



March 2014

2013 SEQUESTRATION

Agencies Reduced
Some Services and
Investments, While
Taking Certain
Actions to Mitigate
Effects

GAO Highlights

Highlights of [GAO-14-244](#), a report to the Chairman, Committee on the Budget, House of Representatives

Why GAO Did This Study

On March 1, 2013, pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, the President ordered an across-the-board cancellation of budgetary resources—known as sequestration—to achieve \$85.3 billion in reductions across federal government accounts.

GAO was asked to evaluate how agencies prepared for and implemented sequestration. This report examines (1) the effects of fiscal year 2013 sequestration on agency operations, performance, or services to the public; (2) how agencies prepared and planned for sequestration; and (3) how agencies implemented sequestration. GAO collected standard information from and interviewed chief financial officers or their designee in 23 federal agencies and OMB, and reviewed documents when available to corroborate the information reported. GAO did not assess the appropriateness of actions taken.

What GAO Recommends

GAO recommends that the Director, OMB (1) publish the criteria used to determine which accounts and programs, projects, and activities were exempt from sequestration, and which accounts contain funds that are temporarily sequestered and available for obligation in future years; and (2) direct agencies to record their decisions and principles used to implement sequestration for potential future application. OMB agreed with GAO's recommendations and plans to publish its criteria and reiterate to agencies the importance of recording decisions.

View [GAO-14-244](#). For more information, contact Michelle Sager at (202) 512-6806 or sagem@gao.gov or Edda Emmanuelli Perez at (202) 512-2853 or emmanuellipereze@gao.gov.

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Agencies Reduced Some Services and Investments, While Taking Certain Actions to Mitigate Effects

What GAO Found

Fiscal year 2013 sequestration reduced or delayed some public services and disrupted some operations in the 23 federal agencies GAO reviewed, even though agencies took actions to minimize the effects. For example, agencies reported that sequestration reduced assistance for education, housing, and nutrition, as well as health and science research and development grants. Agencies also reported delaying investments such as information technology and facilities projects. Some federal services also experienced backlogs and delays as a result of personnel actions including limiting hiring and furloughing employees. However, many of the effects of sequestration could not be quantified or will not be known until future years, if at all, for a number of reasons including the timing of when funds are disbursed (such as grant cycles that start late in the fiscal year), challenges in isolating the effects from other factors, and the lack of currently available performance data for some programs. Moreover, congressional and agency actions mitigated some potential effects by shifting funds to higher priorities while deferring or reducing funding for lower priorities.

Most agencies began sequestration preparation and planning in 2012, but uncertainty over if and when it would occur, and how to implement it, delayed resource allocation decisions. While the Office of Management and Budget (OMB) identified exemptions and special rules relevant to certain accounts in a September 2012 report, issues regarding application of sequestration continued to be reviewed after the March 1, 2013, sequestration order. In some cases, agencies said they lacked sufficient information to determine whether funds sequestered from certain user fees and trust fund accounts were temporarily canceled in fiscal year 2013 but would be available in fiscal year 2014, creating uncertainty about available budgetary resources. The Sequestration Transparency Act of 2012 required OMB to report data and explanations to enhance public understanding of sequestration. However, OMB did not make publicly available its criteria for determining which programs were exempt. Further, because this was the first sequestration in more than two decades, agencies said they lacked institutional knowledge about applying sequestration to certain programs, such as those funded through fees and trust funds, which created planning challenges and delayed resource allocation decisions. Federal internal control standards indicate that to ensure communications are relevant, reliable, and timely, agencies should identify and record pertinent information needed to carry out their duties.

To implement sequestration, most agencies reported using funding flexibilities to balance mission protection and required sequestration reductions. These flexibilities included reprogramming funds within an account, transferring funds between accounts, and using unobligated balances from prior years. However, funding flexibilities may be more limited in future years. Nevertheless, 19 agencies reported curtailing hiring; 16 reported rescoping or delaying contracts or grants for core mission activities; 19 reported reducing employee training; 20 reported reducing employee travel; and 7 reported furloughing more than 770,000 employees from 1 to 7 days. GAO's report includes summary results for the 23 agencies reviewed as well as individual agency sections.

Contents

Letter	1
Background	6
Agencies' Actions in Response to Sequestration Resulted in a Range of Immediate and Longer-Term Effects	14
Most Agencies Began Formal Planning for Sequestration in 2012 While Continued Uncertainty Delayed Decisions Regarding Resource Allocation	26
Agencies Used Funding Flexibilities and Congress Took Actions to Mitigate Some Effects on Core Mission While Still Achieving Sequestration Reductions	37
Conclusions	55
Recommendations for Executive Action	57
Agency Comments and Our Evaluation	57
<hr/>	
Overview of Sequestration at 23 Federal Agencies	61
Department of Agriculture	64
Department of Commerce	71
Department of Defense	76
Department of Education	83
Department of Energy	88
Department of Health and Human Services	97
Department of Homeland Security	104
Department of Housing and Urban Development	112
Department of the Interior	119
Department of Justice	126
Department of Labor	133
Department of State and U.S. Agency for International Development Operations and Foreign Assistance	138
Department of Transportation	143
Department of the Treasury	149
Environmental Protection Agency	155
General Services Administration	162
National Aeronautics and Space Administration	166
National Science Foundation	171
Nuclear Regulatory Commission	177
Office of Personnel Management	182
Small Business Administration	187
Social Security Administration	192

Appendix I	Objectives, Scope, and Methodology	197
Appendix II	Comments from the Department of Education	201
Appendix III	Comments from the Department of Treasury	203
Appendix IV	Comments from the Social Security Administration	205
Appendix V	Glossary of Budget Terms	206
Appendix VI	GAO Contacts and Staff Acknowledgments	213

Tables

Table 1: Report Sections on Sequestration at Selected Federal Agencies	5
Table 2: Sequestered Funds, Budget Accounts, and Programs, Projects, and Activities (PPA) by Agency, Fiscal Year 2013	39
Table 3: Funding Actions Agencies Reported Taking in Fiscal Year 2013 to Mitigate the Effects of Sequestration	41
Table 4: Personnel and Related Actions Agencies Reported Taking to Achieve Reductions Required by Sequestration in Fiscal Year 2013	50
Table 5: Summary of Furloughed Federal Employees As a Result of Sequestration in Fiscal Year 2013	51
Table 6: Non-personnel Actions Agencies Reported Taking to Achieve Reductions Required by Sequestration in Fiscal Year 2013	54
Table 7: Report Sections on Sequestration at Selected Federal Agencies	63
Table 8: Names of GAO Staff Contributing to Information on Selected Agencies	215

Figures

Figure 1: OMB Calculation of Sequestration Amounts for Fiscal Year 2013 (Dollars in Billions)	9
Figure 2: Fiscal Year 2013 Joint Committee Sequestration: Related Legislative and OMB Actions	13

Abbreviations

ACF	Administration for Children and Families
ATF	Bureau of Alcohol, Tobacco, Firearms, and Explosives
ATRA	American Taxpayer Relief Act of 2012
BBEDCA	Balanced Budget and Emergency Deficit Control Act of 1985
BCA	Budget Control Act of 2011
BWPMO	Balanced Workforce Program Management Office
CBP	Customs and Border Protection
BLS	Bureau of Labor Statistics
BOP	Federal Bureau of Prisons
CDBG	Community Development Block Grants
CDC	Centers for Disease Control and Prevention
CDFI	Community Development Financial Institutions Fund
CFO	Chief Financial Officer
CMS	Centers for Medicare & Medicaid Services
Coast Guard	U.S. Coast Guard
Commerce	Department of Commerce

CR	continuing resolution
CSR	customer service representatives
CSRS	Civil Service Retirement System
DEA	Drug Enforcement Administration
DHS	Department of Homeland Security
DOD	Department of Defense
DOE	Department of Energy
DOJ	Department of Justice
DOL	Department of Labor
DOT	Department of Transportation
Education	Department of Education
EM	Office of Environmental Management
EPA	Environmental Protection Agency
ETA	Employment and Training Administration
FAA	Federal Aviation Administration
FAMS	Federal Air Marshals Service
FEMA	Federal Emergency Management Agency
FERS	Federal Employees Retirement System
FBI	Federal Bureau of Investigation
FDA	Food and Drug Administration
FEVS	Federal Employee Viewpoint Survey
FSIS	Food Safety and Inspection Service
Ginnie Mae	Government National Mortgage Association
GPRA	Government Performance and Results Act of 1993
GPRAMA	The GPRA Modernization Act of 2010
GSA	General Services Administration
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
ICE	U.S. Immigration and Customs Enforcement
Interior	Department of Interior
IG	Inspector General
IHS	Indian Health Service
IRS	Internal Revenue Service
ISS	International Space Station
IT	Information technology
Joint Committee	Joint Select Committee on Deficit Reduction
MSHA	Mine Safety and Health Administration
NASA	National Aeronautics and Space Administration
NIH	National Institutes of Health
NIST	National Institute of Standards and Technology
NextGen	Next Generation Air Transportation System
NNSA	National Nuclear Security Administration
NOAA	National Oceanic and Atmospheric Administration
NSF	National Science Foundation
NRC	Nuclear Regulatory Commission
OIG	Office of the Inspector General

OMB	Office of Management and Budget
OPM	Office of Personnel Management
OSHA	Occupational Safety and Health Administration
PBGC	Pension Benefit Guaranty Corporation
PHA	public housing agencies
PPA	programs, projects, and activities
Recovery Act	American Recovery and Reinvestment Act of 2009
SBA	Small Business Administration
SFOAA	Department of State, Foreign Operations, and Related Programs Appropriations Act, 2012
SSA	Social Security Administration
SSI	Supplemental Security Income
STA	Sequestration Transparency Act of 2012
State	Department of State
State/F	Department of State Office of U.S. Foreign Assistance Resources
Treasury	Department of Treasury
TTB	Alcohol and Tobacco Tax and Trade Bureau
USPTO	U.S. Patent and Trademark Office
USAID	Agency for International Development
USDA	Department of Agriculture
USMS	U.S. Marshals Service
VA	Department of Veterans Affairs
WARN Act	Worker Adjustment and Retraining Notification Act
WHD	Wage and Hour Division
WIC	Women, Infants, and Children

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March 6, 2014

The Honorable Paul Ryan
Chairman
Committee on the Budget
House of Representatives

Dear Mr. Chairman:

Through most of fiscal year 2013, federal agencies faced uncertainty about funding levels associated with the automatic, across-the-board cancellation of budgetary resources, known as sequestration. Sequestration was first established in the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA) to enforce discretionary spending limits and control the deficit.¹ This budgetary enforcement mechanism was recently revived by the Budget Control Act of 2011 (BCA),² which provided the legal basis for the fiscal year 2013 sequestration. Accordingly, on March 1, 2013—5 months into the fiscal year—the President ordered the sequestration of budgetary resources to achieve \$85.3 billion in reductions across federal government accounts and their subunits, known as programs, projects, and activities (PPA).³ Because these cuts were to be achieved during the 7 remaining months of the fiscal year, the Office of Management and Budget (OMB) estimated that the effective percentage reductions to fiscal year 2013 spending over that time period were approximately 13 percent for defense programs and 9 percent for nondefense programs. Reductions were required to be applied uniformly, across the board, to nonexempt accounts within the

¹BBEDCA has been amended many times, including by the Budget Enforcement Act of 1990, the Statutory Pay-As-You-Go Act of 2010, the Budget Control Act of 2011, and the American Taxpayer Relief Act of 2012. This body of law is classified in sections 900 through 907d in title 2 of the U.S. Code.

²Pub. L. No. 112-25, 125 Stat. 240 (Aug. 2, 2011).

³Under the Balanced Budget and Emergency Deficit Control Act of 1985, an account is defined as an item for which appropriations are made in any appropriation act or, for items not provided for in appropriation acts, an item with a designated budget account identification code in the President's budget.

defense and nondefense spending categories.⁴ This was the first sequestration in more than two decades.⁵ Under current law, a sequestration of direct spending will occur through fiscal year 2024 and another sequestration of discretionary appropriations could occur in any fiscal year through 2021.⁶

You asked that we evaluate how agencies prepared for and implemented sequestration.⁷ This report examines: (1) the effects of sequestration in fiscal year 2013 on agency operations, performance, or services to the public; (2) how agencies prepared and planned for sequestration; and (3) how agencies implemented sequestration.

To achieve these objectives, we gathered information from 23 of 24 chief financial officers (CFO) in CFO Act agencies. We excluded the

⁴The defense spending category consists of budgetary resources in the national defense budget function. In addition to the Department of Defense, several other agencies received funding classified under the national defense budget function, including the Departments of Energy and Homeland Security. The nondefense spending category consists of budgetary resources in budget functions other than national defense. For more detailed information on sequestration at the Department of Defense, see GAO, *Sequestration: Observations on the Department of Defense's Approach in Fiscal Year 2013*, [GAO-14-177R](#) (Washington, D.C.: Nov. 7, 2013).

⁵Previous sequestrations occurred in the 1980s and 1990s, and most recently in 1991. For more information on the 1991 sequestration, see GAO, *The Budget for Fiscal Year 1991: Compliance With the Balanced Budget and Emergency Deficit Control Act of 1985*, [GAO/AFMD-91-35](#) (Washington, D.C.: Dec. 10, 1990).

⁶Discretionary appropriations are budgetary resources provided in appropriations acts. By contrast, direct spending, often referred to as mandatory spending, consists of budgetary resources provided by entitlement authority and laws other than appropriations acts. Many direct spending programs (though not necessarily the associated administrative budgets) are exempt from sequestration, including Social Security benefit payments, federal employees' retirement, and programs that serve lower income populations such as Supplemental Security Income, Medicaid, the Supplemental Nutrition Assistance Program (formerly the Food Stamp Program), the Children's Health Insurance Program, and school meals. Federal income tax credits paid to individuals, such as the Child Tax Credit and the Earned Income Tax Credit, are also exempt. Medicare payments and other select health programs were limited to a 2 percent reduction. The sequestration of direct spending was recently extended through fiscal year 2024. Pub. L. No. 113-82, § 1, 128 Stat. 1009 (Feb. 15, 2014).

⁷In response to your request, we also reviewed whether OMB's March 1 actions complied with section 251A of BBEDCA. In the legal opinion that we released in July 2013, we concluded that OMB's calculations, the President's March 1 sequestration order, and OMB's March 1 report satisfied the BBEDCA requirements. See GAO, *March 1 Joint Committee Sequestration for Fiscal Year 2013*, [B-324723](#) (July 31, 2013).

Department of Veterans Affairs, because its accounts were exempt from sequestration.⁸ The CFO Act agencies covered by the CFO Act of 1990, as amended, are the Departments of Agriculture (USDA), Commerce (Commerce), Defense (DOD), Education (Education), Energy (DOE), Health and Human Services (HHS), Homeland Security (DHS), Housing and Urban Development (HUD), the Interior (Interior), Justice (DOJ), Labor (DOL), State (State), Transportation (DOT), the Treasury (Treasury), and Veterans Affairs (VA), as well as the Agency for International Development (USAID), Environmental Protection Agency (EPA), General Services Administration (GSA), National Aeronautics and Space Administration (NASA), National Science Foundation (NSF), Nuclear Regulatory Commission (NRC), Office of Personnel Management (OPM), Small Business Administration (SBA), and Social Security Administration (SSA).⁹ The agencies covered by the CFO Act are generally the largest federal agencies. They accounted for approximately 98 percent of the total sequestration for fiscal year 2013. They also accounted for the majority of federal spending in 13 of the federal government's 17 broad mission areas, or budget functions.

We reviewed agency documents on the effects of sequestration and conducted structured interviews with the CFO (or his or her designee) and other officials at each of the 23 agencies. We reviewed supporting documents to assess the reasonableness of agencies' estimates of the effects of sequestration on agency operations, performance, and services to the public. Specifically, we reviewed the data and methodology used to calculate these estimates and we reported the estimates when they met our evidentiary standards. In some cases we found it appropriate to report agency estimates, as long as we also included significant contextual information and information about limitations regarding the estimates. In other cases, if agency explanations of the data and methodologies used

⁸2 U.S.C. § 905(b). In May 2012, we reported on the effect of the Budget Control Act on the Department of Veterans Affairs. See GAO, *The Budget Control Act and the Department of Veterans Affairs' Programs*, B-323157 (May 21, 2012). For the purposes of this report, when we refer to an "agency," we are referring to the overall government component. This could be a cabinet-level department (e.g., the Department of Transportation) or an independent agency (e.g., the Environmental Protection Agency).

⁹We will issue additional work in the spring of 2014 providing more detail on the planning, implementation, and effects of sequestration at four case study bureaus within these agencies: DHS's U.S. Customs and Border Protection, Education's Elementary and Secondary Education, HHS's Centers for Medicare & Medicaid Services, and HUD's Public and Indian Housing.

to estimate the effects of sequestration indicated significant uncertainty surrounding the estimates, we did not report the estimates. In our communications with agencies we asked them to isolate the effects of sequestration from other factors such as operating under a continuing resolution and the rescission enacted in the Consolidated and Further Continuing Appropriations Act, 2013 to the degree possible. We recognize that these other factors could also contribute to budget uncertainty and affect agency operations, performance, and services to the public.

To assess how agencies prepared and planned for sequestration and ultimately implemented it we used a structured questionnaire and information request for agency documents, such as operating and spending plans. Based on this information, we evaluated whether the actions agencies took were broadly consistent with OMB guidance. However, we did not assess the appropriateness of actions agencies took to implement sequestration. We assessed whether OMB's actions were broadly consistent with BBEDCA and other related laws and regulations in terms of providing information and guidance that enhanced public understanding of sequestration. We also assessed whether the guidance was distributed at the appropriate time to enable efficient and effective decision making.

