

The Execution of the Budget

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There are two aspects or objectives in the execution of the budget, which, in a sense, are contradictory of each other. They are the control aspect of budget execution and maintaining flexibility in the execution of the budget.⁽¹⁾

Professor Burkhead, in his *Government Budgeting*, points out three objectives for budget execution, namely: (a) preserving legislative intent, (b) observing financial limitations, and (c) maintaining flexibility.⁽²⁾ However, it may be said that the control aspect of budget execution may embrace both "preserving legislative intent" and "observing financial limitations."

This paper will be concerned with apportionment and allotment in the control aspect of budget execution, and the examination of transfer, carryover and contingent funds as devices to maintain flexibility in the execution of the budget.

A. Apportionment and Allotment

Immediately after the budget is passed by

the legislature each ministry and agency develops an expenditure program showing the amount to be expended in each quarter of the fiscal year. These programs are submitted to the Minister of the Economic Planning Board for authorization of quarterly apportionments.

At the same time, each ministry and agency prepares the revenue and receipt plan which indicates the amount of revenue to be collected in each month of the year, and the disbursing plan showing the amount of cash to be disbursed in each month of the year. These plans are submitted to the Minister of Finance, who in turn prepares for transmission to the Minister of the Economic Planning Board the consolidated funding plan on the basis of revenue receipt plans and disbursing plans submitted by ministries and agencies.

The Minister of the Economic Planning Board, upon receipt of the consolidated funding plan from the Minister of Finance, prepares the quarterly apportionment plans for all ministries and agencies, and submits these plans, together with the Finance Minister's consolidated funding plan, to the State Council (Cabinet) and

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(1) Public Administration Service, *Modernizing Government Budget Administration* (Washington, D.C.: AID, 1962), p. 74.

(2) Jess Burkhead, *Government Budgeting* (New York: Wiley, 1956), pp. 342-345.

the President. If the Minister of EPB wants to make changes in the funding plan, he is required to consult, in advance, with the Finance Minister.⁽³⁾

As soon as the President approves these plans, the Minister of the Economic Planning Board make apportionments in accordance with these plans, and the Finance Minister notifies each ministry and agency of the disbursing plan showing the maximum amount each ministry or agency is allowed to disburse in each month of the year.⁽⁴⁾

The ministries and agencies are required to keep obligations within the limitations of apportionments, and their monthly disbursements may not exceed the amounts notified to them by the Finance Minister.

Two things account for this complexity of the system. In the first place, in Korea as in the United States, an appropriation is a two-phased proposition.

First it establishes on the books of the operating agency an account against which obligations may be incurred. Second, it establishes in the Treasury an account through which cash may be made available when necessary to liquidate obligations legally incurred.⁽⁵⁾

The Minister of the Economic Planning Board, through the apportionment process, gives the ministries and agencies authority to incur obligations, and the Finance Minister provides them with authority to disburse cash.

Secondly, in the United States, it is the responsibility of the Treasury Department to make sure that current receipts or borrowings will meet the demand for cash. If current receipts are inadequate, additional government securities are sold.⁽⁶⁾ In Korea, short-term borrowings by the government to meet the demand for cash has been discouraged because of the inflationary pressure which the borrowings create.⁽⁷⁾ Before the enactment of the Budget and Accounting Law in 1961, there was no systematic coordination between apportionments made by the Bureau of the Budget and the supply of funds to meet the demand for cash, which was the responsibility of the Bureau of Treasury of the Ministry of Finance. It, therefore, was not unusual for government agencies to fail to liquidate obligations which were legally incurred and which were within the apportionments made by the Budget Bureau. Under the new system this is eliminated.

After the apportionments are made by the Minister of the Economic Planning Board, each minister and head of agency allots funds to his bureau, and they in turn to field services and other subdivisions.

B. Transfer (Virement)

The use of transfers or *virement*⁽⁸⁾ finds wide application among state and local governments in the United States as well as in many other

(3) Article 33, Budget and Accounting Law.

