

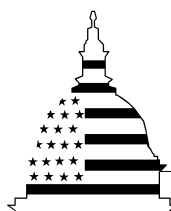
GAO

Subcommittee on Energy and Water
Development, Committee on
Appropriations, House of
Representatives

September 2005

ARMY CORPS OF ENGINEERS

Improved Planning and Financial Management Should Replace Reliance on Reprogramming Actions to Manage Project Funds



G A O

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Highlights of [GAO-05-946](#), a report to Subcommittee on Energy and Water Development, Committee on Appropriations, House of Representatives

Why GAO Did This Study

In recent years, the Army Corps of Engineers (Corps) has had more work to accomplish than funds available. The Congress has supported the Corps' need to reprogram funds to complete projects. Reprogramming allows the Corps to move funds from projects that can not use available funds to those that can. However, concerns have been expressed about whether the Corps reprogrammed funds in accordance with applicable guidance.

GAO determined for fiscal years 2003 and 2004 (1) the amount of funds reprogrammed; (2) if the Corps followed reprogramming guidance; (3) why the Corps reprogrammed funds; and (4) how effective the Corps' reprogramming strategy was in managing funds.

What GAO Recommends

GAO made five recommendations to help the Corps reduce its reliance on reprogramming actions, institute a financial planning and priority process for managing project funds, and work with congressional committees to develop meaningful reprogramming guidance.

In its comments on the draft report, the Department of Defense concurred with all but one recommendation. It did not concur with the need to allot funds to projects periodically during the year. GAO still believes that this recommendation is needed because project changes occur throughout the year.

www.gao.gov/cgi-bin/getrpt?GAO-05-946.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Anu Mittal at (202) 512-4852 or mittala@gao.gov.

ARMY CORPS OF ENGINEERS

Improved Planning and Financial Management Should Replace Reliance on Reprogramming Actions to Manage Project Funds

What GAO Found

In fiscal years 2003 and 2004, the Corps reprogrammed funds over 7,000 times and moved over \$2.1 billion among projects within the investigations and construction appropriations. Moreover, funds were moved in and/or out of nearly two thirds of the projects within these appropriation accounts. Comparable data for the operation and maintenance appropriation could not be provided by the Corps.

GAO reviewed a random sample of 271 general investigation, construction general, and operation and maintenance projects and found that the Corps generally reprogrammed funds in accordance with its guidance. However, in eight cases, the Corps' reprogramming actions did not comply with the guidance because it either exceeded established reprogramming thresholds and/or did not provide the appropriate notification to the Congress. Although in most cases the Corps reprogrammed funds according to its guidance, this guidance is written in such a way that most reprogramming actions do not count as reprogramming actions toward the congressional notification thresholds, thereby diminishing the Congress' knowledge and oversight of how the Corps spends appropriated funds.

In many cases, the Corps reprogrammed funds from projects that experienced unforeseen delays to projects that could make use of additional funds. On the other hand, reprogramming actions were conducted that were inconsistent with the Corps' reprogramming guidance, such as to achieve a Corps goal that all projects carry no funds into the next fiscal year. Some of these movements were as small as 6 and 7 cents. Corps guidance states that small reprogramming actions are inconsistent with sound project management and increase its administrative burden. Funds were also moved into projects that had a reported "need" and then were subsequently removed because they were suddenly "excess"—sometimes on the same day or within a few days or weeks. Such movements appear to serve little useful purpose and create an administrative burden for the Corps because of the time and effort needed to accomplish these movements.

The Corps has come to rely on reprogramming as its primary method to manage project funds. The use of reprogramming is no longer used as a tool when emergencies and unforeseen circumstances occur but instead has become the regular, recurring financial management practice. Finally, the use of numerous reprogramming actions to manage project funds, without a set of formal Corps-wide priorities, has resulted in an uncoordinated movement of funds between projects, with little consideration to pending needs or long-term planning.

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United States Government Accountability Office
Washington, D.C. 20548

September 16, 2005

The Honorable David L. Hobson
Chairman, Subcommittee on Energy
and Water Development
Committee on Appropriations
House of Representatives

The Honorable Peter J. Visclosky
Ranking Minority Member
Subcommittee on Energy and Water Development
Committee on Appropriations
House of Representatives

Each year, the Congress provides funding to the U. S. Army Corps of Engineers (Corps) for hundreds of investigations, construction, and operation and maintenance projects for the nation's water resources.¹ During fiscal year 2004, the Corps' budget for these types of projects was more than \$3.8 billion. The conference report accompanying the bill that appropriates the funds includes a specific amount of funding for each project, in effect providing the Corps with direction for accomplishing water resource projects. However, the Corps may reprogram funds among the projects. Reprogramming is generally defined as the movement of funds among projects within an appropriation account and is permitted to provide agencies with the flexibility needed to manage appropriated funds.

The authority to reprogram funds in and out of projects is implicit in an agency's responsibility to manage its funds, and it has evolved largely in the form of informal nonstatutory agreements between agencies and their congressional oversight committees. Although an agency's ability to reprogram funds may be restricted by statute, more frequently congressional guidance on the extent and nature of an agency's reprogramming authority is provided in committee reports that accompany appropriation bills. In the case of the Corps, the agency had developed internal reprogramming guidance, based on previous congressional direction, in 1995 that was in effect until May 2004. At that time, the Corps received reprogramming direction from both the Senate and the House

¹In this report, the terms "investigations" and "construction" are used to describe the appropriation accounts entitled "general investigations" and "construction, general," respectively.

Appropriations Committees. Starting on May 27, 2004, the Corps' reprogramming procedures were based on direction that was subsequently included in the House of Representatives report on the fiscal year 2005 appropriations bill. The Corps' reprogramming guidance—both before and after May 27, 2004—required notifying the Congress of the Corps' intention to move funds when reprogrammings exceeded specific thresholds. The thresholds vary by type of project and are set as a specific dollar amount and/or a percentage of project funding. The May 27, 2004, guidance was somewhat more restrictive, although still permitting the Corps to have considerable flexibility in reprogramming funds between projects.

In this context, for fiscal years 2003 and 2004, we determined (1) how much funding the Corps moved within its Civil Works appropriations, (2) the extent to which the Corps followed applicable guidance in moving funds between projects, (3) the reasons for Corps' reprogramming actions during fiscal years 2003 and 2004, and (4) how effective the Corps' reprogramming strategy was in managing appropriated funds. In conducting our work, we reviewed the Corps' overall reprogramming activity within the investigations, construction, and operation and maintenance appropriations during fiscal years 2003 and 2004.² We selected a random sample of 271 investigations, construction, and operation and maintenance projects from these 2 years and reviewed each reprogramming activity, determined why funds were reprogrammed, and whether funds were reprogrammed in accordance with the guidance in effect at the time. We also held discussions with program and project managers to obtain further details about the projects included in our sample and about the advantages and disadvantages of the Corps' use of reprogramming to manage project funds. We conducted our review from December 2004 through June 2005 in accordance with generally accepted government auditing standards, which included an assessment of data reliability and internal controls. Appendix I contains a more detailed discussion of our scope and methodology.

²Investigations are studies to determine the need, engineering feasibility, economic justification, and the environmental and social suitability of a project. Investigations also include preconstruction, engineering, design work, data collection, and interagency coordination and research activities. Construction projects are construction and major rehabilitation projects that relate to navigation, flood control, water supply, hydroelectric power, and environmental restoration. Operation and maintenance projects include the preservation, operation, maintenance, and care of existing river and harbor, flood control, and related activities at the projects that the Corps operates and maintains.

Results in Brief

In fiscal years 2003 and 2004, the Corps conducted thousands of reprogramming actions and moved billions of dollars among its civil works projects. Specifically, in fiscal years 2003 and 2004, the Corps reprogrammed funds over 7,000 times and moved over \$2.1 billion among investigations and construction projects; the Corps could not provide agency wide data for reprogramming actions for operation and maintenance projects.³ During fiscal years 2003 and 2004, more than 60 percent of the over 1,500 investigations and construction projects had funds reprogrammed. In both years, the Corps reprogrammed over 56 percent of the total funds appropriated for the investigations and construction accounts.

Although the Corps generally followed its reprogramming guidance, the guidance has been developed in such a way that it permits extensive movements of funds without congressional notification. As a result, the Corps was able to move billions of dollars among hundreds of projects without congressional knowledge and oversight. For 263 of the 271 randomly selected projects we reviewed, the Corps reprogrammed funds in fiscal years 2003 and 2004 in accordance with its reprogramming guidance. For the 8 projects where the Corps' reprogramming actions did not comply with the guidance, the Corps had exceeded the thresholds established for reprogramming but did not provide the appropriate notifications to the Congress. Even though the Corps moved funds according to its guidance, the guidance had been developed in such a way that most movements of funds did not count toward congressional notification thresholds. For example, for investigations and construction projects, the Corps categorized all reprogrammings of funds out of a project as "revocations" which, according to its guidance, did not count toward congressional notification thresholds. Consequently, the Corps could move most or all of the funds out of a project without having to notify the Congress. Similarly, if funds were returned to the same project at a later date, the Corps did not consider these movements as reprogrammings that counted toward congressional notification thresholds. Except for the period from May 27, 2004, to September 30, 2004, when different guidance was in effect, only those movements of funds into a project that were specifically labeled by the Corps as "reprogrammings" counted toward the congressional

³In this report, we calculate the dollar amount of reprogramming actions as the total amount of funds moved into and out of a project. For instance, if \$10,000 was moved into a project and \$5,000 was subsequently moved out in the same fiscal year, we determined the total dollar amount of reprogramming for that project to be \$15,000.

notification threshold. This category was seldom used and, according to Corps officials, when used, was generally limited to amounts that were less than the congressional notification threshold. As a result, only about 16 percent of investigations and construction reprogramming actions prior to May 27, 2004, were categorized as Corps-defined “reprogrammings” that counted toward the threshold for congressional notification. We believe that all actions should have counted toward the congressional notification thresholds, because when the Corps moves funds that create a major deviation from the funding direction the Congress provided for these projects, the Congress should be informed of the changes and the reason for the changes no matter how the Corps chooses to categorize the movement.

