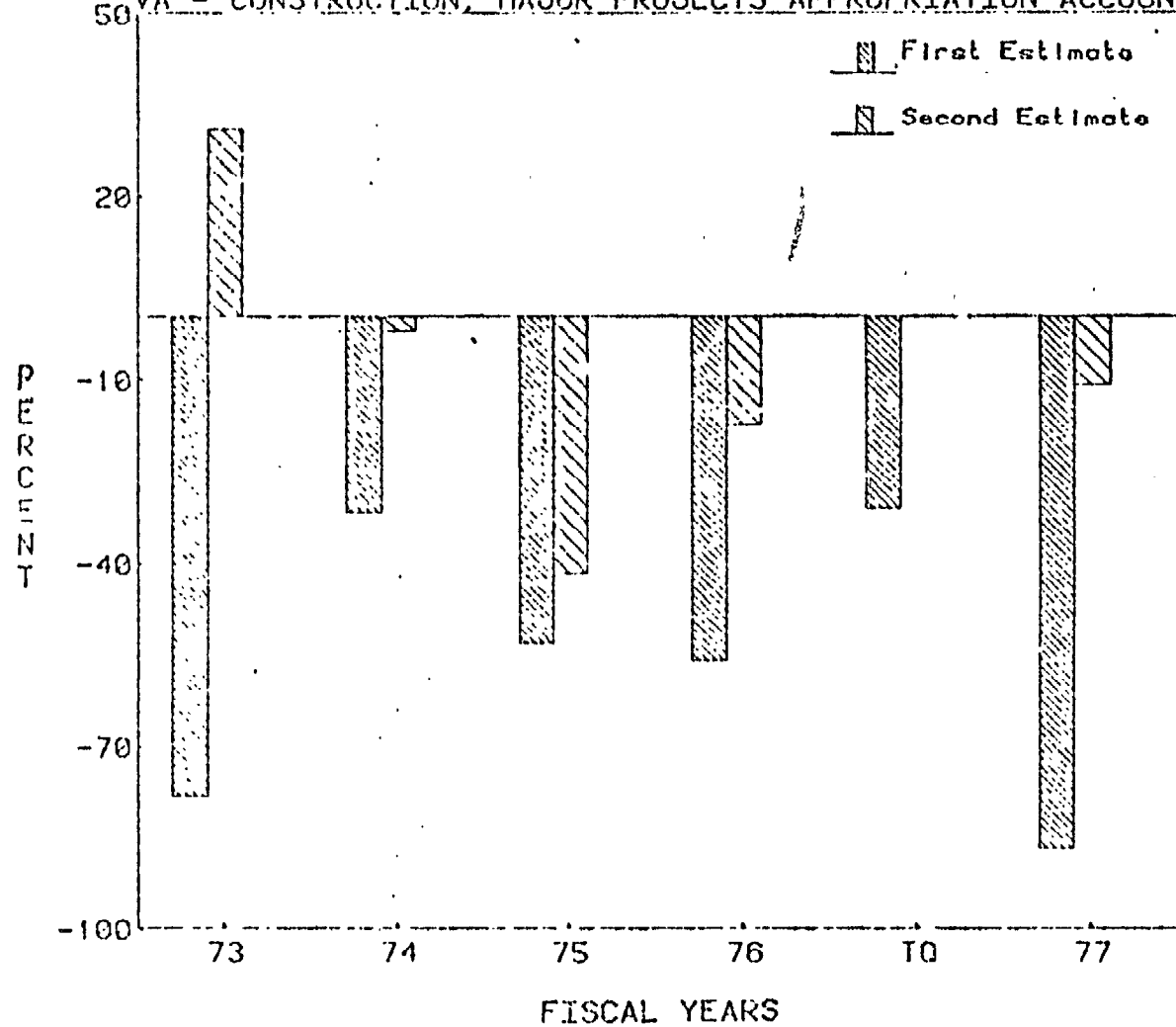
A comparison of estimated and actual unobligated balances for VA's Construction, Major Projects appropriation account shows that VA consistently and significantly understated its budget-year estimates (first estimates) of unobligated balances and, except for fiscal year 1973, consistently understated its current-year estimates (second estimates) of unobligated balances (see chart on p. 14). These misestimates ranged from a 30.7 percent overstated second estimate for fiscal year 1973 to an 87.1 percent understated first estimate for fiscal year 1977 (see chart on p. 15).

Conversely, a comparison of estimated and actual unliquidated obligations for this appropriation account shows that, for fiscal years 1974 through 1977, VA consistently and significantly overstated its first estimates of unliquidated obligations. For fiscal years 1973 and 1974, VA understated its second estimates of unliquidated obligations and, for fiscal years 1975 through 1977, overstated its second estimates of unliquidated obligations.

COMPARISON OF ESTIMATED AND ACTUAL UNOBLIGATED BALANCES
 VA - CONSTRUCTION, MAJOR PROJECTS APPROPRIATION ACCOUNT



UNOBLIGATED BALANCES - % DIFFERENCE ESTIMATES FROM ACTUAL
VA - CONSTRUCTION, MAJOR PROJECTS APPROPRIATION ACCOUNT



(See chart on p. 18.) These misestimates of unliquidated obligations ranged from a 40.8 percent understated second estimate for fiscal year 1973 to an 85.4 percent overstated first estimate for fiscal 1976 (see chart on p. 19).

Our comparison of estimated and actual obligations for Construction, Major Projects shows that, like its estimates for unliquidated obligations, VA consistently and significantly overstated its first estimates of obligations in each fiscal year from 1973 through 1977. A similar possibility exists for fiscal year 1978 in that the first estimate exceeds the second estimate by more than \$85 million. Similarly, VA's second estimates for fiscal years 1974 through 1977 consistently exceeded actual obligations in those years (See chart on p. 20.) These misestimates of obligations ranged from a 17.3 percent understated second estimate for fiscal year 1973 to a 501.1 percent overstated first estimate for the transition quarter (see chart on p. 21).

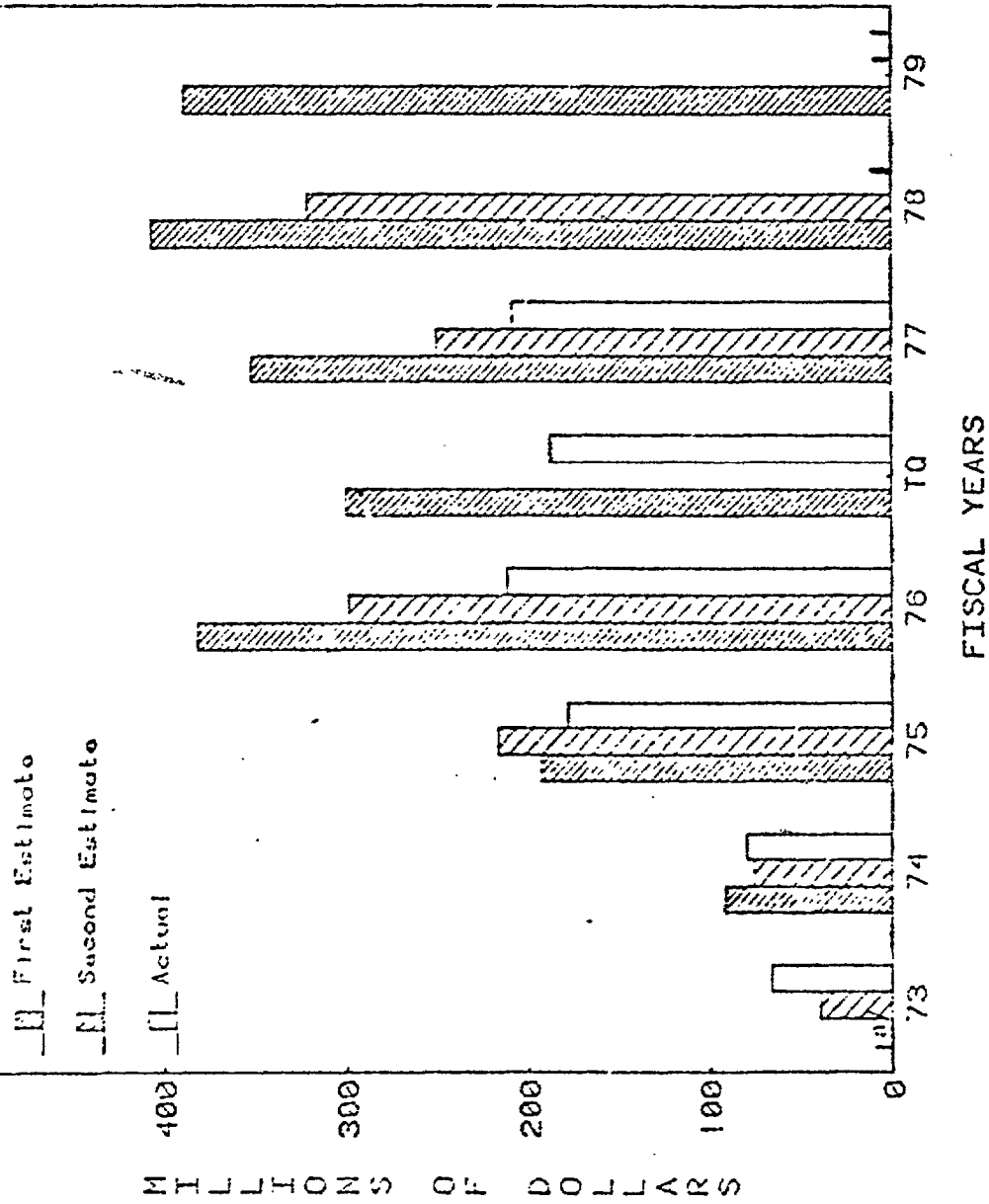
Our comparison of estimated and actual cash outlays, however, reveals a rather inconsistent pattern of overestimates and underestimates. VA overestimated its first estimates of outlays for fiscal years 1975 and 1977 as well as the transition quarter, but understated its first estimates for fiscal years 1973 and 1976. Second estimates of cash outlays were overstated in fiscal years 1973, 1974, and 1977, but understated in fiscal years 1975 and 1976. (See chart on p. 22.) These misestimates of cash outlays ranged from a 90.1 percent overstated second estimate for fiscal year 1973 to a 36.7 percent understated first estimate for fiscal year 1976 (see chart on p. 23).