As part of the structured information request, we asked agencies to identify the source of information provided and any known limitations or purposes for which the data being provided should not be used. To further assess the reliability of the data provided by agencies we interviewed knowledgeable officials as needed. We also reviewed existing reports by inspectors general on the databases or systems that produced any data provided. We sent an e-mail questionnaire to federal inspectors general offices at the agencies included in our review, asking for information related to the effects of sequestration on each office's budget and its oversight activities.

We conducted our work from April 2013 to March 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. For additional details on our scope and methodology, see appendix I.

This report first provides an overview of our findings for the objectives outlined above for fiscal year 2013 sequestration, including key themes and illustrative examples pertaining to the 23 agencies included in our work. For purposes of this report, information on State and USAID is reported together because State’s Office of U.S. Foreign Assistance Resources jointly manages both agencies’ budgets. Therefore, we report summary results of our review in terms of 22 rather than 23 agencies. Next, this report presents specific findings for our objectives at the agencies we reviewed. These findings are presented in individual agency sections. For each agency, we present contextual information, including a brief description of the agency’s mission as well as information on fiscal year 2013 funding, sequestered amount, PPAs, and transfer and reprogramming authorities. We also present information on each agency’s planning and implementation actions, as well as the effects of sequestration on the agency’s operations, performance, or services to the public. In addition, a glossary of budget terms is included in appendix V. Table 1 shows where information on individual agencies is located in this report.

Table 1: Report Sections on Sequestration at Selected Federal Agencies

Agency	Page	Agency	Page
Department of Agriculture (USDA)	64	Department of Transportation (DOT)	143
Department of Commerce (Commerce)	71	Department of the Treasury (Treasury)	149
Department of Defense (DOD)	76	Agency for International Development (USAID)	138
Department of Education (Education)	83	Environmental Protection Agency (EPA)	155
Department of Energy (DOE)	88	General Services Administration (GSA)	162
Department of Health and Human Services (HHS)	97	National Aeronautics and Space Administration (NASA)	166
Department of Homeland Security (DHS)	104	National Science Foundation (NSF)	171
Department of Housing and Urban Development (HUD)	112	Nuclear Regulatory Commission (NRC)	177
Department of the Interior (Interior)	119	Office of Personnel Management (OPM)	182
Department of Justice (DOJ)	126	Small Business Administration (SBA)	187
Department of Labor (DOL)	133	Social Security Administration (SSA)	192
Department of State (State)	138		

Source: GAO.

Background

In August 2011, Congress and the President enacted the BCA, amending BBEDCA. Among other things, the BCA established the Joint Select Committee on Deficit Reduction (Joint Committee), which was tasked with proposing legislation to reduce the deficit by \$1.2 trillion or more through fiscal year 2021. The Joint Committee was directed to report its proposal by December 2, 2011, and Congress and the President were to enact legislation by January 15, 2012. The Joint Committee did not report a proposal, and Congress and the President did not enact legislation. This failure triggered the sequestration process in section 251A of BBEDCA, known as the Joint Committee sequestration, which is the subject of this report.¹⁰

Changes to the Timing and Amount of Fiscal Year 2013 Sequestration

During fiscal year 2013, several laws changed the timing and amount of sequestration, contributing to uncertainty regarding agencies' total funding for the fiscal year. As originally enacted in August 2011, if a Joint Committee bill failed to achieve \$1.2 trillion in deficit reduction by its statutory deadline, the BCA required fiscal year 2013 cuts totaling \$109.3 billion to be ordered on January 2, 2013. In September 2012, OMB estimated that sequestration would require the following reductions:¹¹

- 9.4 percent in defense discretionary appropriations,
- 10 percent in defense direct spending,
- 8.2 percent in nondefense discretionary appropriations,
- 2 percent in Medicare payments and certain health programs, and
- 7.6 percent in other nondefense direct spending.

On January 2, 2013, the American Taxpayer Relief Act of 2012 (ATRA) reduced the amount of sequestration to \$85.3 billion and delayed

¹⁰The BCA also imposed discretionary spending limits for fiscal years 2012 to 2021 to reduce projected spending by about \$1 trillion. If the discretionary spending caps are not met in a given fiscal year, they will be enforced by an "after session sequestration" within 15 days after the end of a congressional session. This report focuses on the Joint Committee sequestration.

¹¹OMB produced these preliminary estimates as directed by the Sequestration Transparency Act of 2012. Because a fiscal year 2013 appropriation had not been enacted, the act directed OMB to base the estimates on the fiscal year 2012 appropriation level.

implementation until March 1, 2013.¹² Later in January 2013, the Disaster Relief Appropriations Act, 2013, was enacted to provide supplemental appropriations to respond to Hurricane Sandy. According to the Congressional Budget Office, this law increased nondefense discretionary appropriations for fiscal year 2013 by more than \$50 billion, which significantly increased the amount of budget authority subject to sequestration—known as the sequestrable base—for the nondefense budget function. As a result, nondefense discretionary appropriations were ultimately subject to a smaller percentage reduction. The Disaster Relief Appropriations Act, 2013, increased defense discretionary appropriations by more than \$100 million. This did not significantly increase the sequestrable base for the defense budget function, and therefore did not change the percentage reduction to these accounts.¹³

In accordance with BBEDCA, as amended, on March 1, 2013, OMB calculated and the President ordered a sequestration of discretionary appropriations and direct spending to achieve an \$85.3 billion reduction for fiscal year 2013. At that time, agencies were operating under a part-year continuing resolution (CR) and did not yet know their final funding levels for the fiscal year. OMB calculated sequestration based on the annualized funding level set by the CR that was currently in effect. OMB calculated percentage sequestration reductions of:

- 7.9 percent for direct defense spending,
- 7.8 percent for defense discretionary spending,
- 5.1 percent for nondefense direct spending—other than Medicare payments and certain health programs, which are limited to 2 percent sequestration under BBEDCA, and
- 5 percent for nondefense discretionary spending.

¹²Pub. L. No. 112-240, § 901(a), 126 Stat. 2313, 2370 (Jan. 2, 2013). The \$24 billion reduction in the fiscal year 2013 sequestration was offset by \$12 billion in revenue increases and \$12 billion in total reductions to the fiscal year 2013 and 2014 discretionary spending limits.

¹³Section 251(b) of BBEDCA provides for adjustments to the discretionary spending limits for certain categories of funding, including amounts designated as emergency and disaster relief appropriations. OMB adjusted the discretionary spending limits for fiscal year 2013 to reflect appropriations enacted in response to Hurricane Sandy. OMB, *OMB Final Sequestration Report to the President and Congress for Fiscal Year 2013* (Apr. 9, 2013).

On March 26, 2013, Congress and the President enacted the Consolidated and Further Continuing Appropriations Act, 2013, which provided full-year appropriations to federal agencies.¹⁴ This law had the effect of reducing the sequestered amount for fiscal year 2013 from \$85.3 billion to \$80.5 billion,¹⁵ because BBEDCA provides for a reduction to the amount of sequestration for accounts funded by discretionary appropriations when the full-year appropriation is less than the annualized CR amount minus the sequestration amount.¹⁶ Under this provision, the sequestered amount for those accounts was reduced by the amount of savings achieved by the full-year appropriation. The appropriations act also required an across-the-board cancellation of budget authority—known as a rescission—to eliminate any amount by which the new budget authority provided in the act exceeded the fiscal year 2013 discretionary spending limits.¹⁷ Accordingly, OMB calculated a rescission of 0.032 percent for all security PPAs and 0.2 percent for all nonsecurity PPAs.¹⁸ Figure 1 shows how OMB calculated the sequestration percentages that were applied on March 1, 2013, and the final amount of sequestration cuts reflecting the full-year appropriation enacted on March 26, 2013.

¹⁴Pub. L. No. 113-6, 127 Stat. 198 (Mar. 26, 2013).

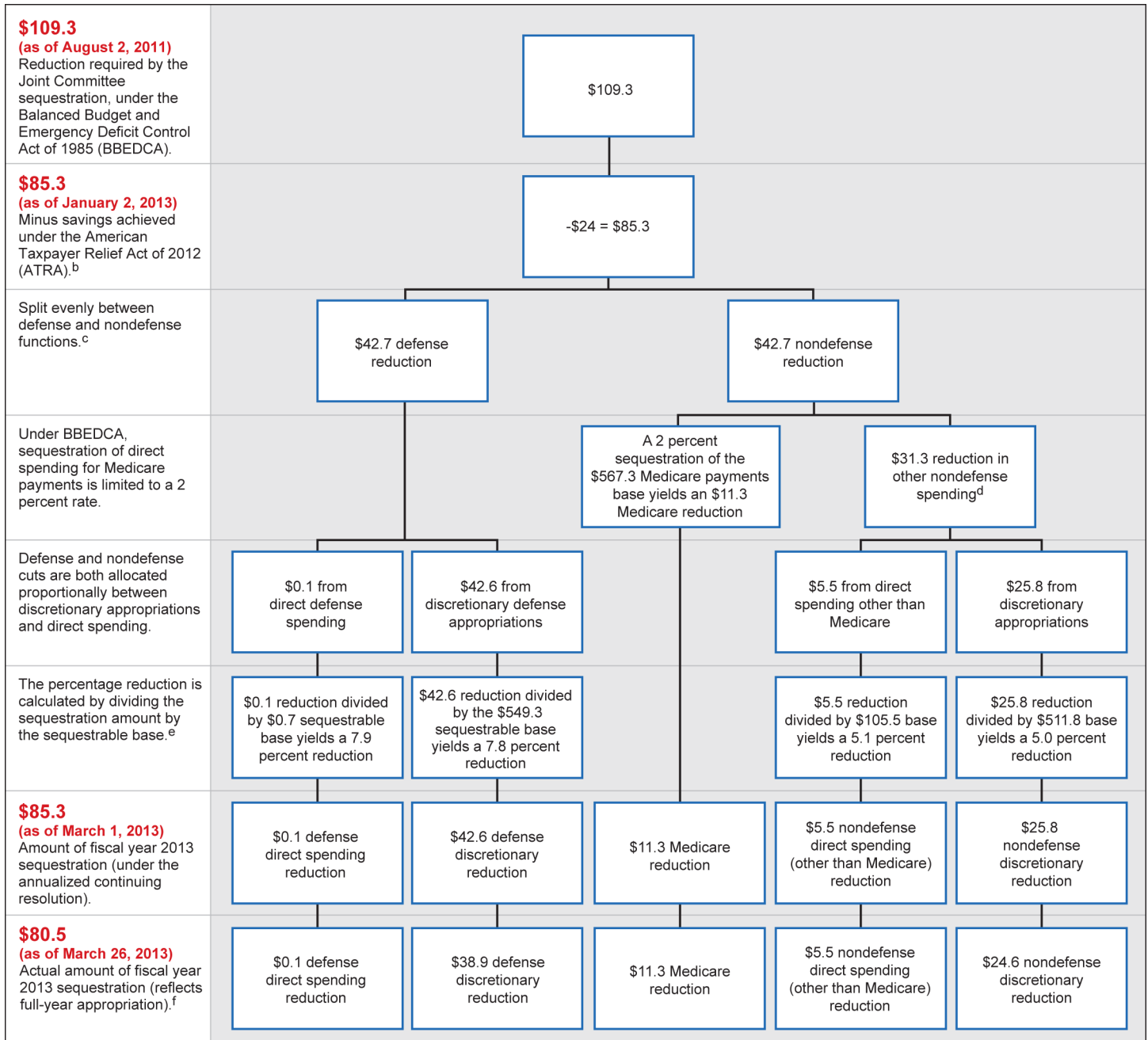
¹⁵The final sequestered amount for fiscal year 2013 is dependent on total sequestered amounts for programs that are funded by permanent indefinite budget authority, such as entitlement programs like Medicare payments where obligations depend on the number of eligible beneficiaries receiving benefits. Further, while agencies were generally required to implement the cuts by the end of fiscal year 2013, sequestration of Medicare payments extends through March of 2014.

¹⁶2 U.S.C. § 903(f).

¹⁷In addition, the Consolidated and Further Continuing Appropriations Act, 2013, also provided for additional rescissions for specific categories of spending, including 2.513 percent and 1.877 percent rescissions for certain categories of nonsecurity spending and a 0.1 percent rescission for security spending.

¹⁸While the Joint Committee sequestration cuts applied to defense and nondefense spending categories, BBEDCA set discretionary spending limits based on security and nonsecurity categories for fiscal years 2012 and 2013, and discretionary spending limits based on defense and nondefense categories for fiscal years 2014 through 2021. The security category included discretionary appropriations for accounts in the Department of Defense, the Department of Homeland Security, the Department of Veterans Affairs, the National Nuclear Security Administration, the Intelligence Community Management Account, and all discretionary accounts in the international affairs budget function. The nonsecurity category included all discretionary appropriations that do not fall into the security category.

Figure 1: OMB Calculation of Sequestration Amounts for Fiscal Year 2013 (Dollars in Billions)^a



Source: GAO analysis of OMB data.

Notes:

^aNumbers may not add due to rounding.

^bOn January 2, 2013, ATRA reduced the total amount of sequestration by about \$24 billion, which was offset by \$12 billion of revenue increases and \$12 billion in total reductions to discretionary spending limits in fiscal years 2013 and 2014. ATRA also changed the effective date of sequestration to March 1, 2013.

^cThe defense spending category consists of budgetary resources in the national defense budget function. In addition to the Department of Defense, several other agencies received appropriations classified under the national defense budget function, including the Departments of Energy and Homeland Security. The nondefense spending category consists of budgetary resources in budget functions other than national defense.

^dThe \$31.3 billion reduction to nondefense spending other than Medicare payments includes \$0.027 billion from other health programs that were limited to 2 percent sequestration and \$0.082 billion savings from increased student loan fees.

^eFor discretionary programs, the sequestrable base equals total discretionary appropriations (including the annualized continuing resolution, the Disaster Relief Appropriations Act, and any advance appropriations for fiscal year 2013), plus available defense unobligated balances from previously enacted appropriations, minus funding in exempt accounts.

^fThe total amount of fiscal year 2013 sequestration was reduced under the full-year appropriation because BBEDCA provides for a reduction in the amount of sequestration in fiscal year 2013 for accounts where the full-year appropriation is less than the annualized continuing resolution amount minus the sequestration amount. 2 U.S.C. § 903(f).

Funding Flexibility Available through Reprogramming, Transfers, and Unobligated Balances

BBEDCA requires sequestration cuts to be uniformly applied by the same percentage to all PPAs, which are generally sub-elements within accounts.¹⁹ BBEDCA provides that PPAs are identified by appropriation acts or accompanying reports for the relevant fiscal year or, for accounts not included in appropriation acts, with reference to the most recently submitted President's budget.

Agencies had various reprogramming and transfer authorities, as well as unobligated balances in some instances, to respond to sequestration. Reprogramming is the shifting of funds from one program activity to another within an appropriation account for purposes other than those contemplated at the time of appropriation. Generally, no statutory authority is necessary for agencies to reprogram funds, but in some instances the ability to reprogram funds may be limited by law for certain purposes or amounts. Further, the agency may be required to notify the congressional appropriations committee or subcommittee of jurisdiction in advance of any reprogramming action. Congressional committees may express disagreement via formal letters to agencies and informal conversations with agencies. As a result, agencies may ultimately choose not to pursue the reprogramming action.

¹⁹In April 2012, we reported on the meaning of PPA under the BCA. See GAO, *Agency Operations: Agencies Must Continue to Comply with Fiscal Laws Despite the Possibility of Sequestration*, [GAO-12-675T](#) (Washington, D.C.: Apr. 25, 2012).

A transfer is the shifting of funds between appropriation accounts. Agencies must have statutory authority in order to transfer funds, and that authority may also be limited by purpose or amount. For example, some agencies have the authority to transfer up to 5 percent of funds from an account, as long as the receiving account is not increased by more than 10 percent. In other words, the total amount transferred from an account may not exceed 5 percent of the agency's total appropriation for the fiscal year, and the receiving account may be increased by a maximum of 10 percent of that account's appropriation.

Unobligated balances that remain legally available from prior year appropriations could provide agencies with funding flexibility to respond to sequestration. An unobligated balance is a type of carryover balance.²⁰ If a multiyear or no-year appropriation is not fully obligated by the end of the fiscal year, the unobligated balance may be carried forward into the next fiscal year and remain available for obligation.²¹ Defense unobligated balances that remain available for spending are subject to sequestration; nondefense unobligated balances are exempt. Agencies may have unobligated balances from multiyear or no-year funding for long-term projects, such as military construction; supplemental funding, such as funding for natural disasters and other emergencies; and unobligated user fee collections. Unobligated balances in some instances support an agency's ability to carry out its mission by providing flexibility for the agency to respond to contingencies or emergencies. For example, for agencies funded by user fees, reserve funds can sustain operations in the event of a sharp downturn in fee collections or increase in costs.²²

²⁰Carryover balances may consist of funds that have not been obligated (known as unobligated balances) or obligations for which payment has not been made (known as unliquidated obligations) that are carried forward into future fiscal years. We recently reported on unobligated balances, see GAO, *Budget Issues: Key Questions to Consider When Evaluating Balances in Federal Accounts*, [GAO-13-798](#) (Washington, D.C.: Sept. 30, 2013).

²¹Multiyear appropriations provide budget authority for a fixed period of time in excess of one year, while no-year appropriations provide budget authority for an indefinite period of time.

²²We recently reported on user fee design options, including issues related to identifying and managing unobligated balances. See GAO, *Federal User Fees: Fee Design Options and Implications for Managing Revenue Instability*, [GAO-13-820](#) (Washington, D.C.: Sept. 30, 2013).