The Corps reprogrammed funds for a variety of reasons, some which appear to be inconsistent with the Corps’ internal reprogramming guidance. The Corps’ guidance states that reprogramming to address unforeseen events is a valid use of reprogramming and increases the efficiency of the entire program. In many cases, the Corps reprogrammed funds from projects that were experiencing unforeseen delays to projects that could make use of additional funds. Similarly, in other cases, funds were moved into projects that experienced unexpected costs, such as a lock failure on a waterway. In these cases, funds had to be moved from one project to another because the Corps allocated all available funds to projects at the beginning of the year and did not keep any funds aside for unexpected project contingencies. On the other hand, large numbers of reprogrammings were also conducted for reasons that were inconsistent with the Corps’ internal reprogramming guidance. For example, to achieve a Corps goal that all projects carry no funds into the next fiscal year, even though Corps funds are “no year” funds and remain available to the Corps until spent, about 23 percent of all movements occurred during the last month of the fiscal year. Some of these movements were as small as 6 and 7 cents. Such movements appear to serve little useful purpose and create an administrative burden for the Corps. Corps guidance states that small reprogrammings are inconsistent with sound project management, cause additional accounting and paperwork efforts at all levels, and increase the risk of errors.

The Corps’ financial management practice of conducting thousands of reprogrammings resulted in movements of funds that were not necessary and reflected poor planning and an absence of Corps-wide priorities for projects. Corps reprogramming guidance discourages the temporary movement of funds and considers such actions to be inconsistent with

sound project management practices. In addition, Corps reprogramming guidance states that only funds surplus to current year requirements should be a source for reprogramming. However, the Corps uses a “just-in-time” reprogramming strategy under which it moves funds from projects that currently have available funds to projects with an immediate need, regardless of the donor projects’ future needs or the relative priority of the projects receiving the funds. As a result, funds were removed from projects without considering their near-term funding requirements, such as projects with impending studies. Funds were also moved into projects that reportedly had a “need” and then were subsequently removed because they were “excess”—sometimes on the same day or within a few days or weeks. For example, in fiscal year 2004, the Corps revoked 7 percent of the funds from every construction project—a total of \$154.6 million— regardless of whether the funds were needed on the project or not. These funds were moved primarily to provide funds for “national requirements projects” (projects to which Corps headquarters management had promised to restore funds moved in prior years). Of the funds revoked and moved to the national requirements projects, \$38.8 million was eventually moved to other projects because some of the national requirements projects had no need for these funds. One national requirements project— New York and New Jersey Harbor—received nearly \$24.9 million. All of those funds, plus an additional \$10.3 million were not needed on the project and were subsequently moved to other projects.

We are making recommendations that the Secretary of Defense direct the Commanding General and Chief of Engineers of the U.S. Army Corps of Engineers to eliminate the use of excessive reprogramming actions and to provide better financial management of project funds. In commenting on a draft of this report, the Department of Defense stated that it was a constructive report and concurred with all but one of our recommendations. Regarding our recommendation that the Corps develop a financial planning and management system for the investigations, construction, and operation and maintenance appropriations that changes the way the Corps allocates funds from an annual basis to a more frequent basis and reflects actual schedule and project performance, the department said that it is important that the Corps continue to allocate all funds provided by the Congress for each project and that any deviation from that amount would not reflect the intent of the Congress. The department also said that withholding funds from the initial allocation would add administrative burden, increase uncertainty in execution, and would not aid in scheduling and schedule review.

We disagree with the department because from the time the Corps submits its budget estimates until the appropriation is received, changes may have occurred and projects may not need the amount of funds included in the conference report or may need additional funds. Our recommendation would allow the Corps to make these known changes before allocating all funds to a project. Currently, the Corps makes such changes through reprogramming actions. Our recommendation would merely serve to streamline the process. This would eliminate the administrative burden of making project funding allocations that the Corps already knows it is going to reallocate through reprogramming actions.

Background

The Corps' Civil Works program is responsible for investigating, developing, and maintaining the nation's water and related environmental resources. In addition, the Civil Works program also provides disaster response as well as engineering and technical services. The Corps' headquarters is located in Washington, D.C., with eight regional divisions, and 38 districts that carry out its domestic civil works responsibilities.

Each year, the Corps' Civil Works program receives funding through the Energy and Water Development Appropriations Act. The act normally specifies a total sum for several different appropriation accounts, including investigations, construction, and operation and maintenance, to fund projects related to the nation's water resources. The funds appropriated to the Corps are "no year" funds, which means that they remain available to the Corps until spent. Table 1 shows the appropriations received in fiscal years 2003 and 2004 for the investigations, construction, and operation and maintenance accounts.

Table 1: Fiscal Years 2003 and 2004 Appropriations

Dollars in thousands

Appropriation accounts	Fiscal year 2003 budget authority	Fiscal year 2004 budget authority
Investigations	\$135,019	\$116,949
Construction	1,756,012	1,722,319
Operation and Maintenance	1,940,167	1,967,925
Total	\$3,831,198	\$3,807,193

Source: Fiscal years 2003 and 2004 Energy and Water Development Appropriations Acts.

The conference report accompanying the Energy and Water Development Appropriations Act specifically lists individual investigations, construction, and operation and maintenance projects and the amount of funds designated for each project. In effect, this provides the Corps with its priorities for accomplishing its water resource projects. In recent years, the Congress has appropriated fewer funds than the sum of the amount designated to individual projects in the conference report. The difference between the total amount designated for projects in the conference report and the full appropriation is known as savings and slippage. As directed by the Congress, the Corps reduces the conference report amount for each project by a percentage to allow for savings and slippage and then releases the entire amount of each projects' funding to the districts' project managers for executing projects.⁴ However, once the Corps has allotted the funds to specific projects, the Corps may reprogram the funds to other projects.

Reprogramming Authority

Reprogramming is the shifting of funds from one project or program to another within an appropriation or fund account for purposes other than those contemplated at the time of appropriation. A reprogramming transaction changes the amount of funds provided to at least two projects—the donor project and the recipient project. However, more than two projects are often involved in a single reprogramming action. For example, in an effort to make effective use of available funding, the Corps may move

⁴Part of the appropriation the Corps receives in its appropriation act is designated or “earmarked” in the act itself for specific projects. In general, funds that are earmarked to specific projects are not available for reprogramming and savings and slippage is not deducted from project funding.

funds from a construction project that has slipped due to inclement weather and reprogram the funds to one or more construction projects that are ahead of schedule or experiencing cost overruns.

The authority to reprogram funds is implicit in an agency's responsibility to manage its funds; no specific additional statutory authority is necessary. While there are no governmentwide reprogramming guidelines, the Congress exercises control over an agency's spending flexibility by providing guidelines or nonstatutory instructions on reprogramming in a variety of ways. For example, some reprogramming and reporting guidelines have evolved from informal agreements between various agencies and their congressional oversight committees. Reprogramming guidelines frequently involve some form of notification to the House and Senate appropriations committees prior to the action.⁵ (In this report, notification to the House and Senate appropriations committees will be referred to as congressional notification or notifying the Congress.) In addition to notification, reprogramming arrangements sometimes also provide for committee approval prior to the movement of funds that exceed certain thresholds.

The Corps' reprogramming guidelines have evolved over nearly 50 years, stemming from direction provided to the Corps through congressional reports and informal agreements with the House and Senate Appropriations Committees.⁶ In 1995, the Corps published revised internal reprogramming guidance based upon previous congressional direction (U.S. Army Corps of Engineers, Engineering Regulation ER 11-2-201). These reprogramming guidelines set forth procedures and policies on reprogramming actions for civil works activities under investigations, construction, and operation and maintenance appropriations titles, among others.

⁵In most cases, the committee review process is nonstatutory and derives from instructions in committee reports, hearings, and other correspondence.

⁶Congressional committee instructions to the Corps to reprogram construction project funds were first contained in the House and Senate reports on the 1957 Public Works Appropriation Bill. Reprogramming instructions have been included many times since in subsequent congressional reports. Congressional committee instructions to the Corps to reprogram investigations and operation and maintenance project funds were established by informal agreement and precedent over the years. It was first formally addressed by the Congress in the Senate report on the 1980 Energy and Water Development Appropriations Bill.