In summary, since creation of the Construction, Major Projects appropriation account in fiscal year 1973, VA has developed a consistent pattern of significantly overestimating obligations and year-end unliquidated obligations and significantly understating year-end unobligated balances and an inconsistent pattern of both overestimating and understating cash outlays. Absent marked changes in VA's estimating procedures and practices, we believe these patterns are likely to continue indefinitely into the future.

In discussing our findings in a meeting on February 15, 1978, officials of VA's Office of Construction expressed their sensitivity and concern for misestimating in recent years of both obligations and outlays. They report that methodologies used in the past are no longer adequate or sufficiently accurate to deal with the program growth and VA's changing approaches to accomplishing the program. They advised us that VA has in place and under

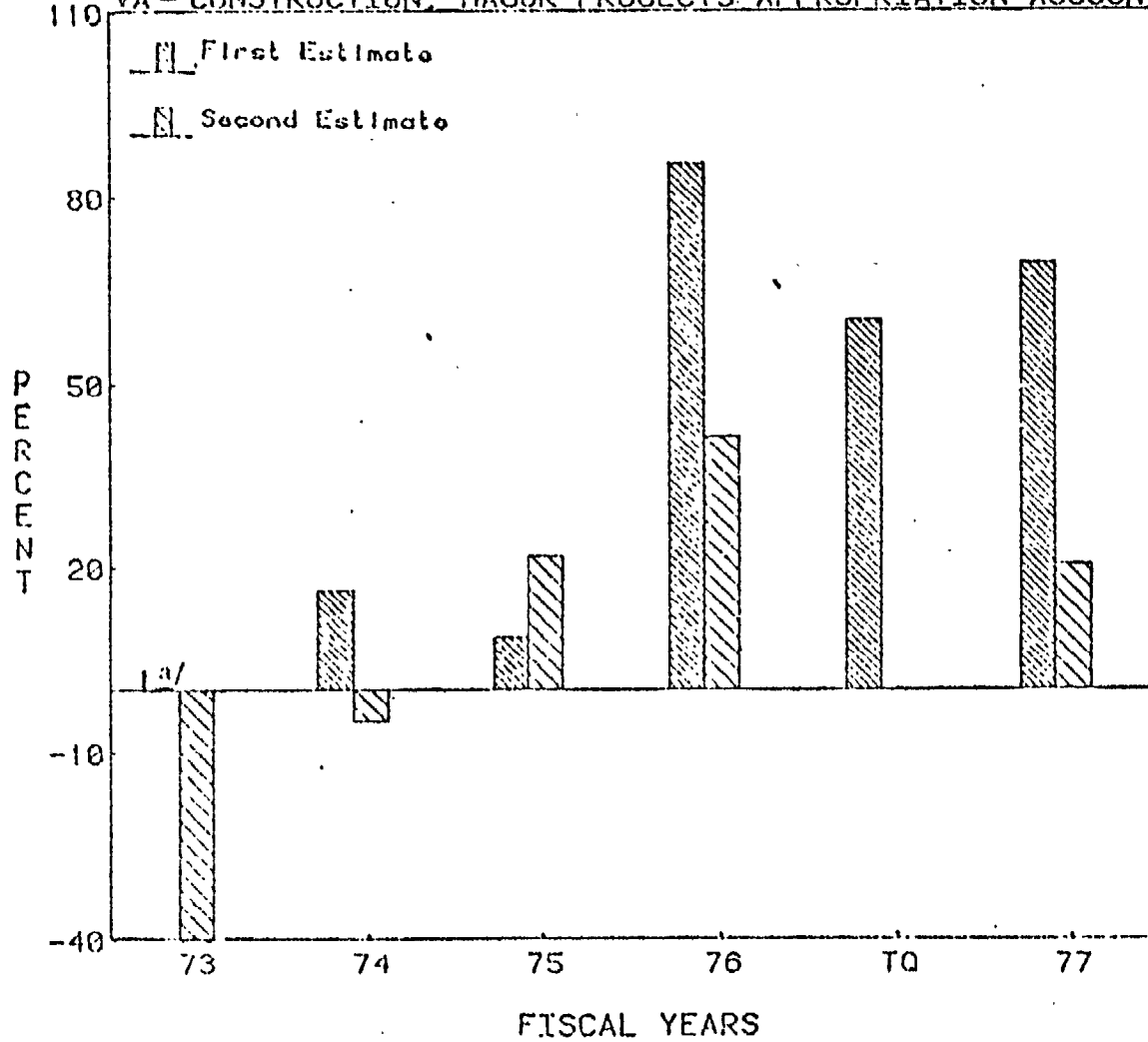
development new automated systems for improving estimates of both obligations and outlays and that reported early results from these systems are encouraging. They also noted the benefits in improved cost estimates and scheduling VA expect from the adoption of the advance planning fund concept, first budgeted in fiscal year 1978.

COMPARISON OF ESTIMATED AND ACTUAL UNLIQUIDATED OBLIGATIONS
 VA -- CONSTRUCTION MAJOR PROJECTS APPROPRIATION ACCOUNT



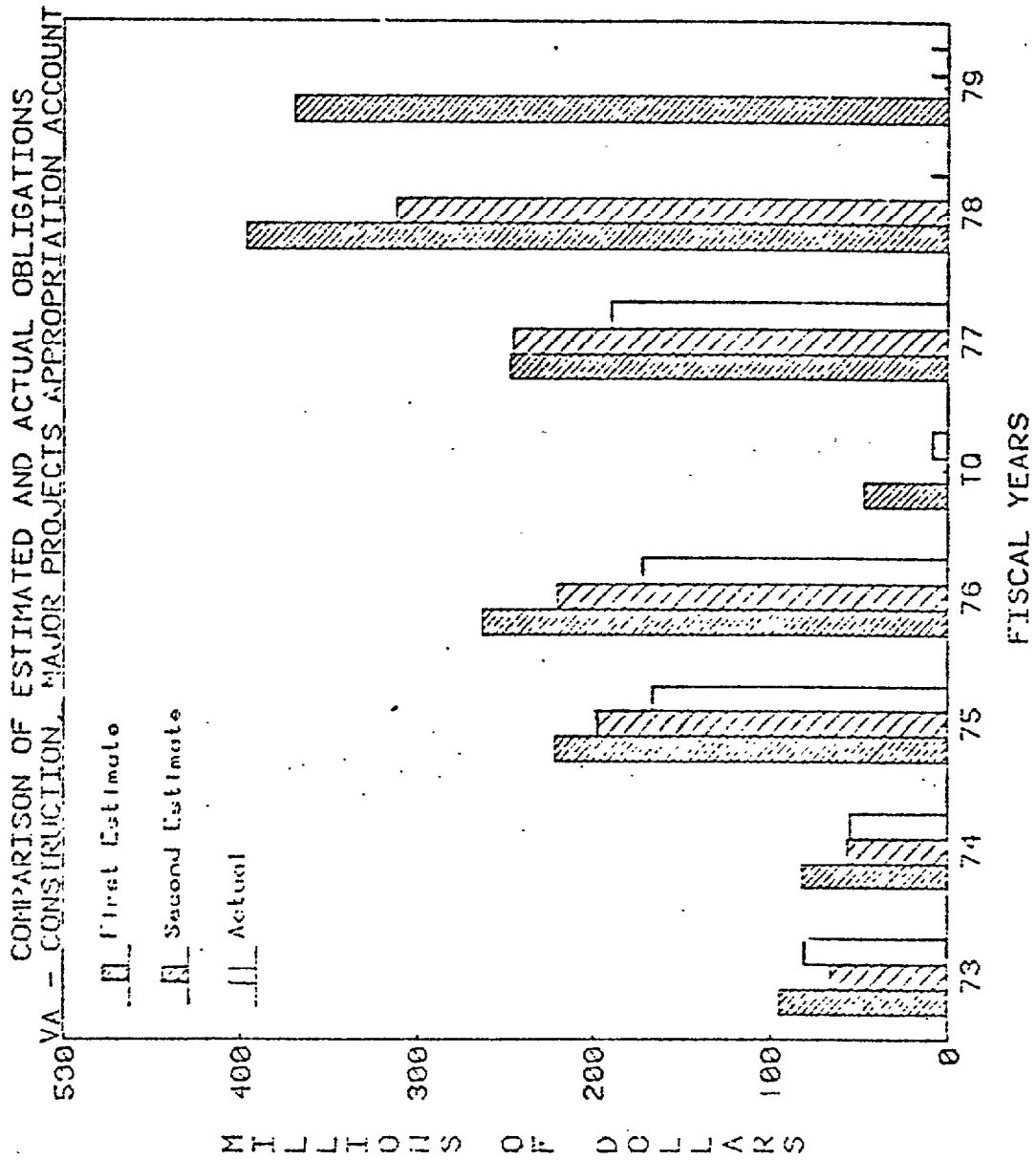
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UNLIQUIDATED OBLIGATIONS - % DIFFERENCE ESTIMATES FROM ACTUAL
 VA - CONSTRUCTION, MAJOR PROJECTS APPROPRIATION ACCOUNT