(4) As will be noted later in this paper, the disbursement process is decentralized in Korea.

(5) George F. Harvey, "Contract Authorization in Federal Budget Procedure," *Public Administration Review*, Spring 1957, pp. 118-119.

(6) Eric L. Kohler and Howard W. Wright, *Accounting in the Federal Government* (Englewood Cliffs; Prentice-Hall, Inc., 1956), p. 117.

(7) San-soo Kwak, "Financial Stabilization Program in Korea," *Journal of Social Sciences and Humanities* (Bulletin of The Korean Research Center), December 1963, pp. 42-56.

(8) "Virement" is the French word for transfer, which was adopted by the British Treasury about 1900 and brought into public use very shortly afterwards.

countries. Before we go into the details of the transfers, it should be noted at this point that the transfers as they are used in the United States are different from those applied in Britain and many other countries although many American authors do not distinguish the former from the latter.⁽⁹⁾ In the United States, the transfer means the interchange of funds between *appropriation items* whereas in Britain it means not only the interchange of funds between appropriation items (votes) but the interchange of funds between sub-appropriation items (sub-heads).

In Britain estimates are divided into appropriation items called votes, each comprising a particular service, or a group of services administered by a single department. The vote is the "water-tight unit,"⁽¹⁰⁾ and money cannot be transferred from one vote to another, except in the case of Navy, Army or Air vote, where such transfers are allowed, provided that Treasury sanction is obtained.⁽¹¹⁾ These transfers are subsequently approved by the House of Commons after the close of the fiscal year. The transfers between votes in a fighting service are the same as the transfers used in the United States.

Each vote is divided into three parts, of which Part I describes the service or purpose for which the estimate is presented, and the total amount of money required for that service. Part I divides that total into sub-heads,

showing the amount of money estimated to be spent on, or received under, each sub-head. Part III is a detailed explanation of the expenditure or receipts making the sub-heads of Part II. Part I alone is included in the Appropriation Act of the year passed by Parliament.

Part III is for information only, and appears only in the estimate. Part II serves the purposes of Treasury control. "Since the authority ultimately given by Parliament depends on Part I only, the distribution of the total grant among the sub-heads in Part II has no statutory significance." However, the department is required to obtain Treasury sanction in order to transfer savings on one sub-head to another sub-head.⁽¹²⁾ The "transfer" as used here is not known among the national, state and local governments in the United States. As Lewis points out, the interchange of funds between sub-appropriation items is within the sphere of departmental discretion.

The Department (Department of Agriculture) was committed to observe, in addition to the Congressional stipulations, its own detailed estimates as submitted to the Congress unless there was a substantial reason for changing its plans during the course of the year..... Again, although such estimates had no binding legal effect, there was a moral commitment to the Congress that the funds would be used in the designated way.⁽¹³⁾

In the United States, there is no control by the Office of Management and Budget, or other

(9) For example, A. E. Buck, *Public Budgeting* (New York: Harper, 1929), P. 487; A.E. Buck, *The Budget in Governments of Today* (New York: Macmillan, 1934), pp. 250-251; Burkhead *op. cit.*, 348-349.

(10) E. H. Iton Young, and N. E. Young, *The System of National Finance*, second edition (London: John Murray, 1924), p. 161.

(11) Sir Herbert Brittain, *The British Budgetary Systems* (London: George Allen & Unwin, 1959), p. 253.

(12) *Ibid.* pp. 223-224.

(13) Vern B. Lewis, "Budgetary Administration in the Department of Agriculture," in John M. Gaus and Leon O. Wolcott, *Public Administration and the United States Department of Agriculture* (Chicago: Public Administration Service, 1940), p. 432.

central budget office over the transfers of funds between sub-appropriation items. The ministerial budgets in Korea, are divided into Parts (*Chang*), a Part into Chapters (*Kwan*), a Chapter into Sections (*Hang*), a Section into Sub-Section (*Sehang*), and a Sub-Section into Items (*Moc*).⁽¹⁴⁾ Parts, Chapters and Sections are appropriation items, while Sub-Sections and Items are sub-appropriation items or administrative items. The interchange of funds between ministries or between appropriation items within a ministry is not allowed, except on specific occasions, as stated in the budget passed by the National Assembly.⁽¹⁵⁾ Even in these cases, the ministers are required to obtain sanctions in advance from the Minister of the Economic Planning Board; actually from the Office of the Budget (formerly Bureau of the Budget).