Under the 1995 guidance, the Corps was permitted to reprogram construction funds up to 15 percent of the base amount of a project for any fiscal year. The base amount is the amount listed in the conference report plus any funds carried in from previous fiscal years and adjusted for funds sequestered, deferred, rescinded, or released from deferral.⁷ Any reprogramming action(s) that exceeded the 15 percent threshold required the Corps to coordinate its intentions with both the House and Senate Appropriations Committees. There were two exceptions to the 15 percent limitation. The Corps may reprogram up to \$300,000, without regard to percentage, for projects on which the amount available for the fiscal year is \$2 million or less, and the Corps may move up to \$5 million per construction project without regard to the percentage limitation when the increased requirement results from a settled contractor claim, increased contractor earnings due to accelerated rate of operations, or real estate deficiency judgments.

For investigations projects, the Corps was permitted to reprogram up to \$25,000 for projects that have a base amount of \$25,000 or less. When the base amount exceeded \$25,000, the reprogramming authority was 100 percent of the base up to \$50,000 and 25 percent of the increment over \$50,000, not to exceed a total reprogramming of \$150,000. Any reprogramming action(s) that exceeded these thresholds required the Corps to coordinate with the Congress its intention to reprogram funds. The 1995 guidance does not outline specific thresholds for congressional notification in the operation and maintenance appropriation. According to Corps officials, the agency interpreted the guidance as allowing unlimited reprogramming authority without congressional notification thresholds for operation and maintenance projects.

During the spring of 2004, the Corps received new reprogramming direction from both the House and Senate Appropriations Committees. On May 27, 2004, the Corps issued an internal memorandum changing the Corps' existing reprogramming guidance to reflect direction that was subsequently provided in the House of Representatives Committee on Appropriations Report accompanying the 2005 Energy and Water Development Appropriation Bill (House Report 108-554 accompanying H.R.

⁷Sequestration is the cancellation, in accordance with the Budget Enforcement Act, of budgetary resources provided by discretionary appropriations or direct spending law. A deferral is a postponement of budget authority for up to 1 year. A rescission, which must be approved by the Congress, is a cancellation of previously approved budget authority.

4614). The new guidance required the Corps to notify the Congress for any intended single reprogramming action on construction and operation and maintenance projects that exceeded \$300,000 plus 20 percent of the base amount and to obtain approval on any project's cumulative reprogramming actions that exceeded \$4 million. The base amount under House Report 108-554 was defined as the amount appropriated for the project or program in the budget plus any amounts carried over from previous fiscal years or reprogrammed during the budget year. For investigations, the Corps was the required to notify the Congress for any intended single reprogramming action that exceeded \$50,000 plus 25 percent of the base and to obtain approval on a project's cumulative reprogramming actions that exceeded \$250,000.

The Corps followed this guidance until the end of November 2004. At that time, the Corps again received new direction from the Congress, contained in the conference report accompanying the 2005 Energy and Water Development Appropriation Act. These guidelines provided cumulative reprogramming percentage thresholds for investigations, construction, and operation and maintenance accounts. The guidelines further required the Corps to provide quarterly reports notifying the Congress of reprogramming actions that fell between certain thresholds and required congressional approval for reprogramming actions that exceeded an upper threshold limit. The guidelines also allowed certain categories of reprogramming actions to be excluded from counting toward congressional notification thresholds. Appendix II shows the 1995 and 2004 Corps reprogramming guidance.

The Corps Reprogrammed Significant Amounts of Funds among Hundreds of Projects

In fiscal years 2003 and 2004, the Corps reprogrammed funds over 7,000 times (3,415 actions in fiscal year 2003 and 3,641 actions in fiscal year 2004) among investigations and construction projects. Sixty-three percent (988 of 1,578) of fiscal year 2003 and 64 percent (998 of 1,533) of fiscal year 2004 investigations and construction projects had funds either moved in and/or out. On average, of the projects that had at least one reprogramming, there were approximately 3.6 (3.5 in fiscal year 2003 and 3.6 in fiscal year 2004) actions per project. Corps-wide reprogramming data on operation and maintenance projects are not available.

In terms of dollars, in fiscal years 2003 and 2004, the Corps reprogrammed approximately \$2.1 billion of the \$3.7 billion available for investigations and construction project funds. Additionally, the average amount of funds moved per reprogramming action was approximately \$298,026 (\$306,133 in

fiscal year 2003 and \$290,423 in fiscal year 2004) for investigations and construction projects.

Because the Corps could not provide us with Corps-wide reprogramming data for operations and maintenance projects, we reviewed the 107 operations and maintenance projects in our sample and found that the Corps reprogrammed funds 459 times for this sample, which averaged to 4.29 reprogramming actions per project. These 459 reprogramming actions totaled approximately \$31 million, and the average amount of funds moved per operation and maintenance reprogramming action was \$67,592.

The Corps Followed Internal Guidance That Allowed Extensive Reprogrammings Without Congressional Notification

For the majority of the reprogrammings that we reviewed as part of our sample of 271 projects, the Corps followed the reprogramming guidance it had in place at the time (under both the Corps' 1995 guidance and the May 2004 guidance). In the few instances where the guidance was not followed, most involved the Corps failing to notify the Congress when it intended to reprogram funds that would exceed certain limits. The Corps' reprogramming guidance allowed most reprogrammings to be categorized as fund movements that did not count toward the congressional notification thresholds. As a result, the Corps was able to follow its reprogramming guidance, but still conduct a large number of fund movements (that represented a major deviation from the funding direction the Congress provided for the projects in its conference report) and not have to inform the Congress of the changes and the reason for the changes.

The Corps Generally Followed Its Reprogramming Guidance

In our sample of 271 projects, reprogramming actions related to only 8 projects did not follow the reprogramming guidance in place at the time when the funds were moved.⁸ For these 8 projects, there were a total of 12 movements of funds that did not conform to the reprogramming guidance. One of these movements occurred during the period from October 1, 2003, to May 26, 2004, when the Corps' reprogramming guidance was contained

⁸The Corps' reprogramming guidance changed during the fiscal year 2003 through 2004 timeframe of our review, and the guidance contains different, specific criteria for investigations, construction, and operation and maintenance projects. However, the guidance for all projects during this timeframe generally contains limitations on the amount of funds that can be reprogrammed by Corps districts and divisions and instructions for notifying the Congress of the Corps' intention to reprogram funds that exceed a specified amount.

in the 1995 guidance. The remaining 11 movements occurred after May 26, 2004, when the Corps' guidance was revised in accordance with the direction provided in House Report 108-554. Table 2 lists the projects and the reprogramming actions, and describes how the Corps failed to follow its guidance.

Table 2: Projects Where the Corps Failed to Follow Reprogramming Guidance

Project	Action	Guidance not followed
Green and Barren Rivers Navigation Disposition in Kentucky	Reprogrammed \$25,000 into the project	Exceeded congressional notification threshold and did not notify the Congress
New York City Watershed in New York	Revoked \$800,000	Exceeded congressional notification threshold and did not notify the Congress until after the funds were moved
McAlpine Locks and Dam in Kentucky and Indiana	Moved \$5.3 million into the project using accelerated contractor earnings authority	Exceeded limit for accelerated earnings movements and the reason funds were moved was not a correct use of this authority
Ramapo River at Oakland in New Jersey	Revoked \$600,000; revoked \$1,700,000; revoked \$600,000	Exceeded congressional notification threshold and did not notify the Congress or notified the Congress after the funds were moved
Ohio River Flood Protection in Indiana	Revoked \$500,000	Exceeded congressional notification threshold and did not notify the Congress
New York and New Jersey Harbor	Revoked \$6,900,000; revoked \$8,587,000; revoked \$8,500,000	Exceeded congressional notification threshold and did not notify the Congress until after the funds were moved
Bonneville Powerhouse Phase 1 in Oregon and Washington	Restored \$332,000 prior years savings and slippage	Exceeded congressional notification threshold and did not notify the Congress
Plattsburgh Harbor in New York	Revoked \$625,000	Exceeded congressional notification threshold and did not notify the Congress

Source: GAO.

In general, in cases where the Corps failed to notify the Congress of its intention to move funds in excess of the notification threshold, Corps officials said that the actions were conducted at the district and that the district personnel were confused about the guidance. Additional information on the eight projects and 12 movements are provided in appendix III.

The Corps' Reprogramming Guidance Allows Numerous Movements of Funds without Congressional Notification

Although in the majority of cases we reviewed the Corps complied with its guidance, this guidance has been developed in such a manner that it provides the agency with maximum flexibility to move funds without notifying the Congress. Specifically, we found that most movements of funds that were actually reprogramming actions were categorized by the Corps, in accordance with its guidance, as other types of fund movements, which did not have to be reported to the Congress. For example, the Corps guidance allowed reprogrammings to be categorized under one of the following categories, which did not count toward congressional notification.

- *Revocations*, which are movements of funds out of a project.
- *Restorations of current year savings and slippage*, which are movements of funds into a project to restore that projects' current year savings and slippage reduction.
- *Restorations of prior year savings and slippage/revocation*, which are movements of funds into a project to restore savings and slippage reductions and/or funds reprogrammed out of a project in prior fiscal years.
- *Restorations of current year revocations*, which are movements of funds into a project to restore funds previously reprogrammed out of that project in the same fiscal year.
- *\$5 million accelerated contractor earnings*, which are movements of funds into a project to cover increased project requirements due to settled contractor claims, increased contractor earnings due to accelerated rate of operations, or a real estate deficiency judgment.

The Corps used another category—"reprogram"—to categorize some movements of funds into a project. However, this category was seldom used and, according to Corps officials, when it was used, in most cases was generally limited to amounts under the congressional notification threshold. Figure 1 shows the reprogramming categories that were most commonly used for the investigations, construction, and operation and maintenance appropriations and which categories counted and did not count towards the congressional notification thresholds under the Corps' 1995 and 2004 guidance.