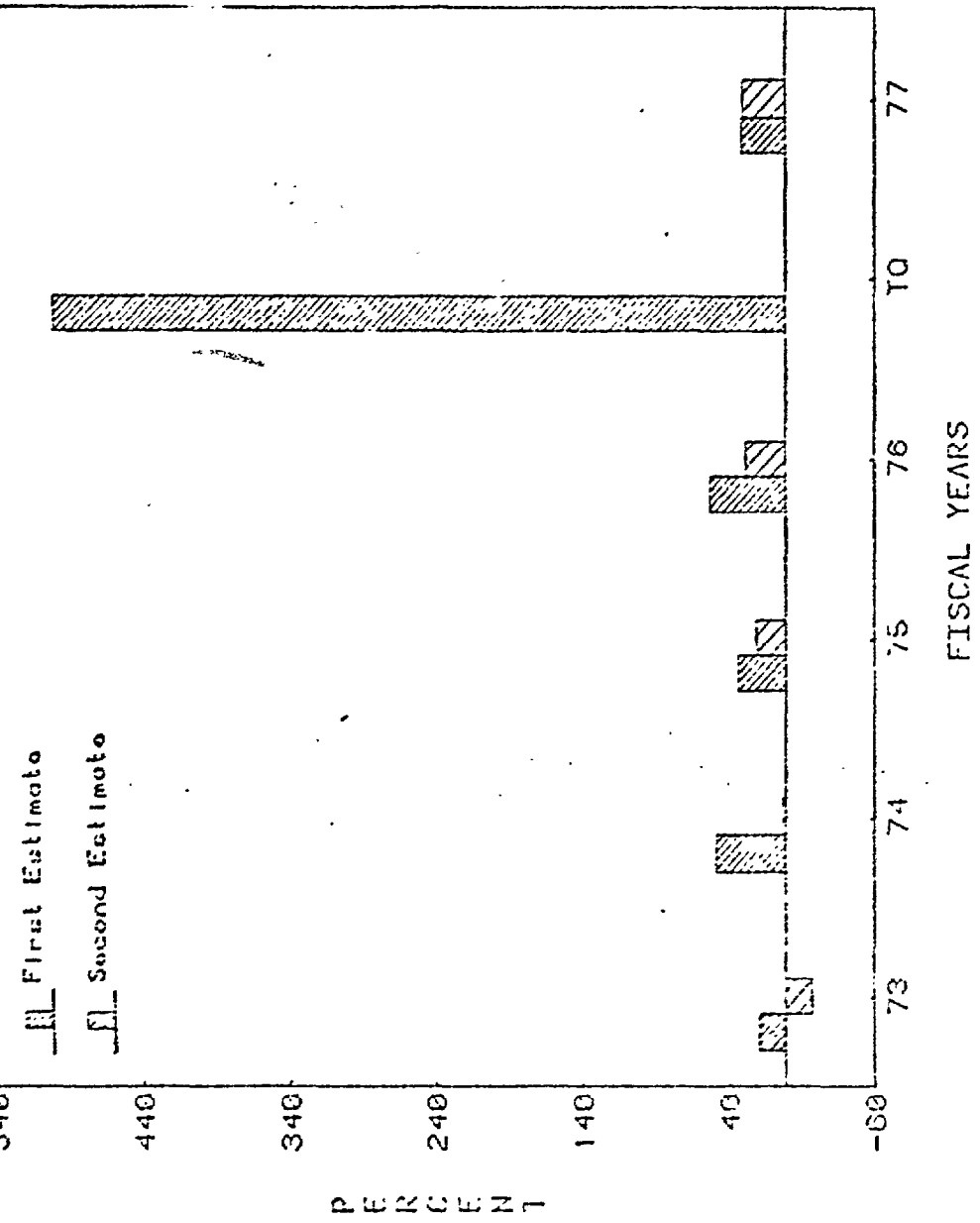


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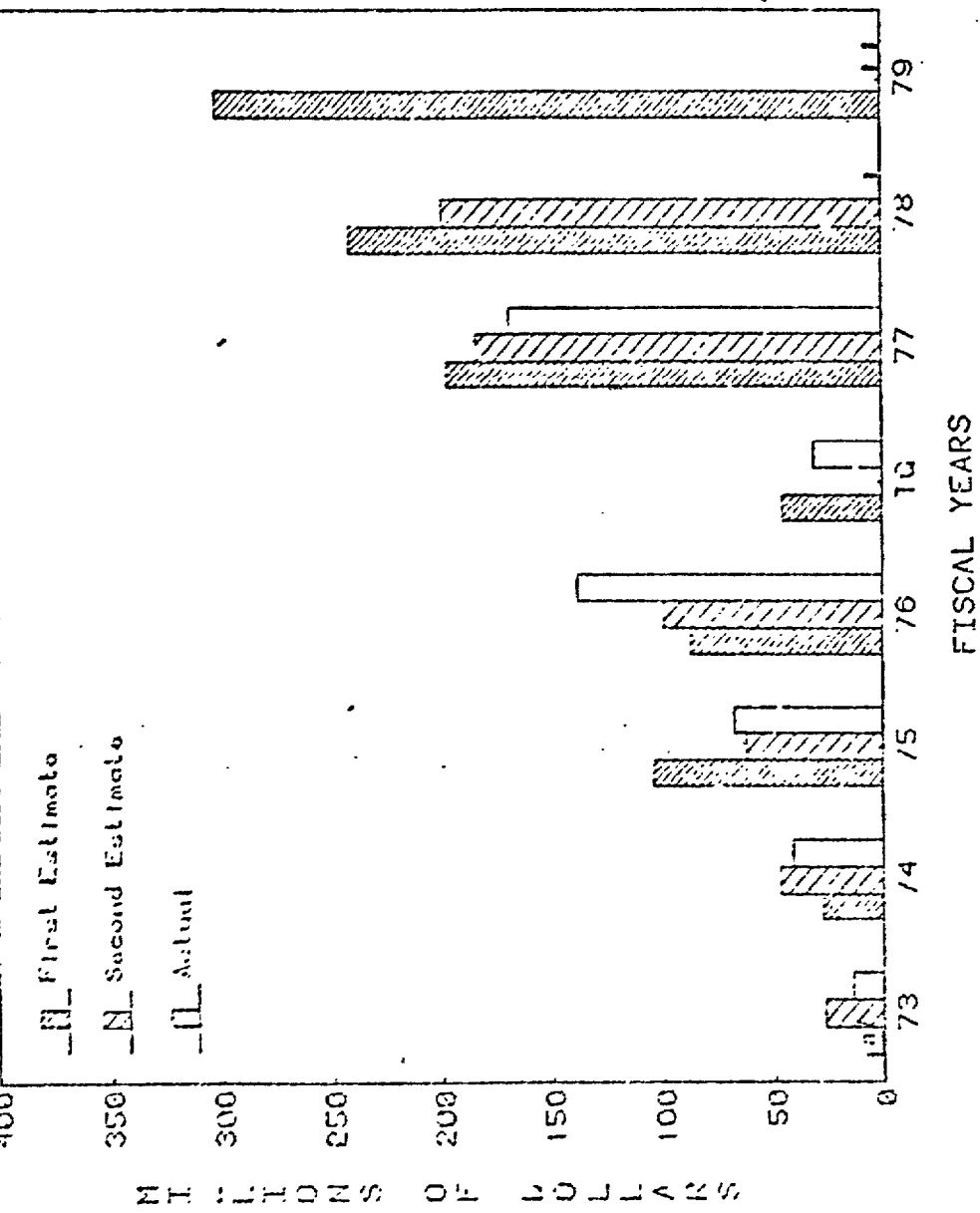
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OBLIGATIONS - % DIFFERENCE ESTIMATES FROM ACTUAL
 VA - CONSTRUCTION, MAJOR PROJECTS APPROPRIATION ACCOUNT