OMB's Role in Sequestration

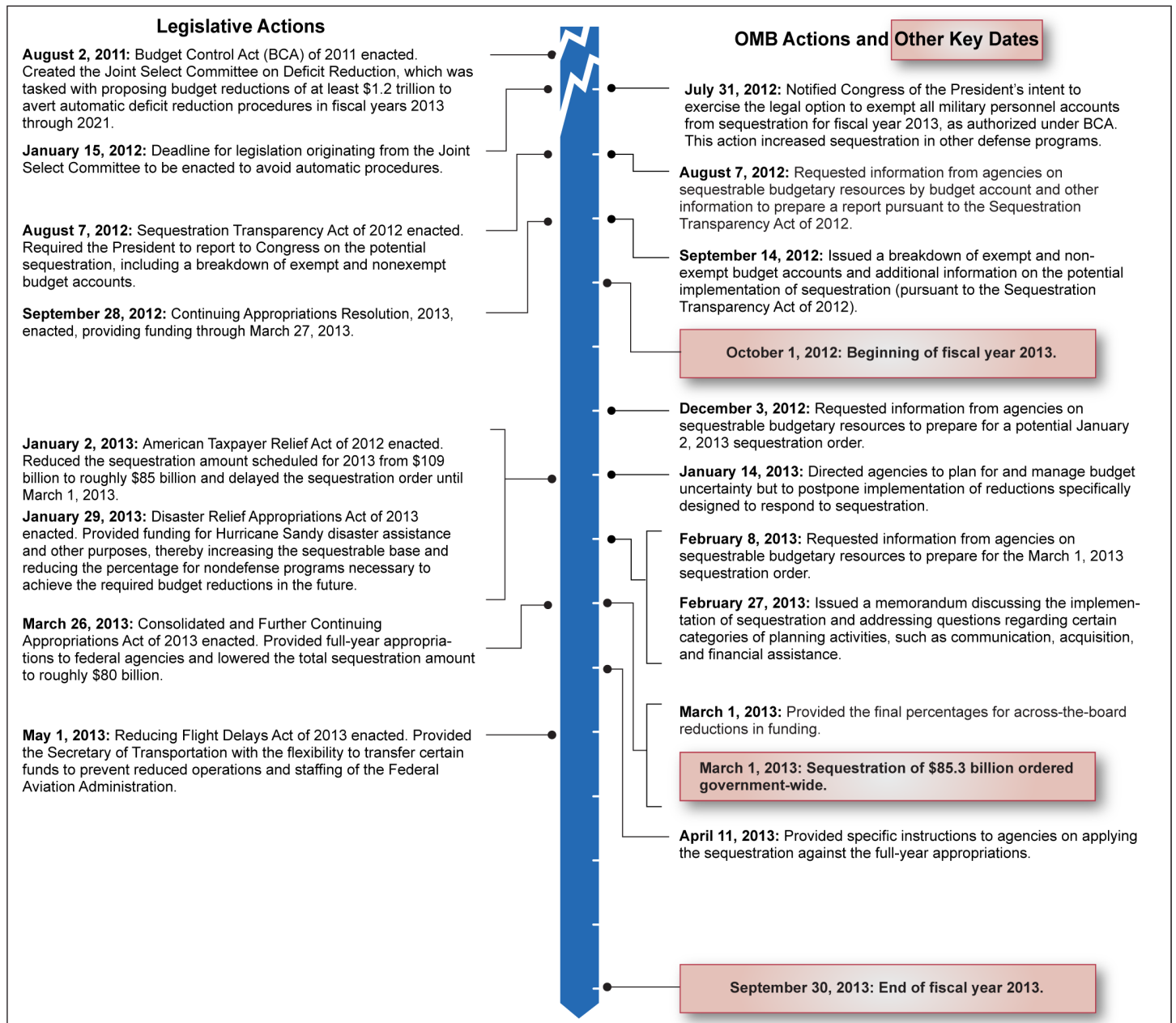
OMB played an important role in interpreting BBEDCA and calculating the sequestration for fiscal year 2013. In August 2012, the Sequestration Transparency Act of 2012 (STA) required the President to report to Congress on the potential sequestration.²³ In response to the STA, on September 14, 2012, OMB reported to Congress on the breakdown of exempt and nonexempt budget accounts, the estimated funding reductions that would be required across nonexempt accounts, and how it calculated these reductions.²⁴ On March 1, 2013, when the President ordered a sequestration of budgetary resources, OMB issued a report detailing the amount and percentage of these cuts for each nonexempt account.²⁵ As such, OMB had an active role in interpreting BBEDCA and determining how the cuts required under sequestration would ultimately apply to individual accounts. OMB also provided guidance and direction to agencies at several points in the sequestration planning and implementation process. Figure 2 shows the timing of legislative and OMB actions related to sequestration.

²³Pub. L. No. 112-155, 126 Stat. 1210 (Aug. 7, 2012). The Sequestration Transparency Act of 2012 required that the President submit a detailed report on the sequestration required to be ordered for fiscal year 2013 as directed by BBEDCA. The purpose of the report was to enhance public understanding of sequestration and actions to be taken under it. The STA included a requirement to show reductions for each account at the PPA level.

²⁴OMB, *OMB Report Pursuant to the Sequestration Transparency Act of 2012*, (Sept. 14, 2012). While the report provided a breakdown of exempt and nonexempt budget accounts, OMB stated that "because of the STA's reporting deadline of just 30 days, the large number of PPAs across all agencies and budget accounts, and inconsistencies in the way PPAs are defined, additional time is necessary to identify, review, and resolve issues associated with providing information at this level of detail."

²⁵OMB, *OMB Report to the Congress on the Joint Committee Sequestration for Fiscal Year 2013* (Mar. 1, 2013).

Figure 2: Fiscal Year 2013 Joint Committee Sequestration: Related Legislative and OMB Actions



Source: GAO analysis of legislation and OMB guidance.

Note: OMB actions consist of memorandums and data requests to agencies, as well as letters and reports to Congress.

Agencies' Actions in Response to Sequestration Resulted in a Range of Immediate and Longer-Term Effects

Sequestration Reduced Some Public Services and Agency Operations in Fiscal Year 2013

Sequestration reduced or delayed some services to the public, including benefit payments, and disrupted agency operations, despite actions taken by agencies to minimize sequestration's effects. For example, sequestration reduced the size and number of grants, vouchers, and other forms of assistance provided to states and localities, nonprofits, and other partner entities that assist in carrying out federal missions.²⁶

Agencies reported that the actual effects of these and other reductions on services to the public remain difficult to measure in part because the recipients may have some discretion on how the reductions are implemented or may use other sources of funding to temporarily offset a decline in federal funding. Some of the agencies that we reviewed did not systematically monitor the specific effects of sequestration on agency operations and services to the public. Nonetheless, agencies were able to provide some estimates of these effects, including the following examples:

- DOL estimated that long-term unemployed workers would receive 11 percent less in Emergency Unemployment Compensation benefits. About 2.6 million long-term unemployed workers who have exhausted other forms of unemployment compensation receive benefits from this program.²⁷

²⁶Several large mandatory grant programs providing federal funds, such as Medicaid and the Supplemental Nutrition Assistance Program, were exempt from sequestration.

²⁷Sequestration reduced Emergency Unemployment Compensation benefits overall by 5.1 percent. Because some benefits had already been paid, the actual reductions required to be achieved during the remainder of fiscal year 2013 were higher than 5.1 percent. The actual reduction in benefits varied by state depending in part on when the state implemented the reduction.

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- USDA estimated that the number of participants in the Women, Infants, and Children Farmers' Market Nutrition Programs, which provides fresh, unprepared, locally grown fruits and vegetables to eligible women and children, was reduced by about 142,000 in fiscal year 2013 from its fiscal year 2012 levels of 1.56 million.²⁸
 - HUD estimated, based on data reported by the state and municipal housing authorities that administer the Housing Choice Voucher program, that the number of very low-income households that received rental housing assistance through the program at the end of calendar year 2013 was about 42,000 (2.2 percent) lower than at the end of calendar year 2012, primarily due to sequestration. HUD also estimated that sequestration's cuts to Homeless Assistance Grants led states and localities to remove 60,000 formerly homeless persons from housing and emergency shelter programs. HUD officials told us that this estimate was based on the amount of funding sequestered and the average cost per person served by these grants, because initial data on the number of persons served will not be available until after the grants from fiscal year 2013 funding are disbursed in 2014.
 - HHS estimated, based on planning data collected from Head Start program grantees, that Head Start programs, which promote the school readiness of children up to age 5 from low-income families, served approximately 57,000 fewer children as a result of lower funding levels.²⁹ However, HHS will not know the final effects until grantees submit final data after the end of the 2013-2014 school year.

Furthermore, federal agencies that fund grants that support research and development awarded fewer or smaller grants in fiscal year 2013 as a result of sequestration. While agencies anticipated that the reductions will result in fewer innovations and advancements in areas such as emerging technologies, biomedical research, and cybersecurity, it is difficult to measure what actual benefits might have resulted from proposals if they had been funded. Further, some proposals might have received funding from non-federal sources and could therefore proceed with their work. NSF, for example, reported awarding 690 fewer grants in fiscal year 2013 compared to fiscal year 2012 as a result of sequestration but could not

²⁸States can provide different Women, Infants, and Children benefit levels and some states may reduce their benefits before they cut participants.

²⁹For the 2012-2013 program year reporting period, Head Start had a total funded enrollment of approximately 957,000 children. "Funded enrollment" refers to the total number of funded Head Start slots, which may differ from the total number of children served throughout the year.

determine what proposals would have been funded in the absence of sequestration because the agency does not rank proposals in a specific order of funding priority.³⁰ Other federal agencies made similar reductions. HHS's National Institutes of Health (NIH), which funds biomedical research, planned to reduce funding for all of its noncompeting research project grants by an average of 4.7 percent below the fiscal year 2013 amounts. Additionally, NIH ultimately funded 750 fewer competing research project grants in 2013 compared to 2012—an 8.3 percent reduction. USDA estimated that it provided approximately 100 fewer grants for university scientists and private partners to conduct research across a variety of topics.³¹ DOE officials said that the department cut \$85 million in funding for the Office of Science's Basic Energy Sciences Research program, which funds research to support new energy technologies, as well as construction and operation of major scientific research facilities.

In addition, some federal services experienced greater backlogs and delays as a result of federal agencies responding to sequestration by limiting hiring, restricting overtime, furloughing employees, and taking other personnel actions. For example, at SSA sequestration contributed to growing backlogs of hearings for Disability Insurance and Supplemental Security Income benefit disputes. According to SSA officials, on average, applicants waited almost a week longer for a decision on an initial disability claim and nearly a month longer for a disability hearing decision to determine if they were eligible for benefits compared to 2012. Similarly, at OPM final processing of federal retirement benefits was delayed due in part to the elimination of overtime. The number of retirement claims that OPM processed each month dropped from more than 15,000 in February 2013 (prior to the elimination of overtime) to less than 8,000 by July 2013. The number of claims processed increased to more than 10,000 per month after a year-end budget review allowed Retirement Services to resume limited overtime in mid-August. DOJ's U.S. Attorneys' Offices had 45 fewer attorneys in

³⁰Each year, NSF receives 50,000 to 55,000 proposals and typically funds about 22 percent of these proposals.

³¹USDA indicated that there would be 100 fewer grants compared to the 5-year average of 2,170. However, USDA indicated that it did not have final data on the grant reduction associated with sequestration because some awards will not be processed until fiscal year 2014. Also, other factors could influence the number of awards made, such as providing a smaller amount of funding per award.

fiscal year 2013 compared to fiscal year 2012, and filed more than 1,600 fewer criminal and civil cases (about a 1 percent reduction). DOJ stated this will, among other things, reduce the monies in criminal fines, restitution for victims, or debt owed to the government collected by the U.S. Attorneys' Offices. Agencies also reported increased wait times for customer support services and reductions in public training and outreach.

Sequestration Reduced Some Oversight and Monitoring Activities

Sequestration also led to a reduction in oversight and monitoring activities by federal agencies and their inspectors general (IG). For example, according to SSA officials, resource constraints have made it more difficult to remain current on the number of continuing disability reviews the agency is required to conduct. When these reviews are not conducted as scheduled, beneficiaries may receive benefits for which they are no longer eligible, and the agency may forgo future program savings, which SSA officials estimate are about \$9 for every \$1 spent conducting the reviews over a 10-year period.³²

Federal IGs, who perform congressionally mandated reviews and other important oversight functions, were also subject to sequestration. In an April 4, 2013, memorandum, OMB advised agencies to be mindful of IGs' independence and the provisions of the Inspector General Act of 1978, as amended, which outline the need for IGs to maintain the appropriate resources and services necessary to perform their statutory duties.³³ Still, many IGs reported that sequestration cuts diminished their ability to conduct audits and investigations, largely due to lower staffing levels stemming from attrition and hiring freezes. For example, the DOT IG delayed or curtailed several planned audits, including audits on FAA implementation of modernization programs related to the Next Generation

³²This figure represents the present value of future benefits saved for Old-Age, Survivors, and Disability Insurance; Supplemental Security Income (SSI); Medicare; and Medicaid. The estimate includes savings to Medicare and Medicaid because in some cases eligibility for SSI and Disability Insurance confers eligibility for certain Medicare or Medicaid benefits. The share of continuing disability reviews that results in terminating eligibility for benefits depends on the frequency of reviews performed and the types of beneficiaries for whom they are conducted. If in the future a different frequency or mix of continuing disability reviews is conducted, then the share of reviews that results in terminating eligibility—and thus the average value of future benefits saved—could differ from previous experience.

³³See OMB, *Ongoing Implementation of the Joint Committee Sequestration*, OMB Memorandum M-13-11 (Washington, D.C.: Apr. 4, 2013).

Air Transportation System, and oversight of major transit projects in New York City and on the West Coast.³⁴ In addition, the HUD IG said that losing critical staff through attrition and being unable to replace them due to sequestration will directly affect its ongoing investigations related to the financial crisis. Prior HUD IG work in this area resulted in the return of \$471 million to the Federal Housing Administration insurance fund from a Countrywide and Bank of America settlement.³⁵ Some IGs also reported that reduced travel spending due to sequestration limited their oversight capacity. For example, the State IG reported that sequestration limited its ability to travel to high-threat overseas posts to evaluate their physical security, which has been a high priority since the 2012 attack on the U.S. embassy in Benghazi, Libya.³⁶ The DOE IG also reported that sequestration-related travel constraints directly affected its ability to conduct audits, inspections, and investigations due to the need to travel to remote DOE sites and facilities.

Budget Reductions May Result in Forgone Revenue

Given the across-the-board nature of sequestration reductions, there were also reductions to programs and activities that produce revenue for the federal government. However, it is difficult to quantify the amount of potential revenue that the federal government did not collect as a direct result of sequestration. Treasury estimates that reductions to the Internal Revenue Service (IRS) budget from sequestration will likely result in billions of dollars in lost revenue due to fewer tax return reviews and diminished fraud detection.³⁷ In the past, for example, Treasury has

³⁴In September 2012, we reported on challenges FAA faces in implementing the Next Generation Air Transportation System. See GAO, *Next Generation Air Transportation System: FAA Faces Implementation Challenges*, [GAO-12-1011T](#) (Washington, D.C.: Sept. 12, 2012).

³⁵HUD Office of Inspector General (OIG) reported these findings in HUD OIG, *Final Civil Action: Bank of America Settled Alleged Violations of the False Claims Act by Countrywide Home Loans, Inc.*, Memorandum No. 2012-CF-1809 (Washington, D.C., June 12, 2012).

³⁶In November 2012, we reported on security challenges at U.S. diplomatic posts. See GAO, *State Department: Diplomatic Security Challenges*, [GAO-13-191T](#) (Washington, D.C.: Nov. 15, 2012).

³⁷Since 1990 enforcement of tax laws has been on GAO's High Risk List of programs that are vulnerable to fraud, waste, abuse, and mismanagement. IRS estimated the tax gap—the difference between taxes owed and taxes paid—to be in the hundreds of billions of dollars. See GAO, *High-Risk Series: An Update*, [GAO-13-283](#) (Washington, D.C.: June 15, 2011).

collected roughly \$4 in enforcement-related revenue for each dollar spent on the IRS.³⁸ This estimate does not include the revenue effect of the deterrence value of these investments and other IRS enforcement programs. In addition, an estimate such as this that assumes a constant rate of return across all spending does not take into account the potential for the marginal return on investment to decline as spending on enforcement increases. These and other factors make estimating the return on spending difficult. Further, Treasury also noted that enforcement-related revenue is typically generated through processes that can take several years. Therefore, the complete effects of these reductions on revenue may not be captured until future years and will be difficult to isolate from other factors.

In another example, Interior planning documents showed that approximately 300 fewer onshore oil and gas leases would be issued than originally planned in fiscal year 2013 due to sequestration. Issuance of fewer leases will likely delay prospective production and additional revenues for the federal government. Revenue generated from federal oil and gas production is a significant nontax source of federal government funds. In calendar year 2012, Interior issued more than 1,700 new leases.

Agencies Delayed Some Capital Investments and Other Activities Planned for Fiscal Year 2013

To achieve sequestration's near-term reductions, agencies reported delaying a number of activities originally scheduled for fiscal year 2013, such as awarding contracts or conducting training. In some instances, agencies altered the timing of contracts, thereby reducing agency budgets in the near term by shifting expenses to future fiscal years. For example, DOD reported that it may have pushed the costs of some weapon system programs into future years. Specifically, DOD reduced the fiscal year 2013 procurement quantities for some weapon system acquisitions, but those actions may have only deferred the acquisition to future years. State noted that in order to mitigate the effects of sequestration on its efforts to increase security for overseas facilities, the Bureau of Overseas Building Operations had to reprioritize its planned projects, which may result in the deferral of awarding some contracts intended to improve the safety and security of existing diplomatic facilities, as well as other contracts for new facilities.