The ministries are allowed to transfer savings on one Sub-Section or Item to meet expenditure on another Sub-Section or Item.⁽¹⁶⁾ However, it is not allowed to transfer savings on salaries and utility services to meet excess expenditure under other items.⁽¹⁷⁾

In the fiscal year 1977, these transfers between Items in the General Account reached 45,236 million won, which accounted for 1.6 per cent of the total General Account expenditures,⁽¹⁸⁾ and amounted to 72,923 million won (2.1 per cent) in the fiscal year 1978.⁽¹⁹⁾

A.E. Buk, in speaking of the transfers in the American state and local governments, concluded:

One should not overlook the fact, however, that the use of transfers may, in the end, defeat the very purpose which the legislative body in mind when it voted the detailed appropriations. Such appropriations may be completely changed during the course of the fiscal year by the extensive application of the power to make transfers... In other words, the detailed stipulations of the legislature are rendered more or less null and void before the fiscal period is over by the great number of transfers between various appropriations.⁽²⁰⁾

It should be noted, however, that this criticism is directed to the transfers of funds between appropriation items, not to the interchange of funds between sub-appropriation items.

C. The Carryover

Before beginning a discussion of the carryover, it is desirable to examine the types of budget authorizations and the relation of accounts to the fiscal year for a better understanding of the carryover system.

Budget Authorizations by the United States Congress can be classified into three main categories, and the first category in turn includes several types.

1. Ordinary authorizations empower to make both obligations and expenditures. These can be classified into several types in terms of duration of availability, definiteness or indefiniteness of amount, and so forth.

(14) Until FY 1963, an Item was divided into Sub-Items.

(15) Exactly the same restriction may be found in the Japanese budget system. (Article 33, Finance Law of the Government of Japan).

(16) Article 35, Budget and Accounting Law.

(17) Article 22, Decree for Implementing the Budget and Accounting Law.

(18) Jainubu (Ministry of Finance), *FY 1977 Kyulsan Gaiyo (Synopsis of FY 1977 Final Accounts)*, Seoul, 1978, p. 140.

(19) Jainubu, *FY 1978 Kyulsan Gaiyo (Synopsis of FY 1978 Final Accounts)*, Seoul, 1979, p. 46.

(20) Buk, *Public Budgeting*, p. 488.

(a) *Annual (or one-year) appropriations* constitute the bulk of all appropriations needed to finance the day-to-day operations of the government.

(b) *Multiple-year appropriations* resemble one-year appropriations except that obligations may be incurred for a specified period longer than one year.

(c) *No-year appropriations* are available for obligation until the purpose of the appropriation has been accomplished.

(d) *Annual indefinite appropriations* are indefinite in amount but specified as to purpose.

(e) *Permanent appropriations* resemble Consolidated Fund Services in Britain. Under these appropriations funds become available from year to year without specific action by the Congress.

(f) *Authorizations to expend from public debt receipt* are sometimes used for such agencies as the Commodity Credit Corporation, Rural Electrification Administration, Farmers' Home Administration, and Federal Intermediate Bank instead of appropriations.

2. Contract authorizations empower to incur obligations but not to make expenditures. In other words contract authorizations confer authority to incur obligations during a single fiscal year by permitting the granting of contracts on which no payments may be required until after that year. The Congress must, in subsequent years, appropriate whatever amounts are necessary to cover them.

3. Appropriations to liquidate prior contract authorizations empower only to make expenditures but not to incur any new obligations⁽²¹⁾

Budget authorizations by the Korean National Assembly also include three major categories, but they are not quite the same as those by the U.S. Congress.