Figure 1: Reprogramming Categories during Fiscal Years 2003 and 2004

Type of Corps Reprogramming Action	1995 Reprogramming Guidance		2004 Reprogramming Guidance	
	Counts toward threshold	Does not count toward threshold	Counts toward threshold	Does not count toward threshold
Investigations Reprogramming Categories during Fiscal Years 2003 and 2004				
Reprogramming	●		●	
Revocation		●	●	
Restoration of current year savings and slippage		●		●
Restoration of current year revocation		●		●
Construction Reprogramming Categories during Fiscal Years 2003 and 2004				
Reprogramming	●		●	
Revocation		●	●	
Restoration of current year savings and slippage		●		●
Restoration of current year revocation		●		●
Restoration of prior year savings and slippage/revocation		●	●	
\$5 million accelerated contractor earnings		●		●
Operation and Maintenance Reprogramming Categories during Fiscal Years 2003 and 2004				
Reprogramming			●	
Revocation			●	
<div style="display: flex; align-items: center;"> <div style="width: 20px; height: 10px; background-color: #cccccc; margin-right: 5px;"></div> Thresholds did not exist </div>				

Source: GAO.

The following three examples illustrate how the Corps can move large amounts of funds into or out of a project without notifying the Appropriations Committees and still be in compliance with its guidance. For the first project, the New York and New Jersey Harbor construction project in fiscal year 2003, the Corps moved over \$65 million in and out of the project in the following 10 separate actions.

- April 15, 2003; \$28,052,000 revoked (funds needed for other projects);
- April 23, 2003; \$2,685,000 restoration of current year revocation (funds needed to continue project);

-
- May 7, 2003; \$400,000 restoration of current year revocation (no explanation in file);
 - June 4, 2003; \$13,200,000 restoration of current year revocation (no explanation in file);
 - June 9, 2003; \$5,758, 000 revoked (funds needed for other projects);
 - July 18, 2003; \$8,782,000 restoration of current year revocation (no explanation in file);
 - August 22, 2003; \$1,600,000 restoration of current year revocation (funds needed to continue project);
 - September 4, 2003; \$1,700,000 restoration of current year revocation (funds needed to continue project);
 - September 4, 2003; \$2,500,000 restoration of current year revocation (no explanation in file); and
 - September 26, 2003; \$460,000 restoration of current year revocation (funds needed to continue project).

The amount moved was more than 4 times the cumulative threshold amount of \$15,665,850 for this project, and the April 15, 2003, movement of \$28,052,000, by itself, exceeded the threshold. Yet under the 1995 Corps guidance, none of these 10 actions were categorized as actions that counted toward the notification threshold and therefore the Corps did not have to notify the Congress of these movements.

Similarly, in fiscal year 2003, the Corps moved a total of over \$3.1 million in and out of the Ohio River Greenway Public Access construction project in Indiana in the following seven separate actions.

- April 22, 2003; \$1,011,000 revoked (excess funds);
- April 23, 2003; \$313,000 revoked (no explanation in file);
- May 14, 2003; \$1,112,000 restoration of current year revocation (no explanation in file);
- June 17, 2003; \$150, 000 revoked (no explanation in file);

-
- September 5, 2003; \$342,000 revoked (excess funds);
 - September 9, 2003; \$146,000 revoked (no explanation in file); and
 - September 29, 2003; \$27,000 revoked (excess funds).

The amount moved was more than 10 times the cumulative threshold amount of \$300,000 for this project, yet under the 1995 Corps guidance, none of these seven actions were categorized as actions that counted toward the notification threshold and the Congress was not notified of the movements.

In the third project, in fiscal year 2003, the Corps moved a total of over \$10.1 million into the Columbia River Fish Mitigation construction project in Oregon in the following seven separate actions.

- May 9, 2003; \$4,700,000 restoration of current year savings and slippage (needed for contract payments);
- July 16, 2003; \$200,000 restoration of current year savings and slippage (needed for continuation of programmed activities);
- July 22, 2003; \$500,000 restoration of current year savings and slippage (needed for critical research items);
- September 8, 2003; \$456,000 restoration of current year savings and slippage (needed for contractor earnings);
- September 12, 2003; \$87,000 restoration of current year savings and slippage (needed to pay contractor);
- September 22, 2003; \$408,300 restoration of current year savings and slippage (no explanation provided); and
- September 24, 2003; \$3,772,000 restoration of current year savings and slippage (no explanation provided).

The amount moved exceeded the cumulative threshold amount of \$9,256,350 for this project, yet under the 1995 Corps guidance, none of these seven actions were categorized as actions that counted toward the notification threshold and the Congress was not notified of these movements. In all of these examples, if all the movements of funds had

been categorized as “reprogrammings” and therefore had counted toward the notification threshold, the Corps would have had to notify the Congress that it intended to reprogram funds for these projects.

The consequence of the Corps’ guidance is that it allowed the Corps to categorize reprogrammings in fiscal years 2003 and 2004 so that few reprogramming actions counted toward notification thresholds. We found that from October 1, 2002, through May 26, 2004, when the Corps’ 1995 guidance was in effect, because of the way the Corps categorized movements of funds, only 18.2 percent of investigations movements and 14.5 percent of construction movements counted toward the notification thresholds. (There was no notification threshold for operation and maintenance projects.) From May 27 to October 30, 2004, when the guidance was revised and made more restrictive, 79 percent of investigations movements and 74 percent of construction movements counted toward the notification thresholds.

On the basis of our review of 271 projects, if all movements of funds counted toward the notification threshold, the Corps would have had to notify the Congress about its intention to reprogram in 47 percent of the projects in fiscal year 2003 and 10 percent of the projects in fiscal year 2004. (This assumes that the amount of each movement counts toward the threshold whether the funds are moved into or out of the project. The results are similar, however, if the cumulative impact of the movements are totaled (netted). For example, if the movements are netted, a movement into a project for \$100,000 would offset another \$100,000 movement out of that same project for a total of \$0 counting toward the threshold. If movements were netted, the Corps would have had to notify the Congress about its intention to reprogram in 36 percent of the projects in fiscal year 2003 and 6 percent of the projects in fiscal year 2004.) Instead, for the projects included in our sample, the Congress received notifications of intended reprogrammings for less than 1 percent of the projects in fiscal year 2003 and about 2 percent of the projects in fiscal year 2004.

In discussing the manner in which the Corps conducted reprogrammings during fiscal years 2003 and 2004, Corps officials said that the number of reprogrammings and the manner in which they were categorized was necessary to fund projects during a period of restricted budgets. We believe, however, the movements of funds previously discussed are reprogrammings that should be counted toward congressional notification thresholds. The number of reprogrammings and the amount of the reprogrammings conducted by the Corps can result in a significant

deviation from the funding profile the Congress provided for the projects in its conference report, yet the Congress was seldom informed of the changes and the reason for the changes. Such notification would provide the Congress with information concerning where the Corps was spending its funds and would allow the Congress to provide oversight of Corps activities.

The Corps Reprogrammed Funds for Various Reasons

Because the Corps typically allocates all its appropriations to authorized projects and does not keep any centralized funds available for unexpected project contingencies, reprogramming provides the flexibility to shift funds to respond to project changes and unforeseen events. Some of the reasons why the Corps reprogrammed funds in fiscal years 2003 and 2004 include weather factors, contract disputes, infrastructure malfunctions, new policy requirements, delays in securing cost-sharing agreements, unanticipated project starts, and savings and slippage. However, the Corps also reprogrammed funds for reasons that were inconsistent with the Corps' guidance, such as to achieve the Corps' goal of carrying zero funds into the next fiscal year and to restore funds to donor projects without regard to funding needs.

The Corps Reprogrammed Funds to Respond to Project and Funding Changes

Project and program managers at the Corps typically estimate project needs 1 to 2 years prior to receiving appropriated funds. As with all agencies that are funded through the annual budget process, by the time the Corps obtains its funding, factors upon which such estimates were based may have changed and unforeseen events may have occurred. Responding to circumstances such as unexpected weather patterns, infrastructure emergencies, and hurdles in obtaining cost-share funding may require the use of reprogramming actions.

For example, weather may have significant impacts on project costs and schedules. Unusually good weather may impact the execution of a project by extending the construction season and allowing more work to be completed; whereas unexpected weather may cause work delays. Weather may also impact project costs by causing damage that must be repaired. The Corps has often used reprogramming actions to adjust funding to accommodate unanticipated weather impacts. For example, in fiscal year 2004, mud slides, caused by heavy rains, which breached the top of the dam embankment at the Joe Pool Lake operations and maintenance project in Texas, required emergency maintenance to stabilize the banks of the lake.

The Corps reprogrammed \$43,000 into the project to ensure the stability and safety of the dam.

The Corps has also used reprogramming to fund repairs required as the result of unexpected infrastructure malfunctions, such as a lock failure on a waterway. In November 2002, an upstream lock gate malfunctioned at the John Day Lock and Dam on the Columbia River in Oregon. It took the Corps several months to repair the gate. While repairs were being made, the Corps found additional structural damage and had to award a new contract to fix these problems. In fiscal years 2003 and 2004, the Corps reprogrammed nearly \$21 million dollars into the project to cover the cost of the repairs.