³⁸According to Treasury's 2014 budget justification, enforcement revenue was \$50.2 billion in fiscal year 2012 for a total IRS-wide return of \$4.2 to \$1.

Agencies reported that potential effects of these delays are difficult to determine, particularly for projects spanning multiple years, and will depend in large part on funding decisions in future fiscal years. Agencies reported that further delaying these activities could affect their abilities to carry out their mission. For example, the Census Bureau canceled or modified more than 40 existing and planned contracts, some of which were related to testing, development, and management for the 2020 Census. While this affected Commerce's ability to research and develop lower-cost options for the census in fiscal year 2013, according to Commerce officials, additional funding in future years could still allow this work to be done in time to be useful for the next census.

Similarly, although the National Oceanic and Atmospheric Administration's (NOAA) COSMIC-2 satellite system—a multiyear joint program with DOD and Taiwan to increase the accuracy of weather forecasting—was not funded in fiscal year 2013 due in part to sequestration, Commerce believes the project could stay on track for deployment in 2015 depending on future funding. Delays in the deployment of COSMIC-2 would lessen forecasting accuracy that is needed to mitigate the risk of a gap in polar satellite data that could occur as early as 2014.³⁹ According to NASA officials, additional budget reductions and delays may result in NASA missing certain deadlines, such as the first launch for the Space Launch System program scheduled for December 2017. Furthermore NASA officials said that if further cuts occurred the agency would miss milestone payments in the Commercial Crew program and the resulting delays could prolong the nation's reliance on Russia to transport crews to and from the International Space Station. Agency officials said that these and other similar investments cannot be delayed indefinitely without affecting the agencies' ability to perform its mission.

Agency officials reported that some of the delays could, in some instances, result in increased costs over the longer term for the federal government and its program partners. For example, DOD deferred some depot maintenance of equipment from fiscal year 2013 until future years, and military service officials expressed concerns that they could face equipment readiness shortfalls and increases in the rates that depots

³⁹We designated potential gaps in satellite capacity as a high-risk area in 2013. See [GAO-13-283](#).

charge their customers for work performed—leading to more expensive maintenance costs. The officials were also concerned they could face reduced depot workforce capabilities.⁴⁰ According to DOT, reduced funding for existing grant agreements under the New Starts and Smart Starts program in fiscal year 2013 could lead to increased costs for project sponsors such as state and local governments for transit projects supported by these grants or delays in other projects. Project sponsors have contractual arrangements with design and construction firms that include schedule and payment requirements and can incur contractor claims for delay penalties if these requirements are not met. According to DOT, some sponsors may borrow additional funds, which could increase their project costs, while other sponsors may choose to reprioritize where they put their limited funds, which could delay projects.

Sequestration Affected Progress toward Achieving Some Agency Performance and Priority Goals

The GPRA Modernization Act of 2010 (GPRAMA) requires agencies to report annually on their progress in achieving their performance goals and, in cases in which agencies failed to meet their goals, describe why they did not meet the goals.⁴¹ GPRAMA also requires certain agencies to identify the performance goals that reflect their highest priorities—known as agency priority goals—every 2 years. Agency priority goals are intended to be ambitious targets that can be achieved within a 2-year period, with clearly defined quarterly milestones. They should be informed by broad government-wide priority goals and input from relevant congressional committees. Focusing on these priority goals as well as other important performance goals can help agencies implement sequestration in a way that protects their missions to the greatest extent possible. GPRAMA requires agencies to report quarterly on progress toward achieving their priority goals. This quarterly progress data can show the effects of sequestration on agency priority goals. For example, OPM was unable to meet its priority goal of processing and finalizing 90 percent of all incoming federal retirement claims within 60 days of receipt

⁴⁰Depot maintenance is, subject to certain exceptions, material maintenance or repair requiring the overhaul, upgrading, or rebuilding of parts, assemblies, or subassemblies, and the testing and reclamation of equipment as necessary, regardless of the source of funds for the maintenance or repair or the location at which the maintenance or repair is performed. This includes certain software maintenance.

⁴¹Pub. L. No. 111-352, 124 Stat. 3866 (Jan. 4, 2011). GPRAMA updated the Government Performance and Results Act of 1993 (GPRA).

by July 2013 due in part to a temporary freeze in overtime resulting from sequestration.⁴²

Commerce's U.S. Patent and Trademark Office (USPTO) anticipated that sequestration will likely require it to adjust its longer-term performance goals. USPTO had set a goal of reducing patent application review times and the backlog of patents waiting to be reviewed to an average of 10 months by 2016, but with the reduced funding from sequestration as well as potentially lower-than-planned collections and other factors, Commerce officials told us this goal likely will not be met until 2019. In some cases, however, the effects of sequestration on performance measures are difficult to isolate because they represent long-term performance goals that depend on interconnected activities, such as EPA's goals for improving the quality of air, water, and land. Final data on the effects of sequestration on agencies' performance goals for fiscal year 2013 were not reported in some instances until as late as February 2014.

Sequestration Along with General Uncertainty May Have Weakened Workforce Morale and Planning

Officials at several agencies raised concerns about how sequestration affected the morale of current employees. This includes agencies that both did and did not furlough employees in response to sequestration. Overall, more than 770,000 federal employees were furloughed for between 1 and 7 days in response to sequestration, resulting in reduced wages. For example, many of the more than 640,000 affected DOD civilian staff experienced a 20 percent pay reduction in each of the 6 weeks they were furloughed. It is difficult to measure the effects of sequestration on employee morale and isolate sequestration from other factors, such as the 3-year pay freeze and ongoing uncertainty about agencies' budgets, which can affect an employee's job satisfaction. While not specific to sequestration, OPM's annual Federal Employee Viewpoint Survey (FEVS) captures employees' general perceptions about their work experiences, their agency, and other areas that could be affected by sequestration. The results of the 2013 FEVS showed a notable decline in employee morale as measured by the global satisfaction index. This index, which captures employees' satisfaction with their work, pay, and organization, was down 4 points government-wide from 63 percent to 59

⁴²OPM restored overtime for employees in mid-August and thereby increased the number of claims processed in the ensuing months, although it still fell short of this goal.

percent in 2013.⁴³ The declines were particularly large at agencies that experienced widespread furloughs of federal employees. For example, the global satisfaction index for HUD, EPA, and DOD declined by 10 points, 9 points, and 6 points, respectively.⁴⁴ There was also a statistically significant decrease government-wide in the percentage of employees reporting positively that they “have sufficient resources (for example, people, materials, and budget) to get my job done”—from 48 percent positive in 2012 to 44 percent positive in 2013.⁴⁵

Agency officials also raised concerns about the longer-term implications of sequestration reductions on the federal workforce and on agencies’ ability to retain, recruit, and train personnel with the necessary skill sets. We have previously reported that current budget and long-term fiscal pressures, coupled with a potential wave of employee retirements that could produce gaps in leadership and institutional knowledge, threaten the government’s capacity to effectively address evolving national issues.⁴⁶ Closing ongoing and emerging critical skills gaps will require agencies to continue to address their specific human capital needs, as well as work with others to address critical skills gaps that cut across several agencies. According to agency officials, the initial uncertainty over if and when sequestration would occur and the timing of the cuts 5 months into the fiscal year affected their ability to do more strategic long-term workforce planning and make use of tools such as offering voluntary early retirement and voluntary separation incentive pay (buyouts) to

⁴³OPM, the central human resources agency for the federal government, has conducted the FEVS every year since 2010. Prior to 2010, OPM conducted the survey during even numbered years, beginning in 2004. The most recent results from 2013 included employees from more than 80 federal agencies, including all 23 of the agencies included in this review as well as several smaller, independent federal agencies and organizations. Overall, more than 376,500 employees responded to the survey in 2013 for a total response rate of 48.2 percent. The survey was administered in two waves with approximately 6-week administration periods beginning April 23, 2013, and April 30, 2013. For additional information on the survey methodology, see <http://www.fedview.opm.gov/2013/>.

⁴⁴HUD, EPA, and DOD furloughed roughly 8,000, 16,000, and 640,500 employees in fiscal year 2013, respectively.

⁴⁵According to OPM, based on a standard statistical test the difference between positive percentages from 2012 to 2013 for this question was determined to be “statistically significant,” indicating that there is less than a 5 percent probability that the difference occurred by chance.

⁴⁶[GAO-13-283](#).

employees. Voluntary separation incentives generally produce greater savings when they are offered earlier in the fiscal year.

The inability to do replacement hiring and training can have a negative long-term effect on strategic workforce planning. Strategic workforce planning addresses two critical needs: (1) aligning an organization's human capital program with its current and emerging mission and programmatic goals and (2) developing long-term strategies for acquiring, developing, and retaining staff to achieve programmatic goals. According to State, the continuation of a hiring slowdown and a 50 percent attrition replacement plan will damage the progress made over the last 4 years to close gaps in hiring and training to meet State's mission requirements. DOL officials also stated sequestration could have an effect on maintaining the functions of the various components within the agency as they are not replacing departing staff and it can take more than a year to train new staff once funding becomes available.

Some agencies expressed concerns about the effects of a reduction in training on future agency operations. For example, DHS's U.S. Customs and Border Protection (CBP) stated that, in response to sequestration, it canceled training classes in fiscal year 2013, including those related to detecting potential terrorists and high-risk air cargo, identifying weapons of mass effect in the land border environment, and managing critical incident response. DHS officials noted that the effect of canceled training classes may not be felt for several years. For example, these officials expressed concerns about how effectively the workforce will be able to respond to future mission-critical needs. Due to actions taken to cancel or curtail training for a portion of their force, the military services identified potential future effects which would take time to reverse, such as increases in the number of non-deployable units, diminished ability to provide ready forces to quickly surge to meet additional operational requirements, and delays in implementing plans for rebuilding core readiness after more than a decade of ongoing operations. DOJ reported that the U.S. Attorneys' Office of Legal Education reduced the total number of its sponsored courses from 183 in fiscal year 2012 to 114 in fiscal year 2013, which could result in fewer opportunities to train attorneys in new and emerging areas of law.

Agency officials also expressed concerns about the effects of sequestration for the non-federal workforce, such as contractors and grant recipients that help the agencies achieve their mission. For example, DOE estimated that "prime" contractors furloughed approximately 3,600 of their employees for some amount of time in fiscal

year 2013 as a result of sequestration.⁴⁷ DOE officials also estimated that contractors reduced or left vacant approximately 1,000 positions in fiscal year 2013, including laying off or voluntarily separating more than 300 of their employees. These figures do not include subcontractor employees, university researchers, and others who do not have a direct contractual relationship with DOE. Most of the affected contractors work at DOE's national laboratories or on defense environmental cleanup activities.

Many Effects Will Not Be Known Until Future Years If at All

Many of the effects of sequestration will not be known until future years, if at all, for a number of reasons including the timing of when funds are disbursed, challenges in isolating the effects of sequestration from other factors, and the availability of data. For some grants administered by Education, for example, the cuts did not occur for the recipients until the 2013-2014 school year. In addition, it will be difficult in many cases to clearly identify the effects of sequestration on grantees such as schools and their students because school district budgets are determined by many factors, including local taxes and state government contributions that could compensate for cuts in federal funding. HHS, the largest grant-making agency in the federal government, also said that the immediate effect of fewer and reduced grant awards on services to the public will not be known until the next year because grant funding cycles typically provide funds late in the fiscal year and grantees will not submit 2013 performance data until fiscal year 2014. Information on the total amount of sequestered Medicare payments will not be available until after March 2014 when HHS reconciles final payments for the program. Further, because Medicare providers were subject to various payment changes for fiscal year 2013, it will be difficult to isolate the effect of the 2 percent cut in payments due to sequestration.⁴⁸

Some potential effects of sequestration were minimized or avoided through various actions taken by agencies, including cost saving initiatives begun in prior years and the use of funding flexibilities such as

⁴⁷According to Federal Acquisition Regulations, "prime" contractors are those with whom the department has a direct contractual relationship.

⁴⁸Research examining the effect of previous Medicare payment cuts suggests that providers may increase the volume or intensity of services billed to Medicare to offset lost revenue.

reprogramming and transfers. These actions are discussed in the next two sections of this report.

Most Agencies Began Formal Planning for Sequestration in 2012 While Continued Uncertainty Delayed Decisions Regarding Resource Allocation

Most Agencies Began Planning and Preparation for Sequestration in 2012

All agencies engaged in some initial preparation in calendar year 2012 for sequestration. However, the timing and level of planning varied by agency (see textbox for definitions of preparation and planning for the purposes of this report). OMB's July 2012 guidance instructed agencies to continue normal spending and operations and informed agencies that OMB would be holding discussions on issues related to preparing for a sequestration order.⁴⁹

In August and December 2012, OMB requested that agencies provide information about sequestrable budgetary resources to inform OMB's anticipated reports on sequestration. For example, during the summer of 2012, OMB directed agencies to identify exempt and nonexempt accounts to prepare for the *OMB Sequestration Transparency Act Report* pursuant to the Sequestration Transparency Act of 2012 (STA).⁵⁰ Agency officials reported that these efforts helped them to resolve some but not all of the technical details that later helped them implement sequestration.

⁴⁹OMB, *Issues Raised by Potential Sequestration Pursuant To Section 251A of the Balanced Budget and Emergency Deficit Control Act of 1985*, OMB Memorandum M-12-17 (Washington, D.C.: July 31, 2012).

⁵⁰Pub. L. No. 112-155, 126 Stat. 1210 (Aug. 7, 2012).

For the purposes of this report, we define the terms preparation, informal planning, and formal planning as follows:

Preparation: Procedural steps taken to prepare for potential sequestration, such as defining PPAs, identifying exempt accounts or clarifying special rules. It can also include other technical steps such as making modifications to agency systems. Unlike planning, preparation does not involve management decisions about how reductions will be allocated.

Informal planning: High-level discussions in an agency or bureau related to sequestration and any estimates or scenarios involving possible sequestration amounts and alternative actions. This may include internal e-mail correspondence, informal communication with OMB, Congress, or both, internal meetings or conference calls, or data calls to bureaus or other subcomponents on potential effects.

Formal planning: Written plans and formal correspondence (internal and external) involving management decisions about how sequestration would be implemented and how reductions will be allocated. Formal planning may have occurred in response to legislation, OMB guidance, or other events.

Beyond the periodic requests for budgetary data, OMB did not issue any formal guidance to assist agencies in their planning efforts before January 2, 2013, when the Joint Committee sequestration was originally scheduled to occur. According to OMB, sequestration planning and implementation activities would have diverted scarce resources from other important agency activities and priorities. Further, OMB did not want agencies to take actions prematurely that would be difficult to reverse or could trigger negative economic consequences, such as reductions in force,⁵¹ employee furloughs, or cancellation of contracts or longer-term investments. In addition, in early fiscal year 2013, the administration continued to advocate for an alternative deficit reduction package to replace sequestration. However, by December 2012, OMB was providing more regular informal guidance to agencies. For example, OMB staff and agency officials told us that they communicated about sequestration regularly, including weekly or biweekly conference calls, between December 2012 and March 2013. According to OMB officials, the discussions included updates on the state of congressional action, on communicating with personnel, on when and how to coordinate with OMB, and on OMB's calculations of the percentage reductions.

More than half of the 22 agencies reported intensifying planning efforts in the months and weeks leading up to January 2, 2013. These formal planning efforts involved management decisions about how sequestration could be implemented and how reductions and resources could be allocated for particular components and programs. For example, USDA officials told us that beginning in September 2012 they conducted four separate evaluations—using different assumptions—of the effect of sequestration on agency programs and employees. DOD officials reported that in December 2012 they began to identify certain areas to protect and held initial discussions about the use of civilian furloughs to reduce spending. Similarly, DOL officials told us they began developing agency-wide budget plans for sequestration in early December 2012. Later plans included estimates of the required reductions for each account and PPA and potential actions required to achieve the reductions.

Some agencies reported delaying formal planning actions until January 2013—after the enactment of ATRA—or later. On January 14, 2013,

⁵¹In the federal government, layoffs are called reduction in force actions.

OMB issued a memorandum directing agencies to intensify efforts to prepare for sequestration but noted that agencies generally should not take actions that would implement reductions specifically designed as a response to sequestration.⁵² HUD began formal planning for sequestration in January 2013 when it assembled a committee of senior officials to evaluate the effect of sequestration on programs and employees. HUD officials told us the committee focused its planning efforts on reducing the cost of personnel actions funded by accounts that had transfer authority, such as salaries and expenses, because larger programs, such as housing vouchers and grants, have limited transfer authority, restricting HUD's options for how to implement reductions for those programs. EPA officials told us that in January 2013 they began formal planning efforts, which included coordinating with contract offices to consider contracting options. During this time, EPA human resources officials and union officials began pre-decisional meetings to discuss the number of planned furlough hours and the grants office discussed reducing funding levels to EPA's grantees.

Some Agencies Were Better Positioned for Sequestration Because of Cost Saving Initiatives Begun in Prior Years and the Timing of Obligations

Some agencies began cost saving initiatives in prior years—unrelated to sequestration—that they reported helped them to minimize the effects of sequestration on their missions. Some of these initiatives included efficiency efforts, consolidations, workforce restructuring, and hiring restrictions.

Efficiency efforts: Some agencies reported that actions previously undertaken to achieve efficiencies and cost savings, including government-wide initiatives established by the administration,⁵³ helped their agencies respond to sequestration. For example, Interior officials stated that as part of a 2011 government-wide efficiency initiative, the department had begun efforts to reduce travel costs, which according to

⁵²OMB, *Planning for Uncertainty With Respect to Fiscal Year 2013 Budgetary Resources*, OMB Memorandum M-13-03 (Washington, D.C.: Jan. 14, 2013).