1. *Ordinary authorizations.* These confer authority to incur obligations and to make expenditures. There are two types of ordinary authorizations:

(a) *Annual appropriations* account for more than 90 per cent of all the appropriations passed by the National Assembly. The principle of annuality is well observed in the Korean budget system.

(b) *Multiple-year appropriations* are also used primarily for construction and R & D projects. Obligations may be incurred for a period of up to five years, but the amounts to be spent in each year of the period are specified in advance by the National Assembly.⁽²²⁾ It goes without saying that the multiple-year appropriations are one of the most important exceptions to the principle of annuality in the Korean budget system.

2. *Contract authorizations.* These are called *Kooko Chaimoo Budam Haingyi*, and confer authority to incur obligations but not to make expenditures.⁽²³⁾ The contract authorizations require subsequent appropriations to liquidate them.

3. *Appropriations to liquidate prior contract authorizations.* These exist, at least in theory, in the Korean budget system in that they empower only to make expenditures but not to incur any new obligations. However, since the budget is authorized by the Korean National Assembly on an expenditure basis, these appro-

(21) Michael S. March, "A Comment on Budgetary Improvement in the National Government," *National Tax Journal*, June 1952, p. 160; Burkhead, *op. cit.*, p. 317; Kohler and Wright, *op. cit.*, pp. 109-110.

(22) Paragraph 1, Article 90, Constitution of 1972, and Article 19, Budget and Accounting Law.

(23) Article 18, Budget and Accounting Law.

priations are not substantially different from the annual appropriations mentioned above, except that the Assembly may not reject nor reduce these appropriations without the concurrence of the executive branch.

We shall now turn to the relation of accounts to the fiscal year. In the United States federal government, the outstanding balances of appropriations are not lapsed at the end of the fiscal year, even in the case of annual appropriations, let alone one-year or multiple-year appropriations. These balances are available to meet obligations incurred during the fiscal year for a period of twenty-four months after the close of the fiscal year.⁽²⁴⁾

This is not so in Korea. The principle of annuality is emphasized and fairly well observed. The accounts are closed as a rule at the end of the fiscal year and the unexpended balances of appropriations are lapsed. However, an additional period of 20 days is allowed for the payment of tardy bills for goods which have been delivered or services which have been rendered up to the end of the fiscal year.⁽²⁵⁾ This lapsing provision has the great advantage of giving the National Assembly direct control over both amount and purpose of spending within each fiscal year. The carryover is the exception to this rule.

There are two types of the carryover in the Korean budget system, namely: the *Myungsi Yiwol* (legislative carryover) and the *Sago Yiwol* (accident carryover).

(a) *The legislative carryover.* When it is foreseen that some expenditures are not expen-

dable during the fiscal year, the government may ask for the consent of the National Assembly for the carryover of these expenditures.

⁽²⁶⁾ The carryover of expenditures from 1977 to 1978, with the consent of the legislature, amounted to 29,951 million won, and from 1978 to 1979 reached 8,331 million won.⁽²⁷⁾

(b) *The accident carryover.* In some cases, the government ministries may carry over unexpended balances of appropriations to the succeeding fiscal year. The carryover of a large amount of unexpended balances creates confusion and complications, and it is, in effect, "practically the same as making additional or supplementary appropriations."⁽²⁸⁾ Strict restrictions, therefore, are imposed on this type of carryover. For one thing, it is required that obligations have been incurred. Unobligated balances of appropriations are automatically lapsed at the close of the fiscal year, and the carryover is not applied to these balances. For another, it is also required that contracts—whether they are for goods, services, or constructions—have not been fulfilled by the end of the fiscal year due to unavoidable circumstances arising after the placement of the contracts.⁽²⁹⁾ As noted above, when goods and services are provided up to the end of the fiscal year, the bills are settled within 20 days from the end of the fiscal year and it is not necessary to go through this complicated process called the "accident carryover."

The carryover of unexpended balances, under this provision, from 1977 to 1978 reached 154,530 million won, and from 1978 to 1979

(24) Bucx, *The Budget in Governments of Today*, p. 256.