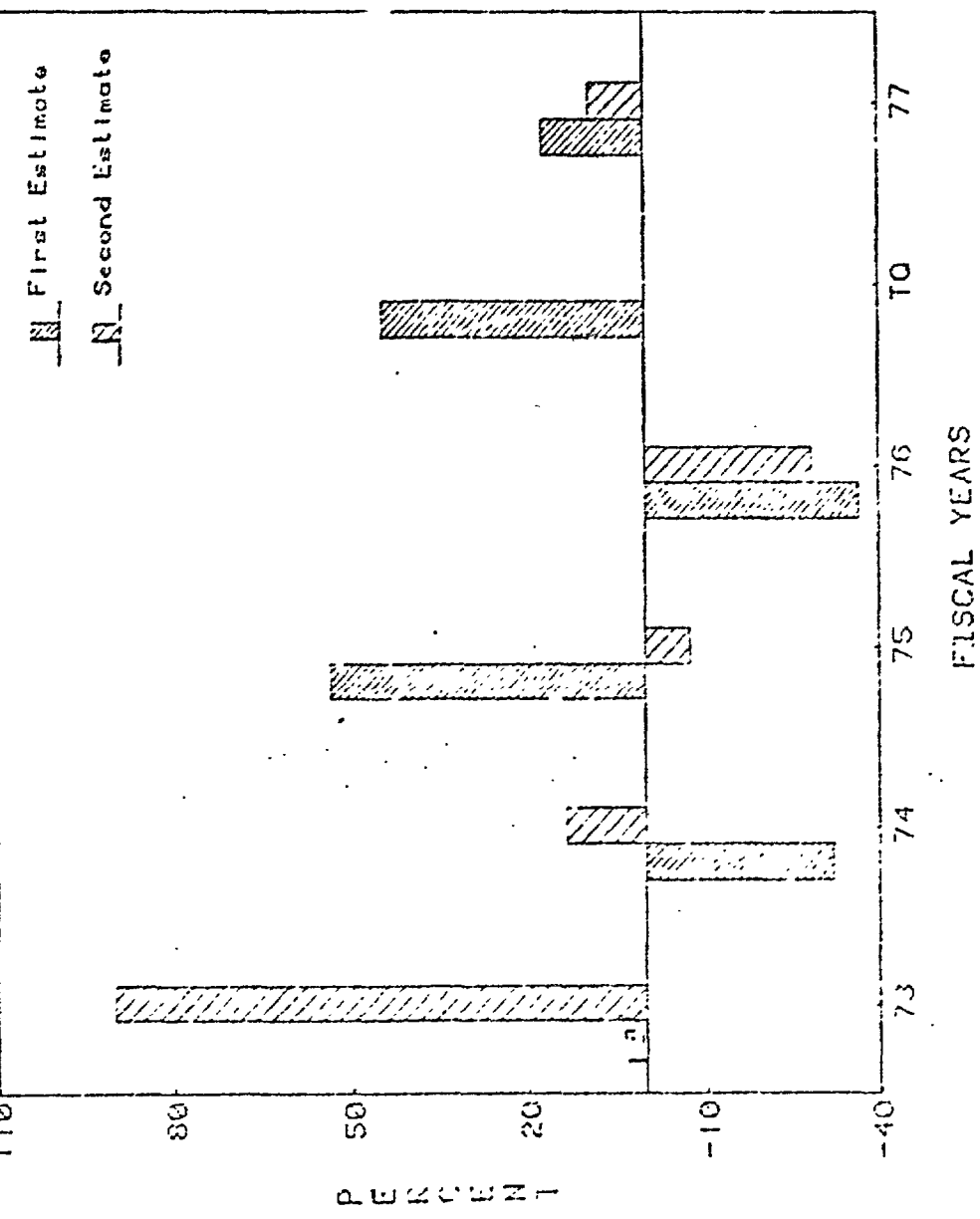


COMPARISON OF ESTIMATED AND ACTUAL OUTLAYS
 VA - CONSTRUCTION, MAJOR PROJECTS APPROPRIATION ACCOUNT



a/ First Estimate not available

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2/4 First Estimate not available

UNOBLIGATED BALANCES

Unobligated balances in the Construction, Major Projects account have been steadily increasing since fiscal year 1973. These increases have been significant both in terms of the prior year's balance and in relation to annual and cumulative appropriations as shown by the table below (dollars in millions):

<u>Fiscal year</u>	<u>Appropriations</u>		<u>Percent increase</u>	<u>Unobligated balances</u>	<u>Percent increase</u>
	<u>Annual</u>	<u>Cumulative</u>			
1973	\$126.0	\$126.0	--	\$ 46.3	--
1974	63.3	194.3	54.2%	59.7	28.9%
1975	a/ 251.1	445.4	129.2%	144.8	142.5%
1976 & 7Q	b/ 313.4	758.8	70.4%	278.3	92.2%
1977	411.7	1,170.5	54.3%	501.0	80.0%
1978	393.7	1,564.2	33.6%	c/ 583.4	16.4%
(1973-1978)			(1,141.4%)		(1,160.0%)
1979 ^{d/}	295.9	1,860.1	18.9%	509.9	-12.6%

a. Includes \$15.9 million appropriated for the transition quarter.

b. Includes \$6.1 million unobligated balance transferred from former Construction of Hospital and Domiciliary Facilities appropriation account as of October 1, 1976.

c. Second estimate appearing in VA's fiscal year 1979 budget submission.

d. Figures based on VA's budget request for fiscal year 1979.

As shown in the above table, annual appropriations more than tripled between 1973 and 1978, but the unobligated balances increased at a much faster rate.

As discussed in the program description section (pp. 3 to 5), VA's major construction program has grown over the years through emphasis on areas such as seismic improvement projects and acceleration of the hospital and domiciliary replacement program. However, there was

a large decrease in the appropriation for fiscal year 1974, even though more projects were funded--96 projects as compared to 70 in fiscal year 1973--because "phased" funding was being used, i.e., for that one fiscal year, VA requested and received an appropriation based on its estimate of what funds would be needed for obligation during that fiscal year rather than what would be needed to complete all of the projects. The return, in fiscal year 1975, to full funding of construction costs resulted in a significant increase in the appropriation for that year. In fiscal year 1977, another significant jump occurred in the level of appropriations due to funding being provided for the full cost of designing eight new VA hospitals and constructing two of them.

Factors contributing to growth
in unobligated balances

As can be seen in the previous table, unobligated balances have risen as funding for the major construction program has grown. However, the rate of growth in unobligated balances has outpaced program growth and is therefore attributable to other factors in addition to program growth. These factors include VA's application of the full funding concept, VA's use of phased construction for its major construction projects, and congressional activity. These factors were discussed on pp. 8 and 9.

An additional factor which may have exacerbated the growth in unobligated balances is VA's historical record of bad estimates of future unobligated balances (see pp. 13 to 15). This results from misestimates in determining the costs of construction projects and in projecting the timing of contract awards. Since fiscal year 1974 VA has consistently underestimated its year-end unobligated balances.

As is typical of every Federal agency, VA makes two separate estimates of unobligated balances during the budget cycle. The first estimate, known as the budget-year estimate, is included in VA's budget submission to the Congress for that budget year. The second estimate, referred to as the current-year estimate, is provided in VA's budget submission for the following fiscal year. The actual amount of unobligated balances for that initial budget year is provided in the budget submission for the second fiscal year following the first budget year's submission.

Just as the estimates of unobligated balances depend on VA's estimates of project costs and of when contracts will be awarded, the reverse is also true. VA's operational plans for implementing its construction program--i.e., how many contracts to award, when to award them, and how much money to obligate--must depend on how much money VA expects to have available for obligation (unobligated balances plus new obligational authority). Therefore, when VA's estimate of unobligated balances are wrong, its plans for awarding contracts and obligating funds may be disrupted.

As discussed on p. 13 and as illustrated in the charts on pp. 14 and 15, our comparison of estimated and actual unobligated balances showed that VA consistently underestimated the unobligated balances in its Construction, Major Projects appropriation account. VA's first estimate for fiscal year 1974 was understated by 32 percent, for fiscal year 1975 by 53 percent, for fiscal year 1976 by 56 percent, for the transition quarter by 31 percent, and for fiscal year 1977 by 87 percent.

One partial explanation for VA's earlier project cost misestimates and, therefore, for its misestimation of future unobligated balances, is that VA first started including an inflation factor in estimating project costs in fiscal year 1976. Prior to that year, as a matter of policy, inflation had not been recognized in VA's estimating process

Ageing of unobligated balances

The annual Construction, Major Projects appropriations, as mentioned earlier, are no-year appropriations and, as such, remain available to VA until actually expended. Because of this, VA makes no special effort to trace the amounts obligated against individual years' appropriations. As each year's appropriation is approved, according to VA officials, the amount appropriated is added to the funds previously appropriated and available for major construction projects. Therefore, funds remaining unobligated at the end of any fiscal year after 1973, the year the appropriation was created, would most likely represent portions of two or more years' appropriations. Given this situation and the large number of projects funded by this account, an accurate ageing of all unobligated balances was not practical.

Recognizing these limitations, we attempted to analyze the age of each year's unobligated balances by assuming a first-in, first-out movement (obligation) of the funds available for obligation. Our preliminary analysis disclosed that the equivalent of \$73.4 million of the \$297.5

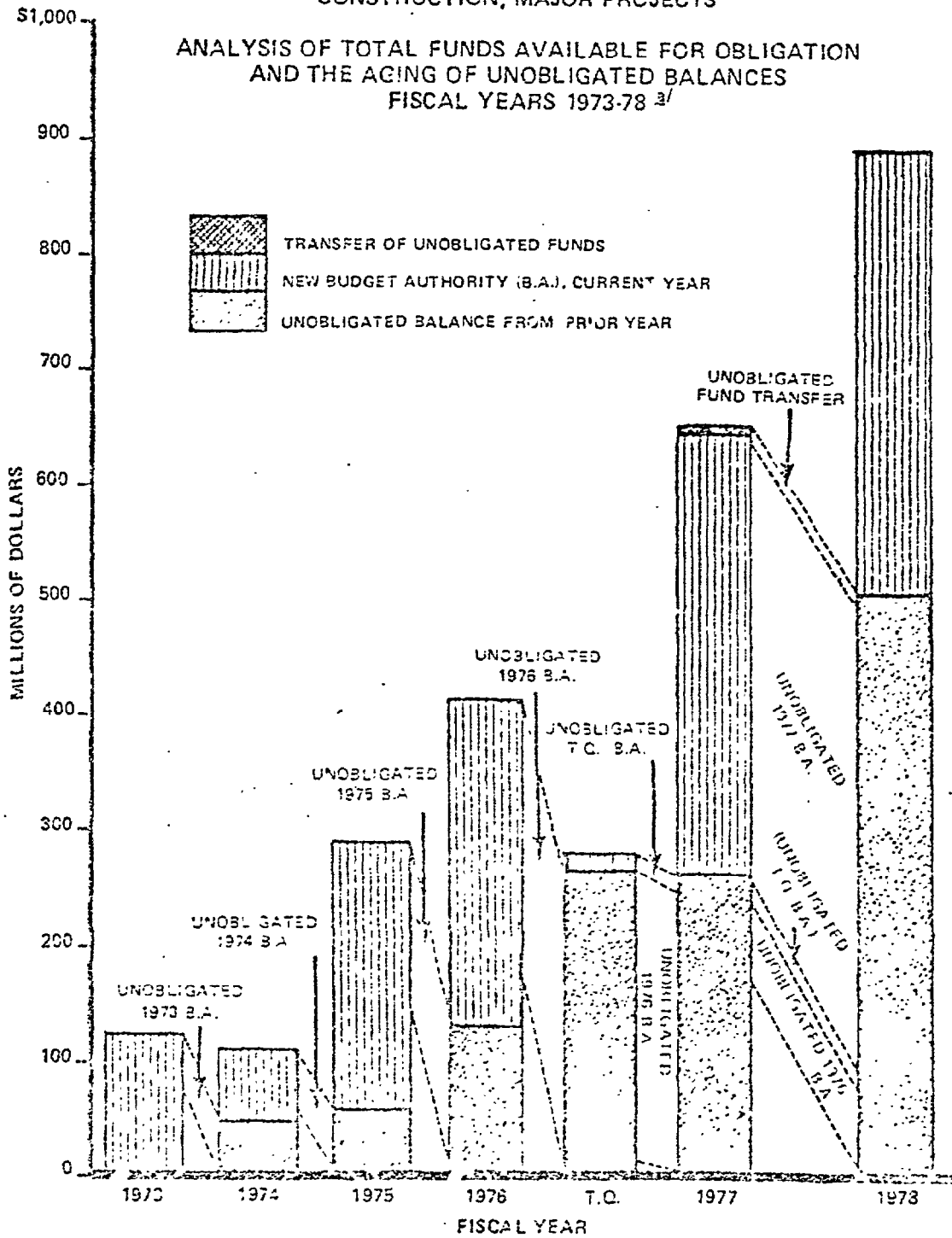
million appropriated by the Congress as new budget authority for fiscal year 1976, and the equivalent of all funds appropriated for the transition quarter and for fiscal year 1977 (\$15.9 million and \$405.7 million, respectively), remained unobligated at the beginning of fiscal year 1978. (See chart on p. 28 .)