⁵³Executive Order (EO) 13576 "Delivering an Efficient, Effective, and Accountable Government," established the Campaign to Cut Waste on June 16, 2011. A June 28, 2011, memo issued by the OMB Controller to the CFOs of all agencies outlined specific steps that CFOs should take to address the President's directive to identify immediate administrative cost savings, including steps to identify and share government practices that cut costs and improve efficiencies. OMB, *Campaign to Cut Waste*, OMB Memorandum (Washington, D.C.: June 28, 2011).

officials, helped the department mitigate some effects of sequestration. USDA officials said that in 2012, the department initiated a broad review of administrative functions at the request of the Secretary of Agriculture. As a result of this review, USDA outlined steps to cut costs and modernize operations, including workforce reductions, closing offices and laboratories, centralizing purchasing contracts, consolidating cell phone services, and offering early retirement and voluntary separation. USDA estimated that it saved \$920 million since 2012, which according to officials, helped mitigate some effects of sequestration. DHS reported that it began implementing various cost savings initiatives prior to August 2011, when the BCA was enacted. For example, in April 2013, DHS reported that its department-wide, employee-driven efficiency review, implemented in 2009, identified more than \$4 billion in cost avoidances and reductions, which were then redeployed to mission critical initiatives across the department. According to DHS officials, these initiatives helped the department mitigate some, but not all, of the reductions required by sequestration.

Consolidations and workforce restructuring: Some agencies had recently initiated or completed restructuring of field operations or consolidation of operations in order to help reduce operating costs. For example, in 2011, Commerce began reducing the number of Census Bureau field offices from 12 to 6, and in 2012 the Minority Business Development Agency began closing its field offices, leading to vacancies that helped Commerce implement sequestration. Prior to fiscal year 2013, Treasury began consolidating the functions of the Bureau of Public Debt and Financial Management Services into the Bureau of the Fiscal Service. According to Treasury officials, this consolidation resulted in efficiencies and cost savings that better positioned the bureau to absorb the \$19.6 million in budget reductions required by sequestration and to minimize effects on the bureau's mission.

Restricted hiring: Many agencies strictly limited or froze hiring at the beginning of fiscal year 2013 or earlier, which helped them absorb sequestration's reductions. In some cases, agencies reported that hiring restrictions, along with the additional loss of federal employees through attrition, helped to minimize the size and scope of personnel actions, such as furloughs, needed to achieve the required budget reductions. For example, SBA officials implemented a partial hiring freeze, which resulted in \$9.5 million in savings in fiscal year 2013 and, along with other personnel actions, helped SBA achieve the required reductions without furloughing employees. In its operating plan from April 2013, Education reported that it had reduced the number of potential furlough days

through savings from reduced hiring over the last year and by not filling many positions vacated through attrition and retirements. Some agencies had hiring restrictions in place earlier to respond to budget reductions. For example, SSA reported that in 2011, in response to budget reductions from the previous 2 years, it implemented a hiring freeze with limited hiring in critical areas. According to SSA officials, these efforts helped the agency avoid furloughs and mitigate some of the challenges in implementing sequestration.

In addition, we found that agencies that historically obligate most of their funding in the latter half of the fiscal year were able to postpone decisions about how to allocate resources until final funding was determined. For example, DOE officials said that several large program offices, such as the Office of Energy Efficiency and Renewable Energy, historically have obligated most of their funds in the second half of the fiscal year because grant decisions are often made in the third and fourth quarters, which allowed DOE to use some of the grant funding for other activities. Similarly, NSF officials said the agency's program budget is about 95 percent research grant awards and cooperative agreements, and more than 70 percent of the grant awards are disbursed in the third and fourth quarters of the fiscal year. As a result, according to NSF officials, they had the ability to implement sequestration largely by reducing the amount and number of awards granted in the latter half of fiscal year 2013.

Uncertainty about If and When Sequestration Would Occur Delayed Agencies' Planning Efforts and Limited Stakeholder Communication

Despite their preparation and planning efforts, agencies were unable to finalize operational plans and they delayed resource decisions because of the considerable uncertainty over if, and when, sequestration would occur and how it would be implemented. The uncertainty was magnified by the fact that agencies were operating under a continuing resolution (CR) and therefore did not know the funding amounts and authorities that would be available through the remainder of the fiscal year.⁵⁴ Moreover, agencies did not know the extent to which there would be agreement about their proposed use of certain funding flexibilities such as reprogramming or transferring funds within and between accounts. This uncertainty affected

⁵⁴We previously reported that uncertainty resulting from unknown funding levels, such as when agencies are operating under a CR, limited management options and increased workload. GAO, *Continuing Resolutions: Uncertainty Limited Management Options and Increased Workload in Selected Agencies*, [GAO-09-879](#) (Washington, D.C.: Sept. 24, 2009).

agencies' abilities to make final resource decisions, identify necessary actions to achieve required cuts in spending, and communicate with employees and stakeholders about the implementation of sequestration.

Agencies repeatedly had to adjust their sequestration plans because ATRA, the Disaster Relief Appropriations Act, and the Consolidated and Further Continuing Appropriations Act, 2013 changed the timing of sequestration, the total amount sequestered, or both. Twelve agencies reported that they did not know their final sequestered amount for some time after the Consolidated and Further Continuing Appropriations Act, 2013 was enacted on March 26, 2013. For example, according to OMB staff, determining the change in the amount of sequestration reductions for DOD accounts after passage of the Consolidated and Further Continuing Appropriations Act, 2013 required conversations between DOD and OMB to resolve technical issues that resulted from differences between DOD's funding provided by the full-year appropriation and the annualized amount set forth in the continuing resolution in place prior to the enactment of the full-year appropriation. While OMB outlined the process used to adjust required sequestration reductions as a result of the enactment of full-year appropriations in an April 11, 2013, memo, according to DOD officials issues were not officially resolved until after OMB released technical guidance on May 15, 2013. As a result, DOD officials reported that they did not know the final amount subject to sequestration until May 2013, which affected their ability to finalize decisions on allocating funding reductions. Further, for some agencies the Consolidated and Further Continuing Appropriations Act, 2013 made changes to their account structures which caused delays as agencies consulted with OMB about how to apply sequestration to the new structure.

The uncertainty over if and when sequestration would occur also affected agencies' ability to provide timely communication to program partners and recipients of federal funding such as contractors, grantees, and state and local governments. Although DOL and OMB provided some general guidance to stakeholders and agencies regarding the federal contractor

workforce in July and September 2012,⁵⁵ uncertainty continued with regard to how each agency would implement sequestration if it occurred and how their employees or projects would be affected. OMB did not direct agencies to communicate with stakeholders, such as program recipients and grantees, regarding elements of the agency's planning directly affecting stakeholder groups until its February 27, 2013, guidance on implementing sequestration.⁵⁶ For example, HHS did not direct components to begin informing grantees, contractors, and states of their sequestration planning until after the March 1 sequestration order. DOE waited to notify states regarding estimated direct reductions to contractors until March 2013 and NSF notified academic institutions and other NSF-funded organizations about the potential effects of sequestration on NSF awards on February 27, 2013.

Stakeholder groups we met with—representing scientific researchers, defense and service contractors, and state budget offices—reported anecdotally that their constituents faced their own planning challenges due to the uncertainty faced by federal agencies. For example, scientists conducting research with federal grant money reported challenges with how to manage the finances of the project when future funding investments were so uncertain. Similarly, government contractors working in national defense reported that they were not involved in any sequestration planning with federal agencies and the contractors did not receive any specific sequestration-related information to inform their planning and operations.

⁵⁵29 U.S.C., §§ 2101-2109. The Worker Adjustment and Retraining Notification (WARN) Act generally requires employers with at least 100 employees to provide written notice to affected employees 60 days before ordering certain plant closings or mass layoffs if they are reasonably foreseeable. DOL concluded that federal contractors should not issue WARN Act notices to employees in advance of a potential sequestration given the uncertainty. OMB later issued separate guidance to agencies reinforcing DOL's conclusion. Department of Labor, *Guidance on the Applicability of the Worker Adjustment and Retraining Notification (WARN) Act*, Training and Employment Guidance Letter No. 3-12 (Washington, D.C.: July 30, 2012) and OMB, *Guidance on Allowable Contracting Costs Associated with the Worker Adjustment and Retraining Notification (WARN) Act*, M-12-19 (Washington, D.C.: Sept. 28, 2012). We later issued a legal opinion on several questions related to OMB's WARN Act guidance. GAO, *Office of Management and Budget Guidance on the Worker Adjustment and Retraining Notification (WARN) Act*, B-324146 (Washington, D.C.: Sept. 12, 2013).

⁵⁶OMB, *Agency Responsibilities for Implementation of Potential Joint Committee Sequestration*, OMB Memorandum M-13-05 (Washington, D.C.: Feb. 27, 2013).

Uncertainty about How to Apply OMB Guidance to Certain Accounts Delayed Agencies' Decision Making and a Lack of Transparency Limited Public Understanding

In addition to overall uncertainty, agencies faced challenges in determining how sequestration would be applied to certain programs and accounts, contributing to delays in planning efforts and resource allocation decisions. This was the first time that sequestration had occurred in more than two decades, and agencies and the public faced challenges in understanding how the law would be applied and its implications. Agency officials reported that in some cases there was a lack of institutional knowledge about how to apply the required reductions and some agencies reported challenges identifying PPAs. Further, the public generally did not have access to OMB's implementation guidance and the various challenges agencies faced in planning for sequestration delayed substantive communication about implementation actions with the public and stakeholders.

Some agencies faced challenges identifying PPAs for the purpose of implementing sequestration which limited their ability to effectively plan for allocating the required reductions to each PPA. Nine agencies reported that they encountered challenges determining PPAs for the purpose of sequestration. These challenges included conflicting sources, sources not consistent with how the agency executes its budget, and unclear or conflicting guidance, among others. Moreover, 8 agencies reported that they did not determine their PPAs for the purpose of sequestration until after Congress enacted the Consolidated and Further Continuing Appropriations Act, 2013 on March 26. For example, the Act provided a new appropriation and PPA structure for DHS's U.S. Customs and Border Protection (CBP), which according to officials further complicated CBP's planning process. On April 11, 2013, OMB provided instructions on how to apply sequestration to the newly enacted funding levels. CBP officials told us they relied on OMB's guidance, as well as subsequent conversations with OMB, to determine how to apply sequestration to the new account structure.

Agencies with programs or accounts funded primarily through fees or permanent indefinite budget authority cited challenges preparing and planning for sequestration based on technical questions about how to calculate the reduction. For example, HHS officials told us that they required extensive communication with OMB to determine whether drug and medical device review user fees collected by the Food and Drug Administration (FDA) were subject to sequestration and how to apply the reductions. Proper understanding of these rules was necessary for FDA to plan appropriately for sequestration. Commerce officials told us that for USPTO, which is fee-funded, they were uncertain whether sequestration would apply to the amount it collected or the amount USPTO was

appropriated. This issue was not resolved until April 2013, after sequestration was ordered, when it was determined that sequestration would apply to the amount collected. This made it difficult to effectively estimate and plan USPTO's budget for the year.

Moreover, in some cases, agencies and the public did not know whether some funds sequestered in fiscal year 2013 would be available for obligation in subsequent years. Although most sequestered funds are permanently canceled and unavailable for future obligations, BBEDCA provides an exception for certain types of budgetary resources such as revolving, trust, and special fund accounts and offsetting collections sequestered in appropriation accounts.⁵⁷ OMB staff told us that they and agency general counsel are currently undergoing an extensive review process for each of these special accounts to determine whether or not the sequestered funds will be permanently or temporarily canceled, and therefore available for obligation in subsequent fiscal years. For example, Interior officials told us that the Interior Solicitor and OMB reviewed the account that funds the revenue sharing payments to states under the Mineral Leasing Act,⁵⁸ which was subject to sequestration, and by October 2013 determined that the sequestered payments could be disbursed to states in fiscal year 2014.⁵⁹ According to OMB staff, OMB is monitoring the review process in an internal database and as of December 6, 2013, had made determinations for 145 accounts and was still reviewing or awaiting additional information from agencies for 97 accounts (OMB staff said they expect to receive more accounts for adjudication as agencies complete their review). As a result, the budgetary resources available to some agencies for fiscal year 2014 remain uncertain.

Although OMB worked extensively with agencies to resolve technical issues with planning for how to implement sequestration, in some cases

⁵⁷2 U.S.C. § 906(k)(6) states: "Budgetary resources sequestered in revolving, trust, and special fund accounts and offsetting collections sequestered in appropriation accounts shall not be available for obligation during the fiscal year in which sequestration occurs, but shall be available in subsequent years to the extent otherwise provided in law."

⁵⁸Under the Mineral Leasing Act, classified at 30 U.S.C. § 191(a), states generally receive half of the royalties collected for oil and natural gas development and coal production on federal lands within their borders.

⁵⁹Interior distributed payments to states in October 2013.

the issues delayed agencies' resource allocation decisions. As a result, agencies were limited in their ability to respond in a timely manner to questions or concerns from stakeholders and policymakers about specific implementation actions. Further, OMB did not issue any formal public guidance outlining certain elements of its implementation of BBEDCA, including its criteria for determining which programs and accounts would be subject to sequestration and how to apply the reduction to certain accounts.⁶⁰ The Sequestration Transparency Act required OMB to report data and explanations that enhance public understanding of BBEDCA and actions taken under it.⁶¹ However, stakeholders did not have access to the administration's guidance to agencies for planning for and implementing the law and in some cases did not have a clear understanding of how the law was being applied. As a result, well after the March 1, 2013, sequestration order, policymakers and stakeholder groups had different interpretations than OMB about how the provisions were being applied.

Agencies Identified Lessons for Planning for a Potential Sequestration in the Future

Some agency officials told us that it could be technically easier to implement future sequestrations because the decisions and principles used for fiscal year 2013 would provide a framework for future decision making. However, OMB has not publicly released key internal decisions and has not directed agencies to formally document these decisions and principles. According to OMB staff, OMB documented internal decisions related to implementing the fiscal year 2013 sequestration, in part because the process was not well documented for sequestration in the 1990s. As a result of the lack of prior documentation, current OMB employees were not able to rely on prior experience as they implemented the fiscal year 2013 sequestration. Similarly, some agency officials reported that the lack of institutional knowledge about how to implement sequestration presented a challenge. Federal internal control standards indicate that agencies should identify, record, and distribute pertinent information to the right people in sufficient detail, in the right form, and at the appropriate time to enable them to carry out their duties and

⁶⁰Section 255 of BBEDCA exempts from sequestration "activities financed by voluntary payments to the government for goods or services to be provided for such payments." 2 U.S.C. §905(g)(1)(A). In December 2011 OMB issued criteria to agencies regarding what constitutes a voluntary payment, but the information was not available to the public.

⁶¹Pub. L. No. 112-155, 126 Stat. 1210 (Aug. 7, 2012).

responsibilities and ensure that communications are relevant, reliable, and timely.⁶² Under current law, sequestration of discretionary appropriations could take place in any year through 2021 if spending limits are breached. Without formal documentation of agencies' decisions and principles for implementing sequestration, agencies and OMB could lack information that would help to efficiently implement any future sequestrations.

Agencies identified some specific lessons from the planning and implementation of sequestration in fiscal year 2013. For example, DOD had begun some activities that informed its planning for fiscal year 2014 and may better position it to make more strategic choices should sequestration occur in the future. Among other actions, on May 29, 2013, the Deputy Secretary of Defense issued guidance directing the military services and other components to develop budget options that were 10 percent below the President's fiscal year 2014 budget request. OMB also issued guidance directing agencies to develop similar options when planning for their fiscal year 2015 budgets. HUD officials told us that longer planning and more flexibility to transfer funds between accounts would have been helpful in planning for and implementing sequestration. DOL officials said they learned that it is important to set up clear communication channels throughout the agency to ensure that guidance can be quickly disseminated before misinformation is spread, and NSF officials reported that in the future they would try to improve communication with staff and stakeholders by communicating more often and in a timelier fashion.

⁶²GAO, *Internal Control: Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

Agencies Used Funding Flexibilities and Congress Took Actions to Mitigate Some Effects on Core Mission While Still Achieving Sequestration Reductions

Most Agencies Used Funding Flexibilities to Mitigate Some Effects on Core Mission and Limit Furloughs

Agencies reported following OMB's guidance in implementing the reductions required by sequestration and using any available flexibility to protect the agencies' core missions in service to the public.⁶³ Agencies also reported they sought to minimize the effects on their federal workforce in part because the federal workforce is instrumental in executing the agencies' missions. OMB's January 14, 2013, planning guidance directed agencies to "use any available flexibility to reduce operational risks and minimize impacts on the agency's core mission." While the percentage reduction required by sequestration applied across-the-board at the PPA level, most agencies reported using funding flexibilities to mitigate some effects of sequestration on mission-critical activities and to avoid or limit the number of furlough days and the need for a reduction in force. Such funding flexibilities included using reprogramming to shift funds between PPAs *within* an account and transfers to shift funds *between* accounts. Funding flexibilities also included using multiyear funding carried over from previous fiscal years. However, agencies' abilities to reallocate resources to mitigate the effects of sequestration varied, depending in part on agencies' PPA structures and existing transfer and reprogramming authorities.

⁶³OMB, *Planning for Uncertainty with Respect to Fiscal Year 2013 Budgetary Resources*, OMB Memorandum M-13-03 (Washington, D.C.: Jan. 14, 2013).