(25) Article 4, Decree for Implementing the Budget and Accounting Law.

(26) Article 27, Budget and Accounting Law.

(27) Jaimubu, *FY 1977 Kyulsan Gaiyo*, pp. 328-329 and Jaimubu, *FY 1978 Kyulsan Gaiyo*, pp. 218-219.

(28) Bucx, *Public Budgeting*, p. 526.

(29) Article 36, Budget and Accounting Law.

amounted to 102,586 million won.⁽³⁰⁾

D. The General Contingent Fund

Another device to maintain a high degree of budgetary flexibility is the appropriation of a general contingent fund.⁽³¹⁾ The general contingent fund in Korea, which is another example of Japanese influence, resembles that used in many state governments in the United States. Article 90 of the Constitution of 1972 provides:

In order to supply deficiencies, which are unavoidable, in the budget, and to meet requirements unprovided for in the budget, contingent funds shall be provided with the consent of the National Assembly. Expenditures from this fund shall be approved by the National Assembly in the next session.

The Budget and Accounting Law, Article 26, reiterates this constitutional provision.

The general contingent fund, so far as the General Account is concerned,⁽³²⁾ serves as a central emergency pool from which various ministries and agencies may obtain funds to meet unforeseeable needs. It should be noted, however, that transfers are authorized from this fund not only to supplement existing appropriations, but to meet requirements unprovided in the budget. Put another way, a transfer from this fund may be effected for purposes or activities that have not been approved by the legislature.

When a ministry or agency feels that the

need of transfer from this fund, an application showing the need, amount and justification is submitted to the Minister of the Economic Planning Board. When this is approved by the Office of the Budget and the Minister, the application for transfer from the contingent fund is submitted to the State Council (Cabinet) and the President. As soon as the President approves the transfer from contingent fund, the amount allowed by the President is appropriated by the Budget Office as if it is a part of regular appropriations.⁽³³⁾

The Budget and Accounting Law, it should be noted, provides that the contingent fund in the General Account should account for at least one per cent of the total General Account budget.⁽³⁴⁾ This clause, which was not found in the old Finance Law, was inserted by the Committee on Budget and Financial System Reform⁽³⁵⁾ in the light of past experience in the operation of the fund. In the past the size of the fund has never been adequate.

The government, as noted above, is required to obtain the subsequent approval of the use of the contingent fund because the general contingent fund is a lump-sum appropriation, and the purposes for which the appropriation is to be used are not specified in advance by the National Assembly. The ministries and agencies which obtained funds from the general contingent fund, are required to submit by March 20 of each year, reports on the use of the funds to the Finance Minister, who in turn consoli-

(30) Jaimubu, *FY 1977 Kyulsan Gaiyo*, pp. 328-329 and Jaimubu, *FY 1978 Kyulsan Gaiyo*, pp. 28-29.

(31) United Nations, *Government Accounting and Budget Execution* (New York: United Nations, 1952), p. 13.

(32) In many special accounts, separate emergency funds are provided.

(33) Article 38, Budget and Accounting Law.

(34) Paragraph II, Article 26, Budget and Accounting Law.

(35) See Hoon Yu "Legal Basis of the Budget in Korea," *Korean Journal of Public Administration*, No. 1, Vol. XVII, pp. 145-151 for function of the Committee.

dates these reports for presentation to the President through the cabinet meeting and to the National Assembly.⁽³⁶⁾

A.E. Buck, who is not enthusiastic about the use of the general contingent fund, concludes:

Although regarded by some administrators as a satisfactory means of providing for small contingencies, such funds are open to abuse unless rigidly controlled.⁽³⁷⁾

The Korean experience tends to support Buck's insistence on the necessity of control over the use of the contingent fund. In the past, many Korean administrators regarded the general contingent fund as a means of securing funds which they could not obtain through the regular budget, and in many cases money from the contingent fund was used for purposes which could not be called emergencies. Furthermore, *ex post facto* control of the National Assembly over the use of the contingent fund tended to be a perfunctory performance in the closing hours of the session.