Similarly, for investigations projects, one-half of the funds for most feasibility studies must be provided by a cost share partner, such as a local or state government. Delays in securing this second-party funding may sometimes slow or halt a project's schedule and allow the funds to be reprogrammed to other projects that could use the funds. For example, in the Metropolitan Louisville Mill Creek Basin investigations project in Kentucky, the project's local cost-share sponsor decided not to fund the project and the land needed to begin the study could not be acquired. As a result, most of the project's funds could not be used by the Corps and about 90 percent of project's fiscal year 2004 funds were reprogrammed to projects that could use the funds.

The Corps Also Reprogrammed Funds for Reasons That Were Inconsistent with the Corps' Guidance

In managing its national program, the Corps also conducted some reprogramming actions for reasons that were inconsistent with the Corps' internal reprogramming guidance. The Corps' Civil Works training manual on reprogramming advises program managers to round reprogramming requests to the thousands or tens of thousands of dollars and states that minor reprogramming to close out accounts is not permitted. The Corps' internal reprogramming guidance also advises that staff should not engage in small reprogrammings actions, but instead round transactions to the nearest \$1,000. The guidance cites the negative administrative impact of such actions by stating that "minor reprogrammings cause additional accounting and paperwork efforts at all levels and increase the risk of errors." However, the Corps conducted reprogramming actions simply to achieve an internal goal of a zero carry-over balance for each project at the end of the fiscal year. Such reprogramming actions resulted in numerous shifts of funds of small dollar amounts, thereby increasing the administrative burden on managers.

Achieving 100 percent execution of project funds and zero carry-over balances was a management goal of the Corps' Civil Works program during the time frame covered by our review. Realization of this goal was one of the primary performance metrics for project managers, who were rated on their ability to reach this target. In regard to achieving this goal, the Chief of the Civil Works Programs Integration Division noted that he had verbalized to Corps managers that "nothing else was acceptable." Several Corps program managers commented that this internal performance measure resulted in large numbers of reprogramming actions. If project managers felt that they could not execute all of their project's funds, they had an incentive to reprogram funds out of their project's account, since their performance was measured by their ability to execute only funds remaining for the project. Such reprogramming actions make it easier for a manager to reach the 100 percent execution target and, therefore, receive a higher performance rating.

Many of these actions occurred at the end of the fiscal year as project managers scrutinized their budgets for any funds that could not be expended within the fiscal year. Some of these reprogrammings were beneficial because the funds were moved to projects with year-end funding needs. However, some program managers told us that they felt the need to locate even excess "pennies" at the end of the fiscal year in order to achieve the target of zero carry over. As a result, in fiscal years 2003 and 2004, more reprogrammings occurred during the last month of the fiscal year than any other. For all investigations and construction projects in fiscal years 2003 and 2004, approximately 23 percent of the reprogrammings conducted by the Corps occurred in the last month of the fiscal year, resulting in 1,617 actions moving over \$235 million. Just over 6 percent of these movements were for amounts of \$1,000 or under. We found similar results for our sample of 271 projects. About 35 percent of the reprogrammings occurred in the last month of the fiscal year (343 actions moving over \$31 million). Just over 13 percent of these movements were for amounts of \$1,000 or under, with one as small as 6 cents. We found other projects, not included in our sample, with year-end reprogramming actions of \$0.07, \$13.42, \$13.84, \$14.00, \$23.36, and \$25.00. Reprogramming such small amounts of funds may unnecessarily strain administrative resources.

Removing most of a project's funding at the end of the fiscal year may also result in the Corps overlooking short-term project needs, particularly those at the beginning of the next fiscal year, and ends up resulting in additional unnecessary reprogramming actions. For example, in the Grand Isle and Vicinity construction project in Louisiana, the Corps revoked \$28,000 on

the last day of fiscal year 2003, based on the rationale that it was surplus to the project's needs. However, just over 1 week later, in fiscal year 2004, \$17,000 was restored to the project, according to the Corps, to pay labor costs.

Reprogramming actions to restore funds to donor projects from projects that did not have a surplus also appears to be inconsistent with the Corps' reprogramming guidance. Corps reprogramming guidance states that only funds surplus to current year requirements should be a source for reprogramming and that temporary borrowing or loaning is inconsistent with sound project management practices. Despite this guidance, in fiscal years 2003 and 2004, we found several instances where the Corps returned funds to a donor project from projects that had funding needs and did not have surplus funds. In some instances, separate reprogramming actions to transfer funds out of a project to repay a donor, and to transfer funds into that same project in order to complete work schedules, occurred on the same day or within a few days or weeks. For example, on May 1, 2003, the Corps reprogrammed \$425,000 out of the Johnson Creek Upper Trinity River construction project in Texas to repay a donor project. On the same day, the Corps reprogrammed \$1.5 million into the Johnson Creek project to provide funds for property acquisition necessary to keep the project on schedule.

The Corps' Reprogramming Activities Resulted in Inefficient Management of Funds

As stated previously, Corps reprogramming guidance states that only funds surplus to current year requirements should be a source for reprogramming and that temporary borrowing or loaning is inconsistent with sound project management practices and increases the Corps' administrative burden. In fiscal year 2003 and fiscal year 2004, the Corps managed its civil works project funds using a "just-in-time" reprogramming strategy. The basis for this strategy was to allow for the movement of funds from projects that do not have urgent funding needs to projects that need funds immediately. While the just-in-time approach may have moved funds rapidly, its implementation sometimes resulted in uncoordinated and unnecessary movements of funds from project to project. We found that funds were moved into projects that had a reported "need," but were subsequently removed because they were "excess," revoked from projects without regard to their near-term funding requirements, reprogrammed into and out of the same project on the same day, moved into and out of the same project multiple times a year, and reprogrammed without a system to evaluate the priority level of the affected projects. This strategy has resulted in numerous reprogrammings that may otherwise have been

unnecessary if the Corps had employed a financial planning and management process in which funding priorities had been clearly established. In addition, the relative convenience and ease of reprogramming within Corps districts may have resulted in increased numbers of reprogrammings and reprogrammings from projects with funding needs.

In our review of projects from fiscal years 2003 and 2004, we found that funds were moved into projects, only to be subsequently revoked because they were excess to the project's funding needs. For example, in fiscal year 2004, 7 percent of the funds (totaling almost \$154.6 million) from every nonearmarked construction project were revoked in order to provide funding to projects designated as "national requirements" by the Corps. The national requirements projects were a group of projects to which Corps headquarters management had promised to restore funding that had been revoked in previous years. These projects included the Houston-Galveston navigation channel construction project in Texas, New York and New Jersey Harbor, Comite River diversion channel in Louisiana, Guadalupe River channel improvement in California, Lackawanna River at Scranton levee project in Pennsylvania, three navigation projects in Alaska (Saint Paul Harbor, Nome Harbor, and Wrangell Harbor), and various projects under the Continuing Authorities Program.⁹

After the Corps moved the \$154.6 million into the national requirements projects, the Corps revoked over a quarter of those funds, \$38.8 million, from these projects because they actually did not need the funds. For example, one national requirements construction project, New York and New Jersey Harbor, received \$24.9 million. All of these funds, plus an additional \$10.3 million, were excess to the needs of the project at the time and were subsequently reprogrammed to other projects. Corps officials in the New York District told us that, prior to receiving the national requirements funds, they had informed Corps headquarters that they could not use the additional funds. Corps headquarters officials said that the district had requested the funds based on need. Other national requirements projects that received funds that were subsequently reprogrammed include:

⁹The Continuing Authorities Program is a program that allows the Corps to conduct small water resource projects without specific congressional authorization. Included in this program are flood control, beach erosion, shoreline protection, and environmental improvement projects that range from \$500,000 to \$5 million.

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- The Comite River construction project received almost \$3 million. Later in fiscal year 2004, the Corps revoked nearly \$1.5 million (about 50 percent) of that funding.
 - The Lackawanna River at Scranton construction project received \$15 million. Later in fiscal year 2004, the Corps revoked \$5 million (about 33 percent) of that funding.
 - The Houston-Galveston construction project received nearly \$28 million. Later in fiscal year 2004, the Corps revoked about \$7.25 million (about 26 percent) of that funding.

The use of the just-in-time strategy also resulted in funds being removed from projects without considering their near-term funding requirements, such as projects with impending studies. For example, on August 1, 2003, the Corps revoked \$85,000 from the Saw Mill River and Tributaries investigation project in New York with the explanation that the funds were excess to the project's needs in the current year. Six weeks later, however, on September 15, 2003, \$60,000 of funding was reprogrammed back into the project in order to initiate a feasibility study. Corps documents explaining the revocation of funds from the Saw Mill River and Tributaries project indicate the Corps' awareness of the project's impending needs, acknowledging that funds for the project would be needed again in September 2003 to execute a feasibility study.

We also determined that under the just-in-time reprogramming strategy, funds were moved into and out of the same project on the same day. Overall, we found that 3 percent of investigations and construction projects in fiscal year 2003 and 2 percent of investigations and construction projects in fiscal year 2004 moved funds into and out of the same project on the same day. Some specific examples include, on February 6, 2004, the Corps reprogrammed just over \$2 million into the Mill Creek construction project in Ohio from the Olmsted (\$1,500,000) and Pond Creek (\$550,000) projects and reprogrammed out \$272,000 the same day. The Corps explained that they initiated the \$272,000 revocation in order to balance the books from previous reprogrammings. Also, in fiscal year 2003, the Corps used 18 separate actions to reprogram approximately \$25 million into and about \$10.5 million out of the Central and Southern Florida construction project, including three separate occasions when funds were both moved into and out of the project on the same day.