**Narrowly Defined PPAs
Limited Actions Available to
Achieve Reductions**

The BBEDCA requirement that the percentage reduction be applied evenly across an agency's PPAs limited the options that agencies had available to achieve sequestration reductions. In general, PPA structures are intended to provide a meaningful representation of the operations financed by a specific budget account—usually by project, activity, or organization. For example, it is not uncommon for a department to have a Salaries and Expenses account, and that account could have PPAs that are specific to certain activities such as management and administration, employee benefits, or training. Accounts and PPAs can also have a program orientation. For example, the IRS's Taxpayer Services account contains two PPAs which correspond to distinct types of taxpayer services, such as taxpayer assistance and education and filing and account services. In other cases an agency's PPAs may be synonymous with its accounts, meaning that each account contains one PPA and the reduction would be taken at the account level, which provides a greater degree of flexibility and reduces the need for many reprogramming and transfer actions. For example, GSA, NASA, OPM, and SBA reported that all of their PPAs were synonymous with their budget accounts. Table 2 shows the number and amount of sequestered funds, accounts, and PPAs for each agency we reviewed.

Table 2: Sequestered Funds, Budget Accounts, and Programs, Projects, and Activities (PPA) by Agency, Fiscal Year 2013

Agency	Total 2013 funding (\$ in millions)	Sequestered funds (\$ in millions)	Sequestered budget accounts ^a	Sequestered PPAs ^b
USDA	\$176,108	\$1,972	90	923
Commerce	\$8,150	\$555	53	214
DOD ^c	\$621,200	\$37,255	467	3,905
Education	\$53,000	\$2,500	23	120
DOE	\$26,800	\$1,900	31	252
HHS	\$983,100	\$15,800	40	582
DHS	\$60,000	\$2,400	56	150
HUD	\$106,000	\$3,000	30	63
Interior	\$21,300	\$856	84	546
DOJ	\$30,800	\$1,600	40	127
DOL	\$102,500	\$3,100	27	115
State/USAID	\$54,300	\$2,000	45	514
DOT	\$91,000	\$1,900	38	100
Treasury	\$619,300	\$1,335	51	96
EPA	\$8,950	\$455	8	91
GSA	\$22,200	\$13	9	9
NASA	\$17,500	\$627	9	9
NSF	\$7,360	\$361	7	8
NRC	\$1,049	\$52	2	4
OPM	\$169,900	\$9	6	6
SBA	\$1,900	\$93	6	6
SSA	\$930,500	\$391	4	6

Source: GAO analysis of agency data.

Notes:

Numbers may not add due to rounding.

Table 2 displays data for 22 agencies instead of 23 agencies. For purposes of this report, information on State and USAID is reported together because State's Office of U.S. Foreign Assistance Resources jointly manages both agencies' budgets.

^aUnder BBEDCA, an account is defined as an item for which appropriations are made in any appropriation act or, for items not provided for in appropriation acts, an item with a designated budget account identification code in the President's budget.

^bPPA refers to program, project, or activity and is an element within a budget account.

^cExcept for its military personnel accounts, which totaled approximately \$149.7 billion, and certain other funds, all of DOD's fiscal year 2013 funding, as well as available unobligated balances from prior years, were subject to sequestration. DOD estimated these available unobligated balances to be about \$62.2 billion.

Agency officials described some of the challenges they faced because of the way PPAs are defined or what activities they fund. USDA officials told us that some of the department's 923 PPAs are defined very narrowly which limited officials' flexibility and available actions for implementing sequestration. For example, some of USDA's PPAs are defined at the level of specific research locations, county offices, or flood prevention or watershed projects. As a result, according to USDA officials, the agency had to sequester funding for each location, office, or project without regard to size or demand for services.

Further, some agency officials told us that PPAs or accounts composed of funding for salaries or other fixed costs, such as rent, presented limited options outside of direct employee costs for achieving reductions. As a result, some agencies had to cut employee costs through furloughs or other personnel actions to achieve the required reductions at the PPA level. For example, Interior officials stated that some of the staff-intensive PPAs—the U.S. Park Police and the Office of the Inspector General—had virtually no funding flexibility and were therefore more likely to experience staffing reductions or furloughs. Similarly, EPA officials told us that the agency's PPA structure was constraining because certain PPAs are made up almost entirely of personnel costs. In addition, EPA reported that it generally has no transfer authority and the agency already had hiring restrictions in place. Accordingly, officials told us there were few actions available, beyond reducing staff costs through furloughs or other personnel actions, to achieve the required reductions. Ultimately, Interior furloughed U.S. Park Police employees for 3 days and EPA furloughed employees for almost 6 days in fiscal year 2013.

Agencies Reprogrammed and Transferred Funds to Protect Mission Priorities

In some cases, agencies used available funding flexibilities to protect mission priorities and mitigate the effects of sequestration on federal employees. For example, as table 3 shows, 13 agencies reported transferring funds from one budget account to another and 12 agencies reported reprogramming funds within a budget account during fiscal year 2013 to mitigate the effects of sequestration.

Table 3: Funding Actions Agencies Reported Taking in Fiscal Year 2013 to Mitigate the Effects of Sequestration

Agency	Reprogrammed funds within a budget account	Transferred funds from one budget account to another
USDA		●
Commerce	●	●
DOD ^a		
Education		●
DOE	●	●
HHS		●
DHS	●	●
HUD	●	●
Interior	●	
DOJ	●	●
DOL	●	
State/USAID	●	
DOT		●
Treasury	●	●
EPA	●	
GSA		
NASA	●	●
NSF		●
NRC	●	
OPM		
SBA		
SSA		●
Number of agencies that reported taking this action to mitigate the effects of sequestration	12	13

Source: GAO analysis.

Note:

^aAccording to DOD officials, the department did not use its reprogramming and transfer authority to directly mitigate the effects of sequestration. However, the flexibility to transfer or reprogram funds to cover expenses for overseas contingency operations that otherwise would have been funded by other areas in the budget allowed DOD to reverse some actions taken to achieve spending reductions.

Agencies with broader transfer and reprogramming authorities had greater flexibility to execute their budgets and implement sequestration. DOD historically has been provided broad authority to transfer funds between accounts, which gives DOD officials greater flexibility in executing DOD's budget. For fiscal year 2013, subject to certain restrictions, DOD had the broad statutory authority to transfer \$7.5 billion between appropriation accounts and reprogram funds within an account within certain thresholds. DOD's transfer authority included \$3.5 billion in special transfer authority for overseas contingency operations-related purposes and \$4 billion in general transfer authority that could be used to, among other things, minimize the effects of sequestration.⁶⁴

Other agencies reported that they have limited authority to transfer funds between accounts. For example, DOE does not have authority to transfer funds between non-defense accounts. For DOE accounts that are authorized in national security authorization bills, DOE is allowed to transfer up to 5 percent of the account.⁶⁵ Interior has no transfer authority for general operations and is only authorized to transfer no-year, indefinite appropriations for wildland fire response and other emergency purposes. EPA also reported that it generally does not have authority to transfer funds between accounts for general operations. Agencies also reported that there are restrictions on the amount of funds they can reprogram within an account without notifying appropriations committees.

In contrast, agencies that were able to take reprogramming and transfer actions were able to protect priority projects, including the following examples:

- NASA transferred and reprogrammed funds to ensure the agency continued to focus on its key priorities—establishing a space launch system to support travel beyond Earth's orbit, exploring Mars, supporting commercial crew transportation to the International Space Station, and providing technologies and instruments for further space research. Specifically, according to the operating plans submitted to Congress, NASA transferred \$100.2 million from its Space Operations account and \$6.1 million from its Education accounts to its Space

⁶⁴These amounts were generally consistent with the amounts of broad transfer authority provided to DOD in fiscal years 2011 and 2012.

⁶⁵50 U.S.C. § 2745.

Technology (\$14.7 million) and Exploration (\$91.6 million) accounts to help restore funding cut by sequestration. NASA reported that these actions allowed it to continue the development and testing of space technologies, support the operation of the International Space Station and its research, and continue development of the Orion crew vehicle for beyond low-Earth orbit exploration. Within the Science account, NASA reprogrammed \$48.7 million from the Planetary Science and Astrophysics programs to the Heliophysics program (\$4.9 million) to sustain missions in development, and to the James Webb Space Telescope (JWST) program (\$43.8 million) to ensure the JWST, which is intended to advance understanding of the origin of the universe, remains on schedule to launch in 2018.

- In June 2013 State notified Congress of plans to reprogram at least \$64 million within the Diplomatic and Consular Programs account to offset the effects of sequestration. State's notification also said it planned to reprogram about \$180 million to preserve high-priority activities, such as the Bureau of Administration's real property acquisition for a permanent location of the Diplomatic Security Worldwide Command Center.
- USDA transferred an estimated \$155.6 million from the Farm Service Agency's direct payments program to a variety of other programs, such as the Supplemental Revenue Assistance Payments Program, Noninsured Crop Disaster Assistance Program, and the Milk Income Loss Contract Payments Program. According to USDA documents, the transfer allowed several Farm Service Agency programs to cover payments for contracts and agreements entered into in prior years, including financial assistance to farmers and ranchers.

DOD officials told us that although the department did not use its reprogramming and transfer authority to directly mitigate the effects of sequestration, the flexibility to transfer or reprogram funds to cover expenses for overseas contingency operations that otherwise would have been funded by other areas in the budget allowed DOD to reverse some actions initially planned to achieve spending reductions. DOD reported that it carried out reprogramming and transfer actions in large part to address funding priorities related to ongoing overseas contingency operations. For example, on August 6, 2013, the Secretary of Defense reduced the number of civilian furlough days from 11 to 6. According to DOD officials, this reduction was possible because additional funding became available through transfers, reprogramming actions, and other DOD management actions. In addition, Air Force officials stated that they were able to resume flight operations in July 2013 for combat air force units whose flying operations had been previously suspended due to spending reductions.

According to agency officials, some of the reprogramming and transfer actions also allowed the agencies to avoid furloughing employees or to limit the number of furlough days. Several agencies considered furloughing employees but were able to use other measures to avoid furloughs. Examples included the following:

- DHS reported that 7 of its 15 components planned up to 22 furlough days for employees in 2013. For example, in February 2013, DHS's Customs and Border Protection (CBP) notified employees of the possibility of 14 furlough days, but ultimately required no furlough days. According to agency officials, CBP was able to avert furloughs in part because the agency transferred \$7 million from its Border Security Fencing Infrastructure and Technology accounts to its Salaries and Expenses account and reprogrammed at least \$69 million between various PPAs within the Salaries and Expenses account.
- Commerce's National Oceanic and Atmospheric Administration (NOAA) initially planned to furlough its employees for 4 days, because a large proportion of its budget was dedicated to personnel and its numerous PPAs limited the ways in which sequestration cuts could be implemented. In consultation with congressional committees, Commerce canceled the furlough by reprogramming across multiple PPAs, enabled in part by using the \$13.7 million previously planned to fund the COSMIC-2 satellite program, a multiyear joint program with DOD and Taiwan to increase the accuracy of weather forecasting.
- DOJ reported that more than 97,000 DOJ employees faced potential furloughs due to sequestration. Consistent with DOJ's notification to the appropriations committees, DOJ's CFO reported that, in March DOJ transferred a total of \$150 million to the Bureau of Prisons (BOP) from the Drug Enforcement Administration's Salaries and Expenses account; the Federal Bureau of Investigation's Construction and Salaries and Expenses accounts; DOJ's Fees and Expenses of Witnesses account; and the U.S. Marshals Service's Construction account to avoid furloughs of correctional officers.

Some agencies told us that reprogramming and transferring funds within and between accounts is a routine part of operations. As a result, in some instances, it may be difficult to isolate those reprogramming and transfer actions that were specifically intended to offset the sequestration reductions.

Agencies Used Prior Year
Unobligated Balances to Offset
Reductions

Agencies with multiyear funds and access to prior year unobligated balances reported using them to protect mission-critical activities and to minimize effects on employees. However, not all agencies had access to

carryover balances to mitigate the effects of the required reductions. In general, Congress provides funds for one year. For programs, projects, or activities related to long-term projects, such as research and development or the construction of physical facilities, Congress may provide multiyear or no-year funds. For example, although at least one HHS operating division used unobligated funds to offset reductions, HHS officials said that, agency-wide, such action was limited because most discretionary HHS funds are appropriated for one year and unobligated multiyear funds were available only for specific purposes.

Overall, 14 agencies reported using funds from multiyear appropriations carried over from prior years in order to mitigate the effects of sequestration. These funds include unobligated balances. Examples of agencies using such funds included the following:

- DOD achieved some of the spending reductions required in its procurement and research, development, testing, and evaluation accounts by using approximately \$5 billion in available prior year unobligated balances.⁶⁶ For the remaining reductions, DOD officials stated that they typically made short-term adjustments to programs (such as changes to system quantities), deferred modifications, or delayed system development and testing, rather than making more severe changes, such as canceling programs.
- DOE officials said that having no-year funding provided flexibility to respond to sequestration by allowing the department to offset reductions by using carryover balances from prior fiscal years. For example, DOE officials told us that for the Fossil Energy Research and Development account, the National Energy Technology Laboratory's Coal Research and Development program used \$925,000 of unobligated prior-year budget authority to help mitigate the effects of sequestration. According to DOE officials, this action averted the possible termination of contractor support services in Pennsylvania and West Virginia.
- Consistent with DOJ's notification to the appropriations committees, DOJ reported that it transferred \$116 million in unobligated balances to replace funding for its information technology and capital equipment requirements that had previously been transferred to BOP to alleviate the need for furloughing correctional officers.

⁶⁶Defense unobligated balances, remaining available from previously enacted appropriations, were subject to sequestration pursuant to 2 U.S.C. § 905(e).

Agencies Used Additional Funding Flexibilities When Available

- In its operating plan, State reported that it planned to use \$18.8 million of carryover balances from its Worldwide Security Protection—Overseas Contingency Operations account to offset required sequestration reductions and preserve its ability to support extraordinary security costs in Afghanistan and Pakistan and invest in security enhancements in high-threat, high-risk posts.

Four agencies reported that they used other funding flexibilities to respond to sequestration. These funding flexibilities, such as the ability to use expired appropriations, are not available to many agencies and programs. For example, DOJ had the authority to use expired appropriations (i.e., budget authority that has not been obligated by the end of its period of availability), which it used to help avoid furloughs.⁶⁷ Treasury and HUD had limited preexisting authority to use as much as 50 percent of their salary and expense unobligated balances from fiscal year 2012 for specified purposes. Treasury officials told us that the IRS used roughly \$52 million of fiscal year 2012 unobligated balances to offset the required reductions and reduce the number of furlough days for IRS employees. According to HUD officials, in August 2013, HUD used available unobligated balances to begin a planned closing of some small field offices. USAID officials said they reviewed all of USAID’s available authorities and the agency was able to deobligate—or recover—about \$32.5 million and use these funds to help offset the need for furloughs.⁶⁸

Flexibilities Used to Mitigate the Effects of Sequestration in Fiscal Year 2013 May Be More Limited in Future Years

Agencies reported some funding actions that were used to mitigate the effects of sequestration in fiscal year 2013 will not be available or will be more limited in the future. For example, several agencies reported using carryover balances from prior year appropriations to meet short-term funding needs caused in part by sequestration. In one instance DOE officials told us that each year since fiscal year 2010, the department has reduced the amount of certain carryover balances, and that some individual offices within DOE greatly reduced these balances in fiscal year 2013 to minimize the effects of sequestration. The officials explained that

⁶⁷28 U.S.C. § 527.

⁶⁸Deobligation refers to an agency’s cancellation or downward adjustment of previously incurred obligations. Deobligated funds may be reobligated within the period of availability of the appropriation. For example, annual appropriated funds may be reobligated in the fiscal year in which the funds were appropriated, while multiyear or no-year appropriations may be reobligated in the same or subsequent fiscal years.

reducing carryover funds to mitigate sequestration reduces DOE's ability to absorb large budget reductions in subsequent years. Similarly, unobligated carryover balances represented more than one-third of the amount DHS transferred in fiscal year 2013. These balances had been set aside for other purposes such as emerging requirements and pilot programs at CBP. In February and April 2013 memorandums, OMB cautioned against using such balances in a manner that would leave the agency vulnerable to future risk.⁶⁹

Some temporary transfer authority used to meet short-term funding needs in fiscal year 2013 may not be available in future years. For example, DOT was able to minimize the number of furlough days for Federal Aviation Administration (FAA) personnel and restore air traffic control and other aviation services when it obtained statutory authority to transfer funds between accounts in fiscal year 2013 in the Reducing Flight Delays Act of 2013. However, FAA would need to seek statutory authority to make similar transfers in future years. Further transfers would also continue to delay infrastructure investments. The transfer of \$253 million from the Airport Improvement Program will mean that FAA must curtail funding for eligible airport projects, such as airport planning, equipment, construction, and noise mitigation. FAA estimated about 170 projects—most of them associated with either runway or taxiway construction or both—will be delayed. Some of these projects were scheduled to start in fiscal year 2013 and were deferred, while other phased projects may take longer to complete.

Congressional Action Helped Mitigate Sequestration Effects for Some Selected Programs

Legislation enacted after the sequestration order helped mitigate the effects of sequestration for some selected programs by providing funds above the level enacted in the CR or providing enhanced flexibility. An increased appropriation effectively reduced the percentage reduction for the year. For example, Congress increased funding levels for the Food Safety and Inspection Service (FSIS) and Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). According to USDA officials, the additional funding for FSIS enabled USDA to cancel 15 days of planned furloughs of meat and poultry inspectors. The furloughs would

⁶⁹OMB, *Ongoing Implementation of the Joint Committee Sequestration*, OMB Memorandum M-13-11 (Washington, D.C.: Apr. 4, 2013) and *Agency Responsibilities for Implementation of Potential Joint Committee Sequestration*, OMB Memorandum M-13-05 (Washington, D.C.: Feb. 27, 2013).

have caused a nationwide shutdown of meat and poultry plants, which USDA projected would have cost about \$10 billion in production losses and \$400 million in lost wages for industry workers. In addition, USDA officials projected that without the additional funding for WIC, the department would not have been able to provide benefits to about 600,000 WIC participants and the level of support would likely have been reduced. The Consolidated and Further Continuing Appropriations Act, 2013 appropriated approximately \$87 million more to DOJ for BOP's Salaries and Expenses account compared to the fiscal year 2013 Continuing Resolution. According to NSF officials, NSF also received an additional \$300 million for its full-year appropriation. This resulted in an effective 2 percent reduction of its annualized funding level from sequestration because the dollar amount of the required reduction did not change.