Further in-depth analysis revealed that portions of the fiscal year 1978 beginning unobligated balances, which totaled \$501 million, in actuality may be traceable back to fiscal year 1973, and in some cases even prior years.^{1/} We noted that, of the \$501 million in unobligated balances, \$319.1 million or 63.7 percent was identified in VA's fiscal year 1979 budget submission with 27 specific hospital replacement and modernization projects. For these 27 projects we traced, on a first-in, first-out basis, the earmarked but unobligated balance back to the fiscal years in which those funds were appropriated. As shown in the schedule on p. 29, of the \$319.1 million in unobligated balances, \$1.1 million or 0.3 percent had been appropriated in fiscal year 1975, \$99 thousand or less than 0.1 percent in fiscal year 1974, \$10.3 million or 5.1 percent in fiscal year 1973, and \$2 million or 0.6 percent in fiscal year 1972 or earlier. According to VA officials, most of these earlier unobligated funds are attributable to project reserves for contingencies and pending contractor claims.

^{1/} As pointed out in earlier sections, on October 1, 1976, earmarked but unobligated balances of \$6.1 million from the former Construction of Hospital and Domiciliary Facilities appropriation account, which last received appropriations in fiscal year 1972, were transferred to the Construction, Major Projects appropriation account. Some of these funds still remained unobligated at the beginning of fiscal year 1978.

VETERANS ADMINISTRATION
CONSTRUCTION, MAJOR PROJECTS

ANALYSIS OF TOTAL FUNDS AVAILABLE FOR OBLIGATION
AND THE AGING OF UNOBLIGATED BALANCES
FISCAL YEARS 1973-78 ^{3/}



^{3/} ASSUMES A FIRST-IN, FIRST-OUT OBLIGATION OF FUNDS.

VA Construction, Major Projects
Amount of Unobligated Balances Transferred for
Replacement and Modernization Projects
as of October 31, 1977 (Dollars in Thousands)

Project location	Unobligated balances 10/1/77	Fiscal years unobligated balances were appropriated					Balance 12/31/77	
		1977	Transition quarter	1978	1979	1974		1975
Augusta, Georgia	\$ 2,157	\$ -	\$ -	\$ 2,157	\$ -	\$ -	\$ -	\$ -
Baltimore, Maryland	13,573	8,476	-	-	-	-	3,724	1,373
Bay Pines, Florida	105,002	105,002	-	-	-	-	-	-
Boise, Idaho	188	-	-	188	-	-	-	-
Bronx, New York	24,641	19,242	-	5,399	-	-	-	-
Camden, New Jersey	7,301	3,700	-	-	100	-	3,501	-
Chillicothe, Ohio	4,751	4,751	-	-	-	-	-	-
Columbia, Missouri	112	-	-	-	-	-	-	112
Columbia, South Carolina	1,440	-	-	1,440	-	-	-	-
Hampton, Virginia	159	159	-	-	-	-	-	-
Little Rock, Arkansas	13,386	8,925	-	-	100	-	4,361	-
Loma Linda, California	2,305	-	-	2,305	-	-	-	-
Los Angeles (Wadsworth), Calif.	1,785	1,785	-	-	-	-	-	-
Madison, Wisconsin	1,488	-	1,488	-	-	-	-	-
Martinsburg, West Virginia	3,368	3,368	-	-	-	-	-	-
Phoenix, Arizona	385	-	-	-	-	-	-	385
Phoenix, Arizona (Phase II)	193	-	-	193	-	-	-	-
Portland, Oregon	15,150	13,150	-	-	-	-	2,150	-
Richmond, Virginia	108,930	108,930	-	-	-	-	-	-
San Antonio, Texas	217	-	-	217	-	-	-	-
San Diego, California	170	-	-	-	-	-	-	170
San Francisco, California	453	-	-	-	-	-	453	-
Seattle, Washington	8,899	6,800	-	-	-	-	2,099	-
Brooklyn (St. Albans), New York	2,035	-	-	2,400	635	-	-	-
West Roxbury, Massachusetts	440	-	-	440	-	-	-	-
White River Junction, Vermont	35	-	-	-	-	-	-	35
Wichita, Kansas	200	-	-	-	200	99	-	-
Total unobligated balances	\$319,054	\$284,306	\$1,483	\$13,740	\$1,085	\$ 90	\$16,348	\$2,016
Percent of total unobligated balances as of 10/1/77	100.0%	89.1%	0.5%	4.3%	0.3%	3/	5.1%	0.6%

^{1/} These funds were part of the unobligated balances transferred from the former Construction of Hospital and Quaternary Facilities appropriation account.

^{2/} Less than 0.1 percent.

Propriety of unobligated balances

The unobligated balances in the Construction, Major Projects appropriation account are large and are increasing in relation to the amount of the annual appropriation. Since 1973, the unobligated balances have grown so rapidly that at the end of fiscal year 1978, they will equal 142 percent of the amount appropriated for that year. However, even though these funds are not legally obligated, they are nevertheless committed, or earmarked, for specific construction projects. VA's annual budget submissions spell out the particular projects to be constructed, and for what specific amounts, even though the appropriation itself is a "lump sum" line item for major projects, usually without identifying particular projects in the appropriation language.

The trend of increasing unobligated balances is due to several factors: a tripling in the annual appropriation for major construction projects, full-funding of projects costs in the initial budget year, phased construction for larger projects, and unanticipated congressional actions that added new projects and funds or deleted funds for requested projects.

The only unobligated funds not earmarked for particular projects are those in the Working Reserve Fund. Reprogrammings are charged against or credited to the fund and, in recent years, most of the balance remaining in this fund at the end of the fiscal year is being offset against the following year's requested program funding level to arrive at the net amount to be appropriated.

The propriety of the amount of unobligated balances is difficult to assess because of not having a good basis for comparison. However, considering the increases in these balances, the reasons for those increases, and the fact that most, if not all, of the funds involved are earmarked for specific projects approved in the congressional budget review process, the unobligated balances, in our view, do not appear improper.

UNLIQUIDATED OBLIGATIONS

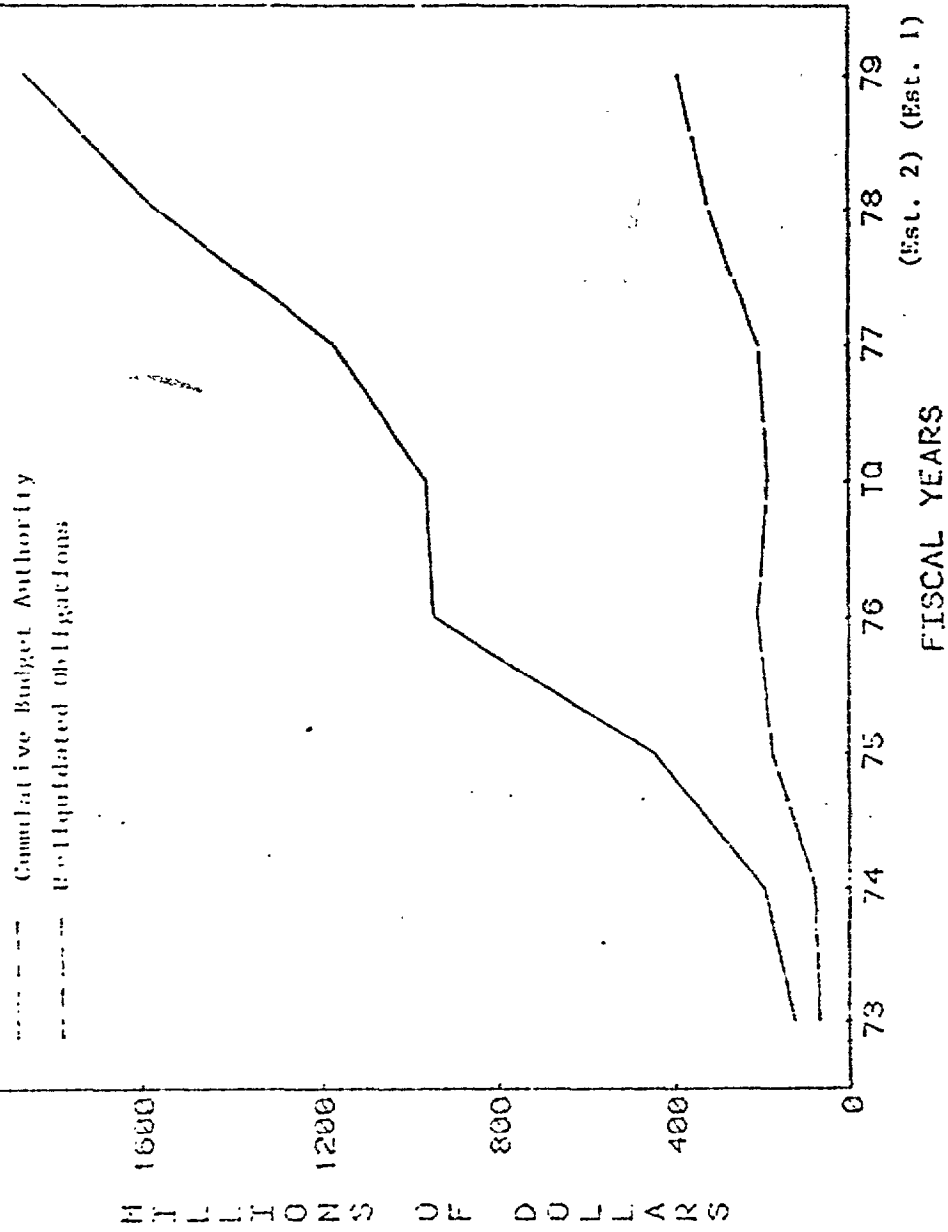
The major construction unliquidated obligations balance increased steadily between fiscal years 1973 and 1976, rising from \$65.7 million to \$210.8 million. The balance dropped slightly during the transition quarter, but rose again in fiscal year 1977. In fiscal years 1978 and 1979, VA estimates that unliquidated obligations will increase dramatically, reaching \$320 million in 1978 and \$387.6 million in 1979. Although the total dollar amount of unliquidated obligations will have increased 490 percent during this 7-year period, the rate of increase will have accelerated. Between fiscal years 1973 and 1976, the balance increased by 221 percent. Between fiscal year 1976 and the end of fiscal year 1979, the balance is estimated to further increase by an additional 269 percent, with the largest increase (\$102.6 million or 171 percent) expected to occur in fiscal year 1978.