Furthermore, the Corps reprogrammed funds in and out of some projects numerous times during a single fiscal year. For instance, in 12 separate actions in fiscal year 2004, the Corps reprogrammed a total of \$166,000 into the Dalles Lock and Dam operation and maintenance project in Washington and Oregon and revoked a total of \$817,000. Many of these actions took place only days or weeks apart from one another.

- March 9, 2004; \$76,000 revoked;
- March, 23, 2004; \$261,000 revoked;
- May 27, 2004; \$31,000 revoked;
- June 29, 2004; \$200,000 revoked;
- July 6, 2004; \$38,000 revoked;
- July 28, 2004; \$40,000 reprogrammed;
- August 4, 2004; \$18,000 reprogrammed;
- August 12, 2004; \$125,000 revoked;
- August 24, 2004; \$105,000 reprogrammed;
- August 31, 2004; \$3,000 reprogrammed;
- September 17, 2004; \$8,000 revoked; and
- September 29, 2004; \$78,000 revoked.

Similarly, in the San Antonio Channel Improvements construction project in Texas, the Corps reprogrammed slightly over \$1.9 million into and \$81,000 out of the project in 15 separate actions in fiscal year 2004. Forty percent of the actions took place in the final weeks of the fiscal year, with six separate transactions recorded between September 13 and September 30.

The just-in-time reprogramming strategy also moved money into and out of projects without regard to the relative priorities of the projects. During the period of our study, the Corps lacked a set of formal, Corps-wide priorities for use when deciding to reprogram funds from one project to another.

Instead, according to the Chief of the Civil Works Programs Integration Division, during fiscal years 2003 and 2004, reprogramming decisions were left up to the intuition of program and project managers at the district level. While this decentralized system might have allowed for prioritized decision making at the district level, when reprogramming actions occurred across districts or across divisions, the Corps lacked any formal system of evaluation as to whether funds were moving into or out of high priority projects. The lack of a Corps-wide priority system limits its ability to effectively manage its appropriations, especially in an era of scarce funding resources when choices have to be made between competing needs of donor and recipient projects.

Finally, the Corps' practice of allocating all funds to projects as soon as the funds are allotted to the Corps, coupled with the reprogramming flexibility provided to the districts, may result in an elevated number of reprogramming actions. Typically, once the Corps receives appropriated funds from the Congress, the Corps disperses all of these funds directly into project accounts at the district level. Allocating funding in this manner, according to Corps officials, is done to remain consistent with congressional direction. However, projects that have experienced delays in the time period between the Corps initial budget submittal and the agency's receipt of its appropriation may receive more money than they are able to spend. In some cases we reviewed, the Corps dispersed an entire fiscal year's worth of funding to a project even though they knew that the project manager could not spend all of the funding. This type of allotment system may result in an elevated number of reprogramming actions. For instance, within 2 weeks after the Corps dispersed its fiscal year 2003 appropriation to specific projects, it made 369 reprogramming actions to realign funding in its investigations and construction appropriations; within 2 weeks after dispensing fiscal year 2004 dollars, the Corps made 64 such actions.

The flexibility provided to district managers once they receive their funding may also increase the number of reprogramming transactions. Corps reprogramming guidance allows the districts to reprogram funds up to a certain amount without notifying division or headquarters staff. According to some Corps program managers, the relative ease of conducting reprogramming actions at the district level, without the need to obtain division or headquarters approval, creates incentives for project managers to transfer funds among projects within the district even if it creates a greater number of reprogramming actions. For example, when project managers have an immediate need for funds, they may be more likely to reprogram funds between projects within their own district, even if the

donor project has a need for funds in a few weeks or months, because the guidance allows them to do so.

The Corps' reprogramming practices place a large demand on the administrative resources of the agency. In fiscal year 2003, after receiving their appropriated funds from the Congress, the Corps conducted at least one reprogramming action every business day of the fiscal year except for 4; after receiving their funds in fiscal year 2004, the Corps conducted at least one reprogramming action on every business day of the fiscal year except for 14. Each reprogramming action conducted requires the Corps to expend time and personnel resources to locate donor projects, file necessary paperwork, and in some cases obtain the approval of appropriate Corps staff and, possibly, the Congress. In particular, locating sources of donor funding is often a time-consuming process, as the project manager seeking funding must wait for other project managers to acknowledge excess funds and offer them for use on other projects.

Conclusions

The ability to move funds among projects is a useful and necessary management tool to adjust project funding to reflect changing conditions and needs over the life of a civil works project. For an agency like the Corps, which has responsibility for hundreds of projects, the ability to reprogram funds, if used effectively, provides the flexibility to take funds from a project that cannot spend allotted funds because of delays due to factors such as bad weather or labor problems and move those funds to a project that has a need for additional funding to accelerate or complete ongoing work. However, the Corps' reprogramming guidance allows movements of funds by categorizing reprogrammings as fund movements that do not count toward notifying the Congress. As a result, following its guidance, the Corps is able to effect major deviations from the funding direction the Congress provided for projects in its conference report and does not have to inform the Congress of the changes and the reason for the changes. Because the Corps' reprogramming reflects the direction and guidance provided by the appropriations committees and this guidance has changed over time, we believe that the Corps needs to reach agreement with the Congress on what types and levels of reprogramming actions are appropriate for the Corps to conduct without congressional notification.

Reprogramming has become the Corps' routine way of managing project funds, and the Corps has used reprogramming as a substitute for an effective and fiscally prudent financial planning, management, and priority-setting system for its Civil Works program. The Corps allocates all funding

to the projects, on an annual basis, at the beginning of the year and has no available means, other than reprogramming, to adjust project funding as circumstances change during the year. As a result, reprogramming has been used extensively for moving funds among projects in an environment where most projects have unmet funding needs and very few have excess funding. In addition, there is no formal system to prioritize potential donor or recipient projects and no financial planning occurs to monitor project schedules and progress. Instead, decisions are made instantly to meet immediate funding needs. Consequently, funds are frequently moved from projects that have or will have the need for those funds in the not too distant future and are shifted to other projects, some which have funding needs and some that do not.

Recommendations for Executive Action

To eliminate the burden of excessive reprogramming actions and to provide better financial management of projects, we recommend that the Secretary of Defense direct the Commanding General and Chief of Engineers of the U.S. Army Corps of Engineers to take the following five actions:

- work with congressional committees to provide meaningful and consistent guidance for the investigations, construction, and operation and maintenance appropriations for what actions count as reprogrammings and what reporting thresholds should apply on a program and project basis;
- develop a financial planning and management system for the investigations, construction, and operation and maintenance appropriations that, at a minimum,
 - changes the way the Corps allocates funds from an annual basis to a more frequent basis that reflect actual schedule and project performance;
 - periodically reviews project schedules and performance and revises funding allocations as needed; and
 - develops and implements criteria for setting reprogramming priorities; and
- provide direction and training to change the culture prevalent throughout the Corps that reprogramming is an acceptable, routine

financial management practice and instead place greater emphasis on the use of financial planning approaches and priority-setting mechanisms for managing project funding.

Agency Comments and Our Evaluation

We provided a draft of this report to the Department of Defense for its review and comment. The Department stated that the report was very constructive and concurred with four of the five recommendations. Specifically, the Department concurred with the recommendation that the Corps work with congressional committees to provide meaningful and consistent guidance for the investigations, construction, and operation and maintenance appropriations as to which actions count as reprogrammings and what reporting thresholds should apply on a program and project basis. The Department said the Corps is preparing an Engineer Circular that will address the reprogramming direction provided in the House report accompanying the fiscal year 2005 appropriations for energy and water development. The Department also said that the Corps is coordinating with the appropriate House and Senate subcommittees and the Engineer Circular is scheduled to be issued in the first quarter of fiscal year 2006.

The Department concurred with our recommendation that the Corps develop a financial planning and management system for the investigations, construction, and operation and maintenance appropriations that periodically reviews project schedules and performance and revises funding allocations as needed. The Department said that during the first quarter of fiscal year 2006, the Corps intends to institute improvements in project scheduling to provide more reliable estimates of funding capabilities and to emphasize periodic reviews of project schedules, performance, and funding allocations.

The Department concurred with our recommendation that the Corps develop a financial planning and management system for the investigations, construction, and operation and maintenance appropriations that develops and implements criteria for setting reprogramming priorities. The Department said that the Engineer Circular to be issued in the first quarter of fiscal year 2006 will include criteria to prioritize reprogramming actions.

The Department concurred with our recommendation that the Corps provide direction and training to change the culture prevalent throughout the Corps that reprogramming is an acceptable, routine financial management practice and instead place greater emphasis on the use of

financial planning approaches and priority-setting mechanisms for managing project funding. The Department said that the forthcoming Engineer Circular and subsequent training of project managers will strengthen limits on reprogramming and ensure understanding of those limits.

Regarding our recommendation that the Corps develop a financial planning and management system for the investigations, construction, and operation and maintenance appropriations that changes the way the Corps allocates funds from an annual basis to a more frequent basis that reflects actual schedule and project performance, the Department did not concur. The Department said that it is important that the Corps continue to allocate all funds provided by the Congress for each project and that any deviation from that amount would be regarded as a reprogramming and would not reflect the intent of the Congress. The Department also said that withholding funds from the initial allocation would add administrative burden, increase uncertainty in execution, and would not aid in scheduling and schedule review.