As previously mentioned, the Reducing Flight Delays Act of 2013, enacted on May 1, 2013, provided DOT authority to transfer up to \$253 million from the Airport Improvement Program, an exempt account, to FAA's Operations and Facilities and Equipment accounts. DOT implemented the transfer, and, according to DOT officials, prevented reduced operations and furloughs of air traffic controllers, among other employees. The act was the only new legislation enacted after the Consolidated and Further Continuing Appropriations Act, 2013 in fiscal year 2013 to provide an agency with additional authority to mitigate the effects of sequestration.

Agencies Used Personnel and Related Actions to Achieve Required Reductions

Although agency officials reported that minimizing the effects of sequestration on the federal workforce was a guiding principle in implementing sequestration, all agencies reported taking some actions that affected employees. The depth and breadth of the actions varied, as shown in table 4. For example, most agencies reported that they took actions such as restricting training, overtime, and travel to achieve the required reductions:

- Nineteen agencies reported that they restricted employee training,
- Fifteen agencies reported that they reduced employee overtime, and
- Twenty agencies reported that they reduced employee travel.

According to agency officials, significant savings were achieved through hiring freezes or curtailed hiring. Nineteen agencies reported limiting or freezing hiring to achieve the required reductions. For example, according to HUD officials, the hiring freeze implemented in March 2013 saved the

agency \$34 million, which was more than the savings achieved from its 5 furlough days. To mitigate sequestration's effect on the American Salaries account for the Diplomatic and Consular Program, State curtailed hiring by conducting a smaller Foreign Service officer orientation class in March 2013. In April 2013 they instituted a plan to slow down attrition hiring, allowing one hire for every two new vacancies.

Table 4: Personnel and Related Actions Agencies Reported Taking to Achieve Reductions Required by Sequestration in Fiscal Year 2013

Agency	Canceled/ limited monetary awards	Reduced employee travel	Reduced employee training	Curtailed external hiring	Reduced overtime	Curtailed internal hiring ^a	Offered VERA/ VSIP ^b	Furloughed employees	Implemented reduction in force ^c
USDA	●	●	●	●	●	●	●		
Commerce	●	●	●	●	●	●			
DOD	●	●	●	●	●	●	●	●	
Education	●	●	●	●	●				
DOE	●	●	●	●	●		●		
HHS	●	●	●	●		●	●		
DHS	●	●	●	●	●	●	●		
HUD	●	●	●	●	●	●		●	
Interior	●	●	●	●	●	●	●	●	
DOJ	●	●	●	●	●				●
DOL	●	●	●	●	●	●	●	●	
State/USAID	●	●	●	●		●			
DOT	●	●	●	●	●	●	●	●	
Treasury	●	●	●	●	●	●		●	
EPA	●	●	●	●	●	●		●	
GSA		●		●					
NASA	●	●	●						
NSF	●								
NRC	●	●	●						
OPM				●	●	●			
SBA	●	●	●	●					
SSA	●	●	●	●	●	●	●		
Number of agencies that reported taking this action to achieve reductions required by sequestration	20	20	19	19	15	14	9	7	1

Source: GAO analysis.

Notes:

Table 4 displays data for 22 agencies instead of 23 agencies. For purposes of this report, information on State and USAID is reported together because State's Office of U.S. Foreign Assistance Resources jointly manages both agencies' budgets.

^aThis includes reassignments, transfers, and promotions.

^bVoluntary Early Retirement Authority and Voluntary Separation Incentive Payments.

^cDOJ officials reported that one DOJ component—the U.S. Parole Commission—implemented a reduction in force of one employee to achieve partial savings required by sequestration in fiscal year 2013.

Seven of the agencies that we reviewed furloughed a combined total of more than 770,000 federal employees for 1 to 7 days (see table 5). All of these agencies were able to limit the number of furlough days relative to their initial estimates by achieving savings through other actions or making use of funding flexibilities. For example, HUD reduced the number of furlough days from 7 to 5, which, according to HUD officials, was possible due to greater-than-expected savings from a general hiring freeze and by using funds allocated for a project to reorganize the Office of Multifamily Housing and small office closures.

Table 5: Summary of Furloughed Federal Employees As a Result of Sequestration in Fiscal Year 2013

Agency	Actual furlough days	Approximate number of employees furloughed	Component(s) affected	Estimated spending reductions (in millions of dollars)
DOD	6	640,500	Civilian employees ^a	\$1,200
HUD	5	8,000	Agency-wide ^b	\$19
Interior	3	766	U.S. Park Police	\$0.827
DOL	0.5 - 7	4,000	Various ^c	\$3.7
DOT	1	21,100	Federal Aviation Administration ^d	\$8.7
Treasury	3	84,000 ^e	Internal Revenue Service	\$89
EPA	6 ^f	16,000	Agency-wide ^g	\$48

Source: GAO analysis of agency data.

Notes:

Figures are as reported by the agency.

^aThere were some exceptions and not all DOD civilian employees were furloughed. Specifically, approximately 126,000 DOD civilian employees were not affected by furloughs.

^bHUD reported that some employees were not furloughed, including employees within the Office of the Inspector General and Ginnie Mae, among others.

^cDOL furloughed employees in 11 components for between 4 hours and 7 days based on the account that funded the component. For example, employees in the Office of Labor Management Standards were furloughed for 2.5 days and employees in the Benefits Review Board and the Employees' Compensation Appeals Board were furloughed for up to 7 days.

^dDOT initially planned to furlough FAA's 47,000 employees for one day per pay period for the remainder of the fiscal year, beginning April 21, 2013. DOT expected that each employee would take up to 11 furlough days. However, DOT suspended furloughs on April 27, 2013 pending enactment of the Reducing Flight Delays Act of 2013. Consequently, some employees were never furloughed, and of those that were, few were furloughed more than 8 hours.

^eThe number of IRS employees furloughed by Treasury on each day ranged from roughly 84,000 to 90,000.

^fEPA furloughed employees for 47 hours.

^gEPA reported that the Office of Inspector General was able to avoid the need to furlough employees by applying carryover balances from prior fiscal years.

Of the employees furloughed government-wide, about 640,500 were DOD employees. DOD officials reported that the President's exemption of military personnel accounts from sequestration—as authorized by BBEDCA—and DOD's decisions to protect certain programs, such as overseas contingency operations, had the effect of reducing the number of areas where spending reductions could be applied. One of the actions DOD implemented to achieve the required spending cuts was to furlough civilian personnel; DOD estimated that a spending reduction of approximately \$1.2 billion was ultimately achieved through furloughs of about 640,500 civilian personnel for 6 days.

Agencies Reduced Grant Awards, Rescoped Contracts, and Delayed Other Actions to Implement Sequestration

Most agencies reported that they adjusted the scope of contracts or delayed contracts as a result of sequestration. As shown in table 6, the most common types of contracts affected were for program management and support services (19 agencies) and information technology (18 agencies). For example, State reported that it cut or delayed several contract-funded IT initiatives to facilitate internal and external communication and collaboration. Fifteen agencies reported revising planned maintenance or repairs or delaying these tasks until a future fiscal year. For example, some of DOD's military services deferred depot maintenance that had been planned for fiscal year 2013 until future years. Specifically, Air Force officials estimated that about \$100 million of maintenance for the active duty force would be deferred from its public depots. In addition, military service installation commands and other organizations identified areas where spending reductions at military bases could be implemented without sacrificing the protection of life, health, and safety—such as deferring building maintenance and delaying the renewal of contracts.

Sixteen agencies reported canceling or adjusting the scope of grants or other actions related to core mission activities. This could include reducing grants to states and localities, nonprofits, and other organizations. For example, NSF reported that its primary action to implement sequestration was to reduce the number of new awards for research and development projects in fiscal year 2013. HHS's National Institute of Health (NIH) reported in May 2013 that it planned to reduce funding for all of its non-competing research project grants and award fewer competing research project grants in 2013 compared to 2012. NRC

reported reducing support for licensing of new reactors and approval of designs for advanced reactors—an estimated reduction of \$12.7 million, which, according to NRC officials, is a core function of the agency.

Table 6: Non-personnel Actions Agencies Reported Taking to Achieve Reductions Required by Sequestration in Fiscal Year 2013

Agency	Rescoped contracts for				Rescoped or delayed			Canceled		
	IT ^a	Program management/support services	Facilities/building services	Hardware procurement	Planned maintenance or repairs	Other contracts	Core function-related actions ^b	New grants	Grants/other core function-related activities	Contracts related to core functions
USDA	●	●	●	●	●	●	●	●	●	
Commerce	●	●	●	●	●	●	●	●	●	●
DOD				●	●				●	
Education	●	●	●	●		●		●	●	
DOE	●	●	●	●	●	●	●	●	●	
HHS	●	●	●	●	●	●	●	●	●	●
DHS	●	●	●	●	●	●				●
HUD	●	●	●			●				
Interior	●	●	●	●	●	●	●	●	●	
DOJ	●	●	●	●	●	●	●		●	●
DOL	●	●	●	●	●	●	●	●	●	
State/USAID	●	●			●			●	●	
DOT	●	●	●	●	●	●	●	●	●	
Treasury	●	●	●		●	●	●	●	●	
EPA		●	●	●	●			●	●	
GSA	●	●				●				
NASA	●	●	●	●	●	●	●			
NSF								●		
NRC	●	●	●		●	●		●	●	
OPM	●	●					●			
SBA	●	●		●		●			●	
SSA							●		●	
Number of agencies that reported taking this action to achieve reductions required by sequestration	18	19	15	14	15	16	12	13	16	4

Source: GAO analysis.

Notes:

Table 6 displays data for 22 agencies instead of 23 agencies. For purposes of this report, information on State and USAID is reported together because the Office of U.S. Foreign Assistance Resources jointly manages both agencies' budgets.

^aInformation technology.

^bThis includes rescoping the production, development, or testing of new products, or delaying these activities until a future fiscal year.

Agencies Identified Lessons for Implementing a Potential Sequestration in the Future

To respond to sequestration in fiscal year 2013, agencies implemented some new policies or processes to create efficiencies. Agencies also enhanced reviews of spending in order to achieve the required reductions. Some agency officials told us that these processes or policies will remain in place in fiscal year 2014 or would be implemented again in the event of another sequester. For example, Education officials said they instituted a process for approving any personnel actions that could increase the agency's salary expenses. This process was coordinated across Education's Office of Management, Budget Service, and Office of the Deputy Secretary. Approval was based on processing only high-priority personnel actions that allowed Education to operate within post-sequestration budget levels. DOE officials told us that to enhance internal efficiency they are automating some of the department's data collection processes for tracking and monitoring certain budgetary elements, such as carryover balances. Further, DOE officials noted that the agency is working to execute reprogramming actions more efficiently so that the resources can be allocated in a timelier manner. Treasury officials reported that they are working to leverage technology in order to achieve efficiencies and cost savings. For example, IRS shifted to virtual training, which reduced travel costs. Although this process was under way prior to sequestration, Treasury officials plan to continue to identify ways to use technology to reduce costs. Further, Treasury's departmental offices instituted a centralized travel review process in response to sequestration and plan to continue the effort. The process encouraged more scrutiny of travel needs and expenses and also provided more consistency around travel policy in various departmental offices.

Conclusions

Sequestration reduced public benefits, delayed services, and resulted in lost wages for more than 770,000 furloughed federal employees. While agencies were able to mitigate some effects on mission, the full effects are still unknown in part because some of the actions taken by agencies made the effects of sequestration less disruptive and therefore less visible. Many of these actions, however, were short-term responses—not sustainable long-term budget reduction strategies. For example, agencies that relied on one-time actions to mitigate the effects of sequestration in fiscal year 2013 may find it more difficult to implement similar budget

reductions in the future without significant disruptions in services to the public. In addition, personnel actions used to implement budget reductions—particularly curtailing hiring—are generally not the best approach for reshaping the federal workforce and could contribute to skills gaps in future years.

In general, budget cuts that occur later in the fiscal year leave an agency with fewer options because less time is available to take action, leading to reduced flexibility in the types of actions available. The timing of the sequestration reductions—more than 5 months into the fiscal year—limited agencies' cost-cutting and cost-avoidance options. Agencies' fiscal year 2013 experiences demonstrate that longer-term strategies to identify efficiencies and cost savings can be helpful for implementing budget reductions. Those agencies that had begun cost savings or cost avoidance initiatives in previous years in response to the prospect of continued declines in agency budgets or administration initiatives reported being better positioned to absorb the additional budget cuts required by sequestration.

There is, however, a limit to agencies' ability to achieve efficiencies and budget reductions by doing more with less. Agencies reprioritized many activities in fiscal year 2013 to address sequestration but their lower priority activities could remain important, mandated by law in many cases. Agencies have limited authority to reprioritize many activities and may not be able to defer or reduce funding for lower priority activities indefinitely. Implementing future budget reductions will likely require Congress and the executive branch to reexamine federal agencies' missions—what they do and how they do it—for more than a single fiscal year.

Timely and transparent guidance can also help facilitate more effective decision making by agencies and better inform policymakers and the public about how the law is being implemented. As the first sequestration in more than two decades, such guidance was particularly important in fiscal year 2013 because of the lack of institutional knowledge at federal agencies about the technical details of how to implement sequestration. OMB worked with agencies to resolve a number of technical details associated with sequestration. However, in some circumstances, decisions were not reached until well into the fiscal year. In some cases, agencies were still unclear at the start of fiscal year 2014 whether certain funds sequestered in fiscal year 2013 would be available in fiscal year 2014. This added to the uncertainty already surrounding sequestration, affecting agencies' and policymakers' ability to effectively plan and make decisions about resource allocation.

Further, because the information on how OMB implemented key provisions in the law was not made publicly available, the public still lacked access to information necessary to fully understand how some of the provisions of BBEDCA were being interpreted for the purpose of sequestration, such as why certain fee-funded programs were not exempt. Greater transparency would have helped enhance the public's and key stakeholders' understanding of the law, reduced confusion about the effects of sequestration on program constituents and stakeholders, and helped policymakers carry out their oversight responsibilities. Absent changes to current law, sequestration of discretionary appropriations could occur again in future years if either defense or nondefense discretionary appropriations exceed the current statutory limits established through fiscal year 2021. OMB and agencies have an opportunity to leverage their experiences implementing sequestration in 2013 to help inform future efforts to plan for sequestration and to minimize some of the confusion and uncertainty should sequestration be ordered again in the future.

Recommendations for Executive Action

To help inform agencies' efforts to plan for and potentially implement sequestration in future years and also to enhance public understanding of the law and how it was implemented, we recommend that the Director, OMB, document and make publicly available OMB's decisions regarding how sequestration was implemented. This includes:

- the criteria that OMB used to determine which accounts contain funds that were temporarily sequestered and available for obligation in future fiscal years pending congressional action, and
- the criteria that OMB used to determine which accounts and PPAs were exempt from sequestration, including those that were exempt from sequestration under section 255(g)(1) of BBEDCA.

We also recommend that the Director, OMB, issue guidance directing agencies to formally document the decisions and principles used to implement sequestration for potential future application.

Agency Comments and Our Evaluation

We provided a draft of this report to OMB, USDA, Commerce, DOD, Education, DOE, HHS, DHS, HUD, Interior, DOJ, DOL, State, DOT, Treasury, USAID, EPA, GSA, NASA, NSF, NRC, OPM, SBA, and SSA. We received written responses from Education, Treasury, and SSA. These comments are reprinted in appendices II through IV.

OMB staff provided comments via e-mail on February 12, 2014, indicating that OMB concurs with our recommendations. OMB agreed that the criteria used for making determinations about how sequestration was implemented should be published and indicated that OMB is planning to do so in its guidance to agencies, OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*. OMB also said that it would reiterate to agencies the importance of recording their decisions with respect to sequestration.

OMB also had two general comments. First, OMB said the report overstated the issue of determinations made after the sequestration order was issued on March 1, 2013. OMB stated that it had made determinations with respect to all accounts by March 1, 2013. According to OMB, in a few very limited circumstances, agencies raised questions about specific accounts after issuance of the sequestration order. OMB stated that in some cases, these issues were caused by subsequent events, such as passage of full-year appropriations, or were raised a significant period of time after the sequestration order was issued. In all cases, OMB said that it worked with agencies to resolve these issues as quickly as possible, and did so in a timely manner. In our report, we acknowledge that there were a number of factors that made it difficult for agencies to plan for and then implement sequestration—including changes to the timing and amount of sequestration and the complexity of certain types of accounts. We also noted that OMB worked extensively with agencies to resolve technical issues. We highlight those instances where decisions were not made until after March 1, 2013, because such delays were generally more disruptive to agencies' efforts to plan for and implement sequestration. Further, as indicated in the report, as of December 2013, OMB staff still had more than 90 accounts undergoing review to determine whether or not the sequestered funds would be permanently or temporarily canceled, and OMB still expected to receive more accounts for adjudication. This indicates that some determinations were not made until later in the fiscal year and that issues were not isolated to a few accounts or a few agencies.