As a percentage of cumulative budget authority for major construction, actual unliquidated obligations through fiscal year 1977 had been declining. At the end of fiscal year 1973, the first year the Construction, Major Projects appropriation account was in existence, 52.1 percent of its budget authority was unliquidated. This rate has continued to drop. In fiscal year 1977, 17.7 percent of the cumulative budget authority was unliquidated. VA estimates that 20.5 percent will be unliquidated at the end of fiscal year 1978 and 20.8 percent at the end of fiscal year 1979. (See chart on p. 32.)

In proportion to the total unexpended balances for VA major construction projects, actual unliquidated funds through fiscal year 1977 also showed a declining trend. In fiscal year 1973, the unliquidated obligations portion of the unexpended balances was \$65.7 million, or 58.7 percent. Unobligated balances were \$46.3 million, or 41.3 percent. Actual unliquidated obligations, as a percentage of the unexpended balances, dropped steadily through fiscal year 1977, when they comprised only 29.3 percent of these funds, the other 70.7 percent being unobligated balances. VA's estimates for fiscal years 1978 and 1979, however, portray a change in this trend--VA estimates that, at the end of fiscal years 1978 and 1979, 33.4 percent (\$320 million) and 43.3 percent (\$387.6 million), respectively, of the total unexpended balances will represent unliquidated obligations. (See chart on p. 33.)

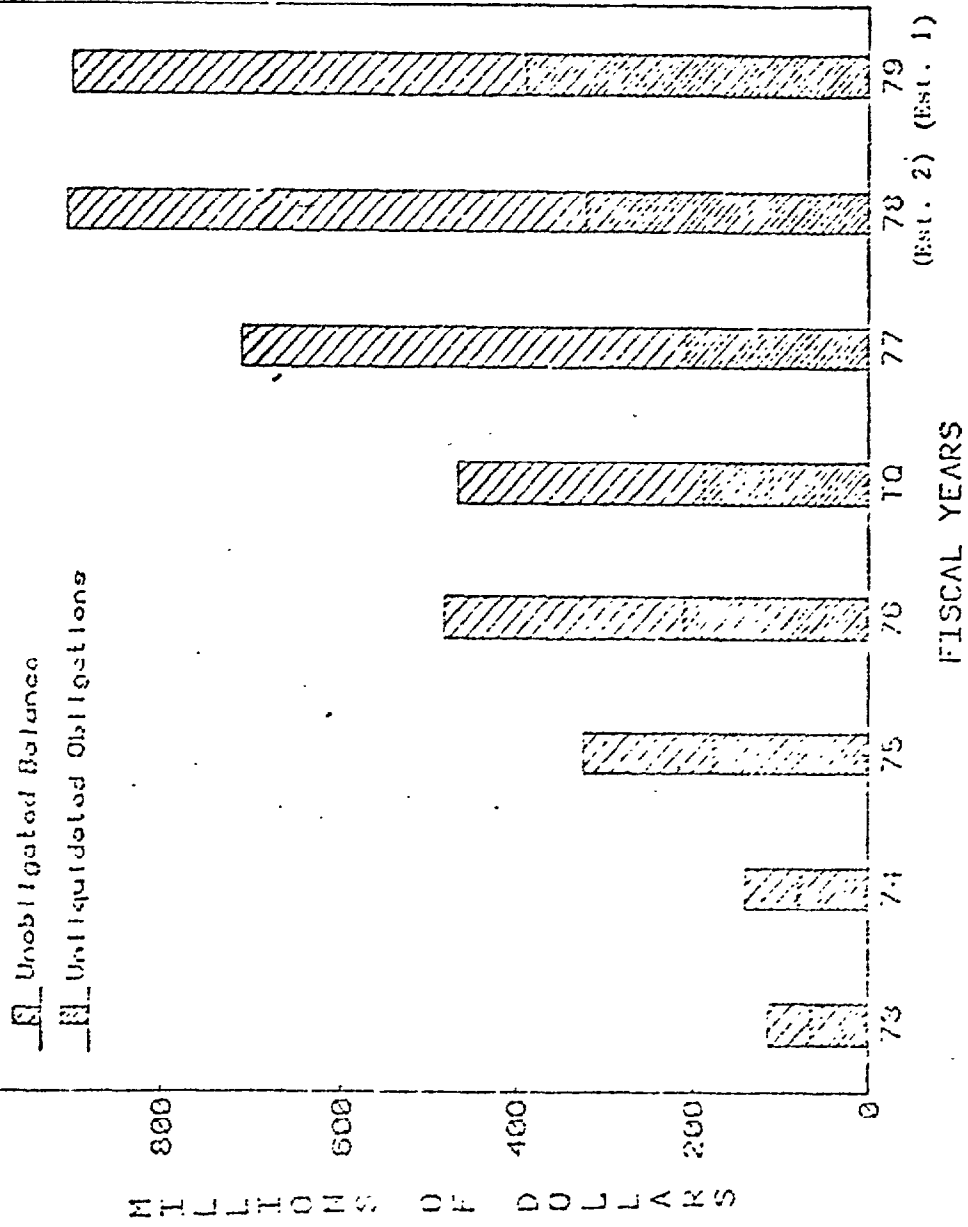
Between fiscal years 1973 and 1979, total funds available annually for expenditure (beginning unexpended balances plus new budget authority) for major construction projects will have risen from \$126 million to about \$1.2 billion. Annual outlays, as a percentage of total funds available, remained fairly steady during this period, averaging 16.6 percent through fiscal year 1978. However, for fiscal year 1979, outlays are initially estimated at 25.2 percent of the funds available for expenditure. (See chart on p. 34.)

COMPARISON OF UNLIQUIDATED OBLIGATIONS & CUMULATIVE BUDGET AUTHORITY
 VA - CONSTRUCTION MAJOR PROJECTS APPROPRIATION ACCOUNT