We disagree with the Department's views on the effects of changing the Corps allocation of funds from an annual basis to a more frequent basis during the fiscal year. While the conference report includes amounts for each project and that amount does reflect the intent of the Congress, changes often occur in the funding needs and project expenditure capabilities from the time the Corps submits its budget estimates until the appropriation is received 18 or more months later. As a result, when the appropriation is received, projects may not need the amount of funds included in the conference report or may need additional funds. Our recommendation would allow the Corps to make these known needed changes before allocating all funds to a project. This would serve to streamline the process and eliminate the administrative burden of making project funding allocations that the Corps knows it is going to reallocate through reprogramming actions almost immediately after the initial allocations are made. Providing periodic allocations of funds during the year, especially when coupled with reviews of project schedules, performance, and fund allocations and the development and implementation of criteria for setting reprogramming priorities –which the Department said the Corps will implement – should allow the Corps to better spend its limited funds in accordance with the intent of the Congress. Use of these tools will allow the Corps to allocate funds based on the most recent project information to those projects with the highest priority and the most immediate need. We also disagree that the use of

periodic allotments would result in uncertainty in execution. Instead, periodic allocation of funds would provide increased certainty in execution of projects that needed funds and would not affect the execution of projects that did not have a current need for funds.

In addition to the Department of Defense's overall comments on our draft report (see app. IV for the full text of the Department's comments), the Corps provided a number of technical comments and clarifications, which we incorporated in this report as appropriate.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after the date of this report. At that time, we will send copies of the report to interested congressional committees, the Commanding General and Chief of Engineers of the U.S. Army Corps of Engineers, and the Director of the Office of Management and Budget. We will make copies available to others on request. In addition, this report will be available at no charge on the GAO Web site at www.gao.gov.

If you or your staff have questions about this report, please call me at (202) 512-3841 or contact me at mittala@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix V.



Anu K. Mittal
Director, Natural Resources
and Environment

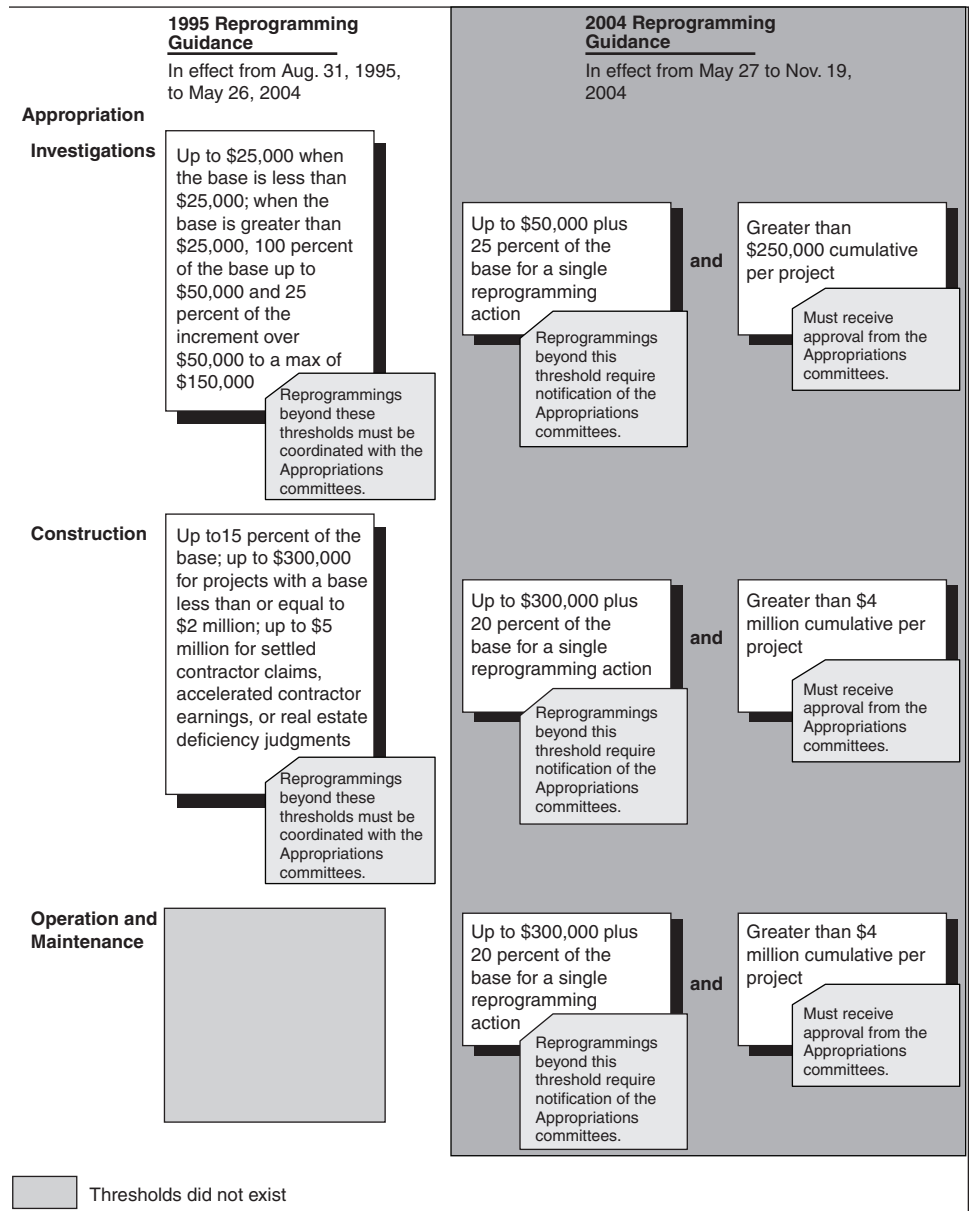
Scope and Methodology

To determine the extent to which the Corps reprogrammed appropriated funds among investigations, construction, and operation and maintenance projects in fiscal years 2003 and 2004, we obtained relevant funding and project data from the Corps. However, the Corps could not provide data about reprogramming of operation and maintenance project funds. We determined, based on written documentation, interviews with Corps officials, and electronic data testing, that the data were sufficiently reliable for our purposes.

To determine if the Corps followed internal guidance and congressional direction when reprogramming funds and why the Corps conducted reprogramming funds, we obtained the Corps' internal guidance for reprogramming and congressional reports and correspondence that contained direction for conducting reprogramming. We selected four Corps divisions randomly with probabilities proportional to the number of projects and judgmentally selected one district from each of those divisions for review. The divisions and districts selected were Great Lakes & Ohio River (Louisville District), North Atlantic (New York District), Northwestern (Portland District), and Southwestern (Fort Worth District). Within the four districts, we randomly selected a total of 271 projects from the population of investigations, construction, and operation and maintenance projects that had funds reprogrammed during fiscal years 2003 and 2004. For the selected projects, we reviewed project files and held discussions with managers to obtain background information on the project and information on the amount, date, and reason for each reprogramming. File information was entered into a data collection instrument to ensure uniformity. This information was entered into a spreadsheet for analysis. The spreadsheet was independently verified with the data collection instruments. We compared the Corps' reprogramming activities for each selected project to the internal guidance and congressional direction that was in effect at the time the reprogramming was conducted.

To determine how effective the Corps' reprogramming strategy was in managing appropriated funds, we reviewed the results of our sample analysis and discussed those results with program managers. We also discussed the Corps' financial management strategy with program managers at Corps headquarters, division offices, and district offices and with individual project managers.

Reprogramming Guidance Used by the Corps



Sources: ER 11-2-201; Internal Corps Memorandum and House Report 108-554.

Projects with Reprogrammings That Did Not Follow Corps Guidance

Fund Movements Conducted under ER 11-2-201 (October 1, 2002, to May 26, 2004)

Green and Barren Rivers
Navigation Disposition in
Kentucky

The cumulative threshold amount for notifying the Congress was \$25,000 for this investigations project. On April 22, 2003, \$25,000 was reprogrammed into the project. On April 28, 2003, another \$25,000 was reprogrammed into the project, exceeding the cumulative threshold. The Corps did not notify the Congress of its intention to reprogram the funds in excess of the threshold. Corps officials explained that they made a mistake and did not initially realize that the threshold had been exceeded. When the error was realized, the Corps revoked \$25,000 on May 29, 2003, to undo the previous error.

Fund Movements Conducted under Guidance Based on the Direction Provided in the House Report 108- 554 (May 27 to September 30, 2004)

New York City Watershed in
New York

The single action threshold was \$300,000 for this construction project. On September 20, 2004, the Corps revoked \$800,000 exceeding the single action threshold of \$300,000. The Corps notified the Congress of its intention to reprogram the \$800,000, on September 24, 2004, 4 days after the funds had been moved.

McAlpine Locks and Dam in
Kentucky and Indiana

The single action threshold for this construction project was \$7,301,200 and the cumulative threshold was \$4 million. (In this case, because of the size of the project, the threshold calculations resulted in a higher single action

threshold than a cumulative threshold.) On August 6, 2004, the Corps moved \$5.3 million into the project using its accelerated contractor earnings authority. However, the accelerated contractor earnings authority only allows the Corps to move up to \$5 million and it must be used for settling a contractor's claim, increased contractor earnings due to accelerated rate of operations, or real estate deficiency judgment. In addition to exceeding their authority to move funds under this provision, Corps officials told us that the funds were not moved for any of the authorized purposes. Rather, the funds were used to continue funding a contract. The Corps had awarded a contract for about \$80 million for fiscal year 2004, but received only about \$27 million for the project. To avoid a work stoppage, possible contractor claims, and/or possible interest payments, the Corps moved a large amount of funds into the project, including the \$5.3 million.