This writer is not advocating the establishment of an administrative-legislative board or an all legislative board which is used in some state governments in the United States.⁽³⁸⁾ What the Korean National Assembly needs is machinery such as the Public Accounts Committee in the British House of Commons, which would have tight *ex post facto* control over the fund. In Britain, the Public Accounts Committee, "watches with some jealousy" to see that the Treasury does not make use of the Civil Contingencies Fund to "release the depart-

ments to any substantial extent from the limitations of the scheme of appropriations."⁽³⁹⁾

E. Disbursements

1. *Expending Officers*

Expending officers are divided into three groups, namely: finance officers, disbursing officers and cashiers.

(a) Finance officers, whose functions resemble those of certifying officers in the U.S. federal government,⁽⁴⁰⁾ are persons by law duly authorized to incur obligations on behalf of the government. The number of such persons is not fixed by law. In some of the smaller agencies without field offices, a single official signs all the vouchers. But in all the major ministries, which have field offices, the authority to incur obligations is delegated to subordinates.

(b) Disbursing Officers, who have almost the same functions as those of disbursing officers in the U.S. federal government,⁽⁴¹⁾ prepare checks drawn on the Bank of Korea. Unlike their counterparts in the United States, the Korean disbursing officers are all subordinates in the ministries and agencies whose accounts they pay. The number of disbursing officers is less than that of finance officers.

(c) Cashiers are those who make cash payments. Under the Korean financial system, payments for government obligations are to be made, in principle, by checks drawn on the Bank of Korea, which in turn makes cash pay-

(36) Article 39, Budget and Accounting Law.

(37) Buck, *The Budget in Governments of Today*, p. 252.

(38) Daniel W. Tuttle, Jr., "The General Contingent Fund in Minnesota: Operation and Management, 1937-1947," *Public Administration Review*, Summer 1949, p. 194.

(39) Young and Young, *op. cit.*, pp. 192-193.

(40) Harvey C. Mansfield, *The Comptroller General* (New Haven: Yale University Press, 1939), p. 137.

(41) Daniel T. Selko, *The Federal Financial Systems* (Washington, D. C.: The Brookings Institution, 1940), p. 360.

ments to pay es. ⁽⁴²⁾ In some cases, however, cashiers are appointed, and funds are advanced to them by disbursing officers.

2. *The Disbursing Process*

When a bill is to be paid, it must be approved for payment by a finance officer mentioned above. The finance officer makes sure that all the required steps have been followed in verifying the quantity, quality, and price of goods and services ordered and received. He gives the supporting documents a final review and puts his seal on the accompanying voucher. The voucher is then sent to a disbursing officer, who prepares checks drawn on the Bank of Korea.

There is a limit on the total amount of checks drawn by a disbursing officer. As soon as a minister or agency head is notified of the amounts the ministry or agency is allowed to

disburse in each month of the year, he allots the amounts to disbursing officers in his ministry or agency if there is more than one disbursing officer under his jurisdiction. The disbursing officer may not draw checks in excess of these amounts in each month. ⁽⁴³⁾

When deposited or presented by payees, checks clear through usual bank processes and are paid by the Bank of Korea through its main office and branch offices. Disbursements in currency are infrequent, and when they are necessary, cash payments are made only by designated cashiers. The same person cannot be a cashier and disbursing officer at the same time. ⁽⁴⁴⁾

In short, the Korean disbursing process approximates that of the U.S. federal government before it was centralized in June, 1933. ⁽⁴⁵⁾

(42) Article 59, Budget and Accounting Law.

(43) Article 54, Budget and Accounting Law.

(44) Article 67, Budget and Accounting Law.

(45) There are some exceptions to centralized disbursement in the United States. (Frank J. McKenna, "A Delegation of Federal Disbursing Functions," *Public Administration*, Winter 1956, pp. 37-39; and also E. F. Bartelt, *Accounting Procedures of the United States Government*, Chicago: Public Administration Service, 1940, pp. 28-29).