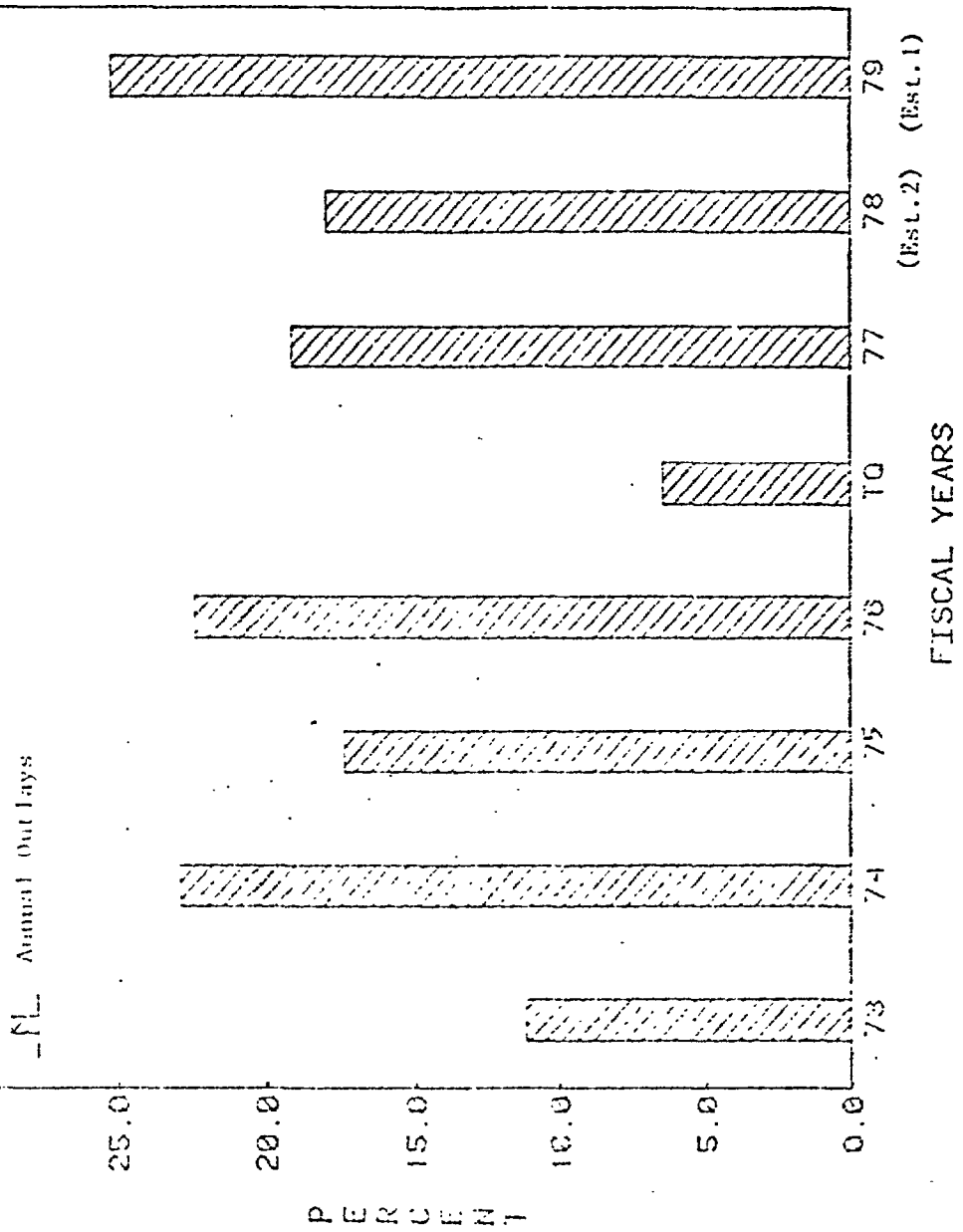


1000 VA - CONSTRUCTION, MAJOR PROJECTS APPROPRIATION ACCOUNT

UNEXPENDED BALANCES (Millions of dollars)



ANNUAL OUTLAYS AS A % OF TOTAL FUNDS AVAILABLE FOR EXPENDITURE
 30.0% - CONSTRUCTION MAJOR PROJECTS APPROPRIATION ACCOUNT



During fiscal years 1973 through 1979, VA will have obligated \$1,350.2 million for major construction projects. Of this amount, VA expects to have liquidated 71.3 percent, or \$962.5 million, by the end of fiscal year 1979. Liquidations (cumulative outlays) as a percentage of cumulative obligations have followed a fairly steady pattern of growth since fiscal year 1973, from 17.6 percent in fiscal year 1973 to 69.0 percent at the end of fiscal year 1977 and a predicted 71.3 percent by fiscal year 1979. (See chart on p. 36.)

Factors contributing to growth in unliquidated obligations

The growth in major construction unliquidated obligations can primarily be attributed to the growth in the major construction program and to the liquidation of obligated funds based on monthly contractor progress reports.

Growth in the major construction program

As discussed earlier, VA's major construction program has grown dramatically since fiscal year 1973, with actual cumulative budget authority increasing by more than \$1.4 billion in the first 6 years (see table on p. 24) and the number of funded major projects increasing from 70 to 284 (see schedule on p. 6). Like the growth in the program, unliquidated obligations have also grown, but at a relatively slower rate. Unliquidated obligation trends appear more favorable in comparison to the growth in other Construction, Major Projects appropriation account balances, such as unobligated balances, cumulative obligations, and annual cash outlays.

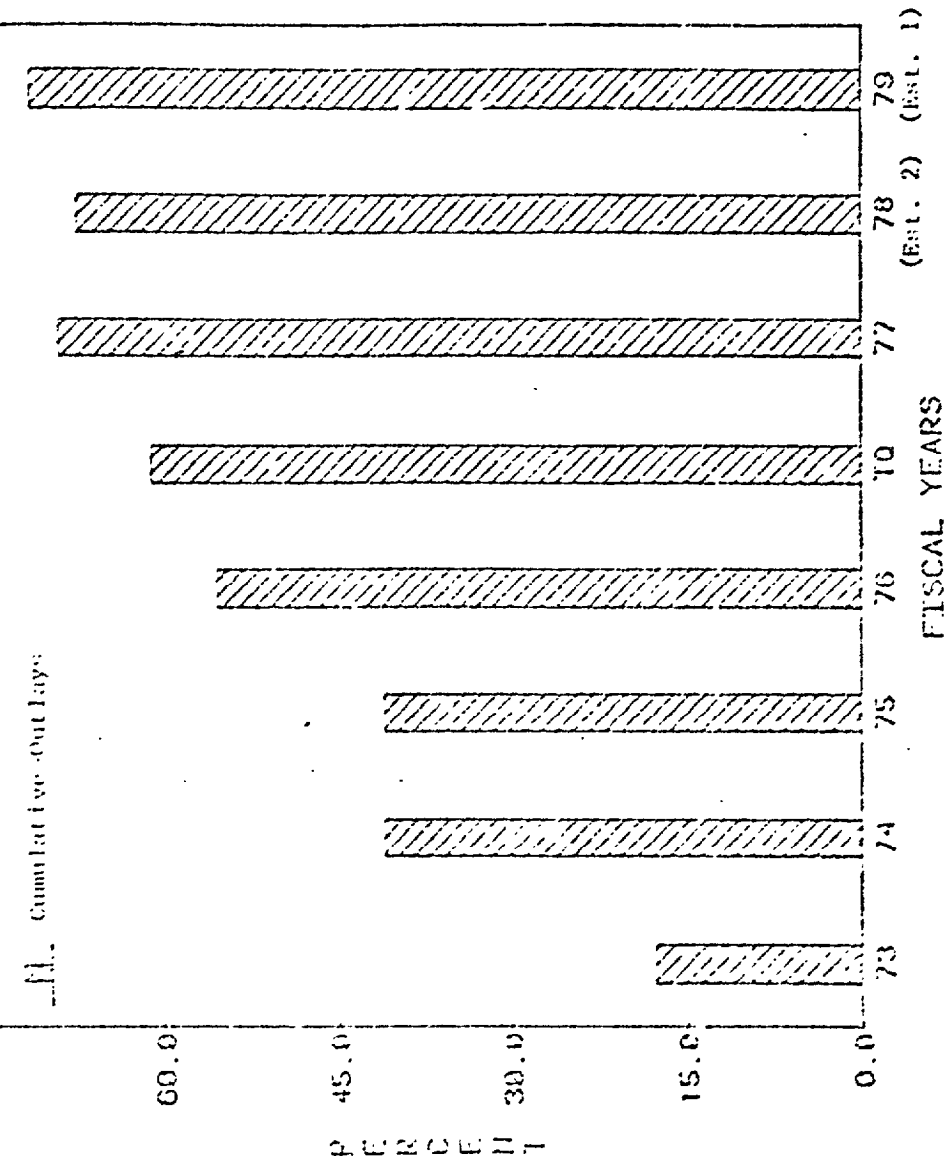
Outlays based on construction progress

Although all funds for a construction contract are obligated at the time the contract is entered into, the funds thus obligated are generally liquidated in a manner which follows a bell-shaped curve, with cash outlays closely following construction progress, as reported on monthly progress reports. As the program has grown, large amounts of funds have been obligated for an increasing number of major projects which may take several years to complete. According to VA officials, large obligations made during the major phases of construction take several years to fully liquidate, leaving substantial amounts of obligated funds unliquidated during a major portion of the construction period.

Aging of unliquidated obligations

VA budget authority remains available for obligation for an indefinite period of time, usually until the objectives for which the authority was made available are attained. The aging of the account, therefore, can only be done on a first-in, first-out basis. On this basis, the majority of the unliquidated obligations remaining at the end of the fiscal year are liquidated in the next year, with one remainder being liquidated the following year. For example, at

CUMULATIVE OUTLAYS AS A PERCENTAGE OF CUMULATIVE OBLIGATIONS
 VALUE CONSTRUCTION MAJOR PROJECTS APPROPRIATION ACCOUNT



the end of fiscal year 1973, \$65.7 million was unliquidated and carried over into fiscal year 1974. During fiscal year 1974, \$41.2 million of this \$65.7 million was liquidated. The remaining fiscal 1973 unliquidated funds, \$24.5 million, were carried forward into fiscal year 1975 and, apparently, liquidated during that year. (See chart on p. 38.) Unlike the unobligated balances, however, we were unable to further analyze the unliquidated obligations to identify exceptions to this first-in, first-out aging process due to a lack of readily available data on outlays for individual projects.