**Ramapo River at Oakland in
New Jersey**

The single action threshold for this construction project was \$311,800 and the cumulative threshold was \$4 million. On September 1, 2004, the Corps revoked \$600,000; on September 20, 2004, the Corps revoked \$1,700,000; and on September 29, 2004, the Corps revoked \$600,000. All these actions exceeded the single action threshold. The Corps did not notify the Congress of their intention to reprogram the funds in excess of the thresholds on September 1 and 24. A letter was sent to the Congress for the September 20, 2004, action; however, the letter was sent on September 24, 2004, after the funds had been moved.

**Ohio River Flood Protection
in Indiana**

The single action threshold for this construction project was \$430,000 and the cumulative threshold was \$4 million. On June 28, 2004, the Corps revoked \$500,000, exceeding the single action threshold of \$430,000. The Corps did not notify the Congress of its intention to reprogram the funds in excess of the threshold. Corps officials told us that the action was processed at the district and they were confused about the procedure.

**New York and New Jersey
Harbor**

The single action threshold for this construction project was \$22,303,000 and the cumulative threshold was \$4 million. (In this case, because of the size of the project, the threshold calculations result in a higher single action threshold than a cumulative threshold.) In 2004, in 10 different actions, the Corps moved a total of \$82,559,000 in and out of the project. Specific actions that exceeded the \$4 million threshold occurred on June 17, 2004,

**Appendix III
Projects with Reprogrammings That Did Not
Follow Corps Guidance**

(\$6,900,000 revoked), June 22, 2004, (\$8,587,000 revoked), June 24, 2004, (\$10,000,000 revoked) and on August 6, 2004, (\$8,500,000 revoked). The Corps sent notification to the Congress for the June 24, 2004, action on May 13, 2004. Letters were also sent for the other actions; however, these letters were sent after the funds had been moved. The letter for the June 22, 2004, action was sent on June 29, 2004. The letters for the June 17, 2004, and the August 6, 2004, actions were sent on September 24, 2004.

**Bonneville Powerhouse
Phase 1 in Oregon and
Washington**

The single action threshold for this construction project was \$302,000 and the cumulative threshold was \$4 million. On May 28, 2004, the Corps restored \$332,000 prior year savings and slippage, exceeding the single action threshold of \$302,000. The Corps did not notify Congress of their intention to reprogram the funds in excess of the threshold. Corps headquarters officials told us that the action was processed at the district and they were confused about the procedure while district officials said that headquarters approved the action.

**Plattsburgh Harbor in New
York**

The single action threshold for this operation and maintenance project was \$438,240 and the cumulative threshold was \$4 million. On August 16, 2004, the Corps revoked \$625,000, exceeding the single action threshold of \$438,240. The Corps did not notify the Congress of their intention to reprogram the funds in excess of the threshold. Corps officials told us that the action was processed at the district and they were confused about the procedure.

Comments from the Department of Defense



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23 AUG 2005

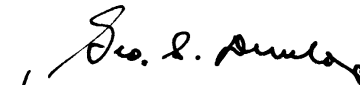
Ms. Anu K. Mittal
Director, Defense Capabilities and Management
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Ms. Mittal:

This is the Department of Defense (DoD) response to the GAO draft report, 'ARMY CORPS OF ENGINEERS: Improved Planning and Financial Management Should Replace Reliance on Reprogramming Actions to Manage Project Funds,' dated August 1, 2005, (GAO Code 360533/GAO-05-946).

The draft report is very constructive. DoD concurs with four recommendations and non-concurs with one recommendation (see enclosure). I look forward to GAO's completion and transmittal of the report.

Very truly yours,


for John Paul Woodley, Jr.
Assistant Secretary of the Army
(Civil Works)

Enclosure

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GAO DRAFT REPORT - DATED AUGUST 1, 2005
GAO CODE 360533/GAO-05-946

“ARMY CORPS OF ENGINEERS: IMPROVED PLANNING AND FINANCIAL
MANAGEMENT SHOULD REPLACE RELIANCE ON REPROGRAMMING ACTIONS
TO MANAGE PROJECT FUNDS”

DEPARTMENT OF DEFENSE COMMENTS
TO THE RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense direct that the Commanding General and Chief of Engineers of the U.S. Corps of Engineers work with congressional committees to provide meaningful and consistent guidance for the general investigations, construction general, and operation and maintenance appropriations for what actions count as reprogrammings and what reporting thresholds should apply on a program basis. (p. 29/GAO Draft Report)

DOD RESPONSE: Concur. The Corps is preparing an Engineer Circular on reprogramming to address the direction in House Report 108-792, the Conference Report accompanying Fiscal Year 2005 appropriations for energy and water development. Coordination with the House and Senate subcommittees on energy and water development appropriations is under way. The Engineer Circular is scheduled for publication in the first quarter of FY 2006.

RECOMMENDATION 2: The GAO recommended that the Secretary of Defense direct that the Commanding General and Chief of Engineers of the U.S. Corps of Engineers develop a financial planning and management system for the general investigations, construction general, and operation and maintenance appropriations that changes the way the Corps allocates funds from an annual basis to a more frequent basis that reflect actual schedule and project performance. (p. 29/GAO Draft Report)

DOD RESPONSE: Non-Concur. It is appropriate that, upon enactment and apportionment of funds, the Corps continue to allocate to each project, program, or activity all funds provided by Congress for that project, program, or activity. Any deviation would be identified as a reprogramming. This practice ensures that the initial allocations reflect the intent of Congress and provide a baseline for tracking and reporting reprogramming activity. The Corps currently uses this practice in response to the direction in the FY 2005 Conference Report. To the extent that withholding funds from initial allocation would facilitate the allocation of funds to projects, programs, and activities other than as intended by Congress, that is, reprogramming, it negates the implied rationale for the procedure. In addition, withholding funds from initial allocation would add administrative burden and increase uncertainty in execution, but would not aid in scheduling and schedule review.

RECOMMENDATION 3: The GAO recommended that the Secretary of Defense direct that the Commanding General and Chief of Engineers of the U.S. Corps of Engineers develop a financial planning and management system for the general investigations, construction general, and

operation and maintenance appropriations that periodically reviews project schedules and performance and revises funding allocations as needed. (p. 29/GAO Draft Report)

DOD RESPONSE: Concur. Corps management intends to institute improvements in project scheduling in order to provide more reliable estimates of current year and future year funding capabilities and to emphasize periodic reviews of project schedules, performance, and fund allocations. These improvements are scheduled to be instituted in the first quarter of FY 2006.

RECOMMENDATION 4: The GAO recommended that the Secretary of Defense direct that the Commanding General and Chief of Engineers of the U.S. Corps of Engineers develop a financial planning and management system for the general investigations, construction general, and operation and maintenance appropriations that develops and implements criteria for setting reprogramming priorities. (p. 29/GAO Draft Report)

DOD RESPONSE: Concur. The forthcoming Engineer Circular on reprogramming will strengthen limits on reprogramming, and will include improved decision rules and criteria to prioritize reprogramming actions. For instance, reprogramming actions will be limited to those that revoke genuinely surplus funds and are needed to support forthcoming obligations, and decision criteria will emphasize restoration of revoked funds, among other things. The Engineer Circular is scheduled for publication in the first quarter of FY 2006.

RECOMMENDATION 5: The GAO recommended that the Secretary of Defense direct that the Commanding General and Chief of Engineers of the U.S. Corps of Engineers provide direction and training to change the culture prevalent throughout the Corps that reprogramming is an acceptable, routine financial management practice and instead places greater emphases on the use of financial planning approaches and priority-setting mechanisms for managing project funding. (p. 29/GAO Draft Report)

DOD RESPONSE: Concur. Corps management intends to institute improvements in project scheduling in order to provide more reliable estimates of current year and future year funding capabilities and to emphasize periodic reviews of project schedules, performance, and fund allocations. The forthcoming Engineer Circular on reprogramming will strengthen limits on reprogramming, and will include improved decision rules and criteria to prioritize reprogramming actions. For instance, reprogramming actions will be limited to those that revoke genuinely surplus funds and are needed to support forthcoming obligations, and decision criteria will emphasize restoration of revoked funds, among other things. Once Corps management has approved the Engineer Circular on reprogramming, Corps-wide training of program managers will be conducted to ensure universal understanding of reprogramming in accordance with the Engineer Circular. Training topics will include the improved project estimating, scheduling, and schedule review practices, the strengthened reprogramming limitations, and the improved priority-setting decision rules and criteria. Training is scheduled to begin in the second quarter of FY 2006.

GAO Contact and Staff Acknowledgments

GAO Contact

Anu K. Mittal (202) 512-3841

**Staff
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In addition to the individual named above, Edward Zadjura, James D. Ashley, Kenneth E. Lightner Jr., John Mingus, Matthew Reinhart, Elizabeth Repko, Carol Herrnstadt Shulman, and Barbara R. Timmerman made contributions to this report.

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