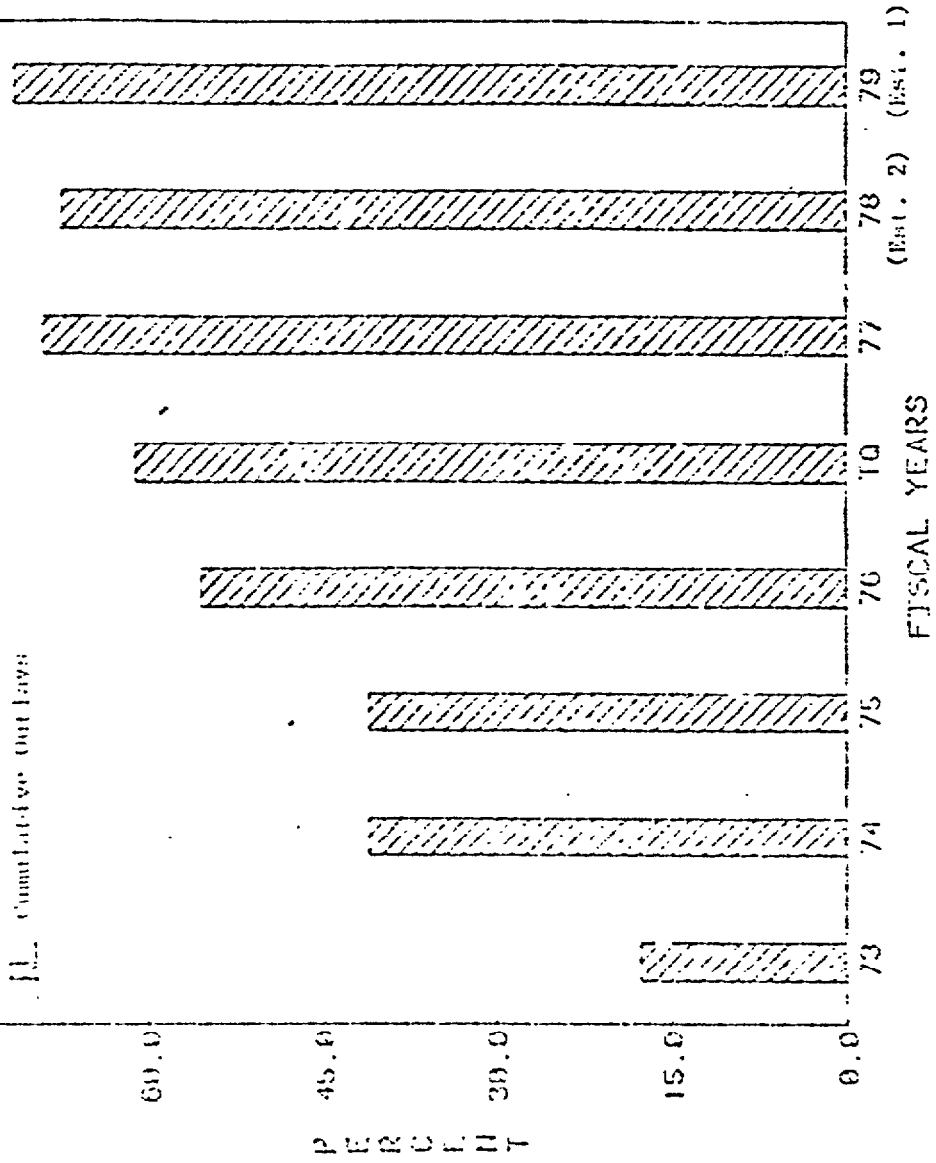
Propriety of unliquidated obligations

Our review showed that the major portion of the unliquidated obligations can be attributed to the growth of the major construction program and to the liquidation of obligated funds based on monthly progress reports. The unliquidated obligation trends in fiscal years 1973 through 1977 were more favorable in comparison to the trends for other Construction, Major Projects appropriation account balances. Although unliquidated obligations have been increasing in dollar amount, the increases through fiscal year 1977 were much slower in comparison to the increases in cumulative budget authority and in unobligated balances. The slow growth in unliquidated obligations and the accelerated growth in unobligated balances reflect VA's past inability to timely obligate the funds made available to the agency by the Congress. In this regard, however, it should be noted that VA projects sharper increases in unliquidated obligations for fiscal years 1978 and 1979.

Actual unliquidated obligations through fiscal year 1977, as percentages of cumulative budget authority, of the total unexpended balances, and of cumulative obligations, have been decreasing. Estimates for fiscal years 1978 and 1979 portray a possible reversal in this trend. Outlays, as a percentage of the total funds available for expenditure, would remain about the same through fiscal year 1978, with an acceleration in outlays projected for fiscal year 1979.

The propriety of the amount of unliquidated obligations, like unobligated balances, is difficult to assess. However, recognizing the growth trends in unliquidated obligations and the reasons for those trends, as discussed above, and the low but fairly steady rate of annual outlays, the amounts shown as unliquidated obligations in VA's Construction, Major Projects appropriation account, in our view, do not appear improper.

CUMULATIVE OUTLAYS AS A PERCENTAGE OF CUMULATIVE OBLIGATIONS
 FOR CONSTRUCTION MAJOR PROJECTS APPROPRIATION ACCOUNT



the end of fiscal year 1973, \$65.7 million was unliquidated and carried over into fiscal year 1974. During fiscal year 1974, \$41.2 million of this \$65.7 million was liquidated. The remaining fiscal 1973 unliquidated funds, \$24.5 million, were carried forward into fiscal year 1975 and, apparently, liquidated during that year. (See chart on p. 35.) Unlike the unobligated balances, however, we were unable to further analyze the unliquidated obligations to identify exceptions to this first-in, first-out aging process due to a lack of readily available data on outlays for individual projects.

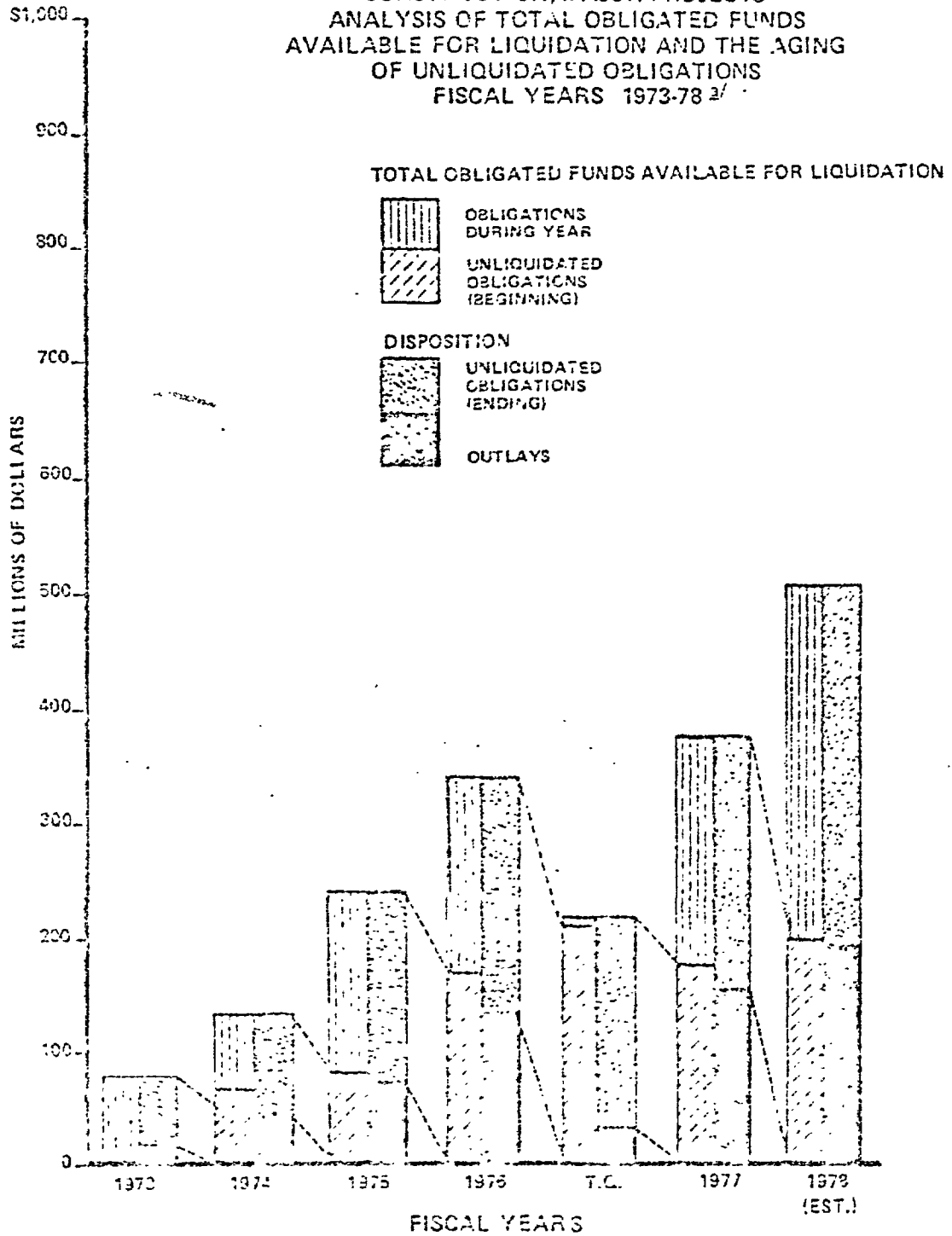
Propriety of unliquidated obligations

Our review showed that the major portion of the unliquidated obligations can be attributed to the growth of the major construction program and to the liquidation of obligated funds based on monthly progress reports. The unliquidated obligation trends in fiscal years 1973 through 1977 were more favorable in comparison to the trends for other construction, Major Projects appropriation account balances. Although unliquidated obligations have been increasing in dollar amount, the increases through fiscal year 1977 were much slower in comparison to the increases in cumulative budget authority and in unobligated balances. The slow growth in unliquidated obligations and the accelerated growth in unobligated balances reflect VA's past inability to timely obligate the funds made available to the agency by the Congress. If this trend, however, is should be noted that VA projects sharper increases in unliquidated obligations for fiscal years 1978 and 1979.

Actual unliquidated obligations through fiscal year 1977, as percentages of cumulative budget authority, of the total unexpended balances, and of cumulative obligations, have been decreasing. Estimates for fiscal years 1978 and 1979 portend a possible reversal in this trend. Outlays, as a percentage of the total funds available for expenditure, would remain about the same through fiscal year 1975, with an acceleration in outlays projected for fiscal year 1979.

The propriety of the amount of unliquidated obligations, like unobligated balances, is difficult to assess. However, recognizing the growth trends in unliquidated obligations and the reasons for those trends, as discussed above, and the low but fairly steady rate of annual outlays, the reports show as unliquidated obligations in VA's construction, Major Projects appropriation accounts, in our view, do not appear improper.

VETERANS ADMINISTRATION
 CONSTRUCTION, MAJOR PROJECTS
 ANALYSIS OF TOTAL OBLIGATED FUNDS
 AVAILABLE FOR LIQUIDATION AND THE AGING
 OF UNLIQUIDATED OBLIGATIONS
 FISCAL YEARS 1973-78 ^{2/}



^{2/} ASSUMES A FIRST IN, FIRST-OUT LIQUIDATION OF OBLIGATED FUNDS.