Second, OMB also said that the report, in some circumstances, suggested that OMB guidance was unclear when it appeared that those circumstances arose from particularly complicated accounts or, in one instance, a computational error. According to OMB, given that sequestration applied to almost every budget account, it is not surprising that the application of general OMB guidance was more complicated in certain unusual circumstances. We agree that in some circumstances, rather than being unclear, OMB guidance may have been too broad to

sufficiently resolve specific issues about how agencies should plan for and implement sequestration, particularly for complicated accounts. We revised certain passages in the report accordingly. Again, our work indicates that these issues were not isolated to a few accounts or a few agencies. This underscores the need for OMB to document and make publicly available its decisions and the underlying criteria applied for determining how to implement sequestration as we have recommended.

EPA also provided general comments via e-mail on February 12, 2014. First, EPA stated that consensus almost never exists within organizations or among major stakeholders about what are lower priority items or even what criteria should be used to determine that programs are considered lower priority. EPA and other departments or agencies have to organize long-term performance and budget formulation processes to inform these difficult choices each year. We recognize that identifying and setting agencies' priorities is a subject of ongoing debate among policymakers, agency officials, and stakeholders. We did not independently identify or evaluate agencies' priorities. Rather we reported what agency officials said were higher or lower priorities. Further, in our conclusions, we state that lower priority activities could remain important, mandated by law in many cases. EPA also noted that the final outcome of agencies' efforts to reprogram funds is not always certain. We revised the report to acknowledge this point. For example, we note that congressional committees may express disagreement via formal letters and informal conversations with agencies. Agencies may ultimately choose not to pursue a reprogramming action.

EPA and NSF also provided comments specific to our overview of sequestration at their agencies. Summaries of those comments along with our evaluation appear in the following agency sections of this report.

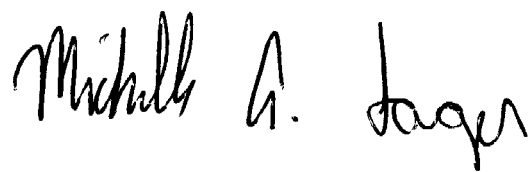
DOD, Education, and SSA indicated in their responses that they concurred with the findings in our report related to their agencies. OMB, USDA, Commerce, Education, DOE, HHS, DHS, HUD, Interior, DOJ, DOL, DOT, Treasury, EPA, GSA, NSF, NRC, SBA, and SSA also provided technical or clarifying comments, which we incorporated as appropriate. State, USAID, NASA, and OPM did not provide comments.

We are sending copies of this report to OMB, USDA, Commerce, DOD, Education, DOE, HHS, DHS, HUD, Interior, DOJ, DOL, State, DOT, Treasury, USAID, EPA, GSA, NASA, NSF, NRC, OPM, SBA, SSA, and

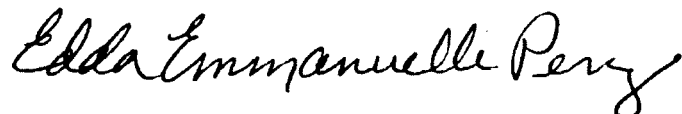
other interested parties. In addition, the report will be available at no charge on GAO's website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact Michelle Sager at (202) 512-6806 or sagerm@gao.gov or Edda Emmanuelli Perez at (202) 512-2853 or emmanuellipereze@gao.gov. Contact points for our work at individual agencies are shown in the agency sections of this report. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

Sincerely yours,

Handwritten signature of Michelle A. Sager in black ink.

Michelle Sager
Director, Strategic Issues

Handwritten signature of Edda Emmanuelli Perez in black ink.

Edda Emmanuelli Perez
Managing Associate General Counsel

Overview of Sequestration at 23 Federal Agencies

This section presents specific information on fiscal year 2013 sequestration at each of the agencies covered by this report.¹ For each agency, we include a “Mission and Budget Overview” that contains the following information:

- **2013 Funding Prior to Sequestration.** Provides the agency’s reported amounts of discretionary and direct funding for fiscal year 2013 prior to sequestration.² Discretionary appropriations are budgetary resources provided in appropriation acts. By contrast, direct spending, often referred to as mandatory spending, consists of budgetary resources provided by entitlement authority and laws other than appropriation acts. Total fiscal year 2013 funding includes budget authority that was exempt from sequestration. (For more information, see appendix V for a detailed glossary of budget terms.)
- **Sequestered Amount.** Shows the agency’s reported share of the total \$80.5 billion sequestration in fiscal year 2013.
- **Programs, Projects, and Activities (PPA).** Lists the total number of sequestrable PPAs and accounts that the agency reported.³ Sequestration reductions were uniformly applied to all nonexempt PPAs, which are generally sub-elements within accounts. While some accounts represent a single PPA, many contain numerous PPAs. In some instances, PPAs correspond to individual grants, specific projects, or local branch offices.
- **Transfer Authority.** Provides a description of the transfer authorities that were available to the agency in fiscal year 2013. A transfer is a funding flexibility that allows for the shifting of funds between accounts. Agencies must have statutory authority in order to transfer funds.
- **Reprogramming Limitations.** Provides an overview of any limitations to an agency’s ability to reprogram. Reprogramming is a

¹For purposes of this report, information on State and USAID is reported together because the Office of U.S. Foreign Assistance Resources has jointly managed both budgets since 2006.

²Information on agencies’ total budgets for fiscal year 2013 and the amount sequestered is based on agencies’ responses to a standard information request. Figures, particularly for direct funding, may be estimates and are subject to change based on final end-of-the-year financial data.

³While we reviewed the sources agencies used to determine their PPAs for the purpose of sequestration, we did not do a legal compliance review to determine that agencies identified their PPAs appropriately and we did not independently verify the number of PPAs or accounts subject to sequestration.

funding flexibility that allows for the shifting of funds from one PPA to another within an appropriation account for purposes other than those contemplated at the time of appropriation. Generally, no statutory authority is necessary for agencies to reprogram funds, but in some instances the ability to reprogram funds may also be limited by law for certain purposes or amounts. Further, the agency may be required to notify the congressional appropriations committee or subcommittee of jurisdiction in advance of any reprogramming action. Congressional committees may express disagreement via formal letters to agencies and informal conversations with agencies. As a result, agencies may ultimately choose not to pursue the reprogramming action.

- **Other Funding Flexibilities.** Provides a description, where applicable, of other authorities that were available to the agency to help mitigate the effects of fiscal year 2013 sequestration.

In addition, for each agency we describe the following:

- **Planning.** Describes how each agency prepared and planned for sequestration. For the purposes of this report, preparation includes procedural steps taken in preparation for potential sequestration, such as defining PPAs, identifying exempt accounts, or clarifying special rules. It can also include other technical steps such as making modifications to agency systems. Formal planning for sequestration includes written plans and formal correspondence involving management decisions about how sequestration would be implemented and how reductions would be allocated. Informal planning includes high-level discussions in an agency or bureau related to sequestration and any estimates or scenarios involving possible sequestration amounts and alternative actions. This may include internal email correspondence; informal communication with OMB, Congress, or both; internal meetings or conference calls; or data calls to bureaus or other subcomponents on potential effects.
- **Implementation.** Describes the specific actions that were taken to achieve the reductions required by sequestration.
- **Effects on Operations, Performance, or Services to the Public.** Describes the effects of sequestration, such as producing fewer outputs, failing to achieve a desired outcome, serving fewer people, or providing a reduced level of service.

Table 7 shows where information on individual agencies is located in this report.

Overview of Sequestration at 23 Federal Agencies

Table 7: Report Sections on Sequestration at Selected Federal Agencies

Agency	Page	Agency	Page
Department of Agriculture (USDA)	64	Department of Transportation (DOT)	143
Department of Commerce (Commerce)	71	Department of the Treasury (Treasury)	149
Department of Defense (DOD)	76	Agency for International Development (USAID)	138
Department of Education (Education)	83	Environmental Protection Agency (EPA)	155
Department of Energy (DOE)	88	General Services Administration (GSA)	162
Department of Health and Human Services (HHS)	97	National Aeronautics and Space Administration (NASA)	166
Department of Homeland Security (DHS)	104	National Science Foundation (NSF)	171
Department of Housing and Urban Development (HUD)	112	Nuclear Regulatory Commission (NRC)	177
Department of the Interior (Interior)	119	Office of Personnel Management (OPM)	182
Department of Justice (DOJ)	126	Small Business Administration (SBA)	187
Department of Labor (DOL)	133	Social Security Administration (SSA)	192
Department of State (State)	138		

Source: GAO.



Mission and Budget Overview

Mission

USDA's mission is to provide leadership on food, agriculture, natural resources, rural development, nutrition, and related issues based on sound public policy, the best available science, and efficient management. In support of this mission, over 74 percent of USDA's funding was used to support programs related to nutrition assistance. The rest of USDA's funding supported a range of programs related to conservation and forestry, farm and commodity support, and food safety, among others.

2013 Funding Prior to Sequestration

USDA received a total of \$176.1 billion for fiscal year 2013, including \$148.9 billion in direct spending and \$27.2 billion in discretionary appropriations. Of this amount, USDA received \$228.4 million in supplemental appropriations related to Hurricane Sandy.

Sequestered Amount

The estimated sequestered amount was almost \$2 billion—\$1.2 billion in discretionary appropriations and \$775.6 million in direct spending. These amounts included different types of collections that were subject to sequestration. Nearly \$11.4 million in supplemental appropriations related to Hurricane Sandy were also sequestered. However, USDA will not know its final amount of sequestered funds until December 2013 because some of its programs operate on a crop year basis, which varies by commodity and may extend beyond the federal fiscal year. About \$137.4 billion was exempt from sequestration, largely consisting of Supplemental Nutrition Assistance and Child Nutrition Programs.

(Continued on following page.)

U.S. Department of Agriculture

U.S. Department of Agriculture (USDA) officials identified a number of challenges in planning for sequestration. For example, USDA's 923 PPAs were defined in a way that limited its flexibility to implement sequestration. USDA officials also had difficulty understanding how to apply sequestration law and guidance to certain USDA programs, which required extensive analysis and communication with OMB. Several actions helped USDA to mitigate the most significant effects of sequestration. For example, the Consolidated and Further Continuing Appropriations Act provided funding in addition to what had been provided in the continuing resolution, which helped to avert a potential nationwide furlough of meat and poultry plant inspectors and to maintain the level of support provided through the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). USDA officials said sequestration may affect the public through a reduction in services or other benefits, such as fewer agricultural research grants and reduced assistance across all programs that may affect water quality and quantity, soil erosion, and wildlife habitat. USDA officials have yet to determine the magnitude of these effects.

Planning

According to information provided by USDA officials, the department began planning for sequestration in December 2011. Between September 2012 and March 2013, USDA evaluated four alternatives for implementing sequestration. The September 2012 effort showed that the three USDA components facing the greatest potential effects on employees and programs (e.g., furloughs and office closures) were the Food Safety and Inspection Service (FSIS), Rural Development, and the Farm Service Agency. For example, these three components considered furloughing a total of almost 27,000 employees for up to 23 days and the Farm Service Agency considered closing 500 county offices. Officials in four other USDA components—the Foreign Agricultural Service, Animal and Plant Health Inspection Service, National Agricultural Statistics Service, and the National Appeals Division—also considered a total of 267 employee reductions in force. After the September 2012 effort, USDA officials said that the Secretary of Agriculture directed the department's components to reevaluate alternatives for implementing sequestration to minimize disruption to daily operations, including avoiding furloughs, based on varying estimates of the level of sequestration and the funding available. The final reevaluation in March 2013 resulted in two operating plans—one for all of USDA except for the Forest Service, and one for the Forest Service which receives its funding through a separate appropriation. USDA's guiding principles in planning for sequestration consisted of implementing OMB guidance in a fair and equitable manner with the least disruption (no furloughs, employee reductions in force, or office closures) and of protecting USDA's mission.

According to USDA officials, the department encountered several challenges in planning for sequestration, which included the following.

Programs, Projects, and Activities (PPA)

Sequestration applied to 923 PPAs across 90 accounts at USDA. USDA's PPAs varied in the extent to which they represented discrete programs versus staff salaries and expenses or other costs that might be associated with multiple programs. Often the PPAs corresponded to individual projects or local branch offices of USDA agencies.

Transfer Authority

Section 7 U.S.C. § 2257 provides USDA with authority to transfer—which USDA refers to as interchange authority—up to 7 percent of funds appropriated for any fiscal year from one account in a bureau, division, or office to another account in the same bureau, division, or office subject to certain restrictions. For fiscal year 2013, USDA's transfer authorities were subject to certain additional restrictions, such as those described below.

Reprogramming Limitations

USDA may generally reprogram funds within an account. For fiscal year 2013, however, USDA's reprogramming and transfer authorities were subject to two sets of limitations. First, USDA was required to notify the Appropriations Committees of any reprogramming or transfer that would fund certain new initiatives. Second, USDA's ability to reprogram or transfer funds was limited, in certain scenarios, to \$500,000 or 10 percent.

For information on the objectives, scope, and methodology, see [appendix I](#). For a detailed glossary of budget terms, see [appendix V](#).

- *Limited Flexibility.* Many of USDA's 923 PPAs were narrowly defined. In particular, PPAs for USDA's Agricultural Research Service (100 PPAs), Farm Service Agency (501 PPAs), and Natural Resources Conservation Service (18 PPAs), were defined at the level of specific research locations, county offices, or flood prevention or watershed projects, respectively. Thus, funding for each location, office, or project was subject to sequestration without regard to size or demand for services. USDA officials reported that this significantly limited USDA's flexibility in deciding how to implement sequestration.
- *Difficulty in Applying General Guidance to Complex Programs.* USDA operates a number of programs, for which USDA officials said the costs can only be estimated during the budget process because actual spending depends upon a variety of economic, environmental and other conditions that may fluctuate over the course of a year. For example, the cost of the Milk Income Loss Contract Program, which provides countercyclical payments directly to farmers during periods of low milk prices, depends on a number of economic factors and other conditions. USDA officials stated that it was difficult to understand how to apply sequestration law and guidance to these programs and planning required extensive communication with OMB and detailed calculations to implement sequestration.
- *Rescissions.* The Consolidated and Further Continuing Appropriations Act, 2013 included two across-the-board rescissions totaling \$487.8 million for agricultural discretionary programs (excluding the Forest Service). These rescissions reduced the level of resources available to manage programs. The rescissions and sequestration reductions occurred at a time when, according to USDA's operating plan, there was a greater number and complexity of programs and higher participation levels.
- *Authorization.* The Food, Conservation, and Energy Act of 2008—which, at the time that USDA was planning for sequestration, was the most recent Farm Bill—authorizes many of USDA's activities.¹ This authorization expired in 2012, and reauthorization was uncertain until the American Taxpayer Relief Act of 2012 extended certain Farm Bill provisions through September 30, 2013. Since many of USDA's activities are mandatory programs authorized through the Farm Bill, USDA officials reported that it was difficult to plan for sequestration without knowing exactly what programs the department would be required to implement.

Implementation

To implement sequestration, USDA reported taking a wide range of administrative actions, such as:

- actions affecting personnel: curtailing hiring, reducing overtime, offering voluntary early retirement authority or voluntary separation incentive payments;

¹In the early 1930s, when farm foreclosures occurred every day and American agriculture was hit hard by drought and economic disaster, Congress enacted agricultural legislation to, among other things, protect farmers against the risks of low crop prices and bad weather. Since then, Congress has periodically passed farm bills to help farmers manage the risks that come with farming and has added programs through these bills that are to provide domestic and international food assistance, promote economic development in rural areas, and help advance alternatives to petroleum fuel, among other things.

- contracting actions: rescoping or delaying contracts for facilities and building services and program management and support services, and reducing environmental clean-up activities; and
- other actions: reducing employee training and travel, renegotiating or delaying new grants, and canceling or reducing the scope of work and amount of funding for cooperative agreements with state agencies conducting federal program activities.

The Forest Service operating plan identified a number of specific national or regional priority construction projects for which planned fiscal year 2013 work would be either reduced or deferred. According to the Forest Service's plan, priority was given to projects that were ready to be implemented, were most critical to its mission, and which receive the highest use by the public and agency personnel. For instance, the plan indicated that certain projects were canceled or reduced in favor of maintaining funding for a project to address cracks in the tarmac at a Forest Service air center that could not accommodate the necessary firefighting aircraft.

USDA officials identified a number of developments or actions that increased the department's ability to mitigate the most significant effects of sequestration. First, the Consolidated and Further Continuing Appropriations Act provided additional funding for FSIS and WIC for fiscal year 2013. USDA officials stated that the additional funding for FSIS allowed USDA to avoid furloughing meat and poultry inspectors for as many as 15 days as originally planned. Avoiding the furloughs averted a potential nationwide shutdown of meat and poultry plants, which USDA projected would have cost about \$10 billion in production losses and \$400 million in lost wages for industry workers. Further, additional funding for WIC, combined with fewer applications to participate in the program, helped to maintain the level of support for each WIC participant, according to USDA officials. Without the additional funding, USDA projected it would not have been able to provide benefits to about 600,000 WIC participants.

Second, to further mitigate the effects of sequestration, USDA officials said an important part of the department's strategy was to use its transfer authority to support prior commitments made to program participants. USDA took the following transfer actions:

- USDA transferred an estimated \$155.6 million from the Farm Service Agency's direct payments program to a variety of other programs, such as the Supplemental Revenue Assistance Payments Program, Noninsured Crop Disaster Assistance Program, and the Milk Income Loss Contract Payments Program. According to USDA documents, after applying sequestration reductions, several Farm Service Agency programs had insufficient funds to cover payments for contracts and agreements entered into in prior years. The documentation stated that, by transferring funds to these programs, USDA would avoid requiring repayment of financial assistance already received by about 350,000 agricultural producers (e.g., farmers and ranchers), and would also prevent USDA from incurring administrative costs to recoup these payments.
- USDA transferred \$5.4 million from the Natural Resources Conservation Service's Farm and Ranch Lands Protection Program to the Conservation Security Program. According to a USDA document, the Conservation Security Program is required to pay program

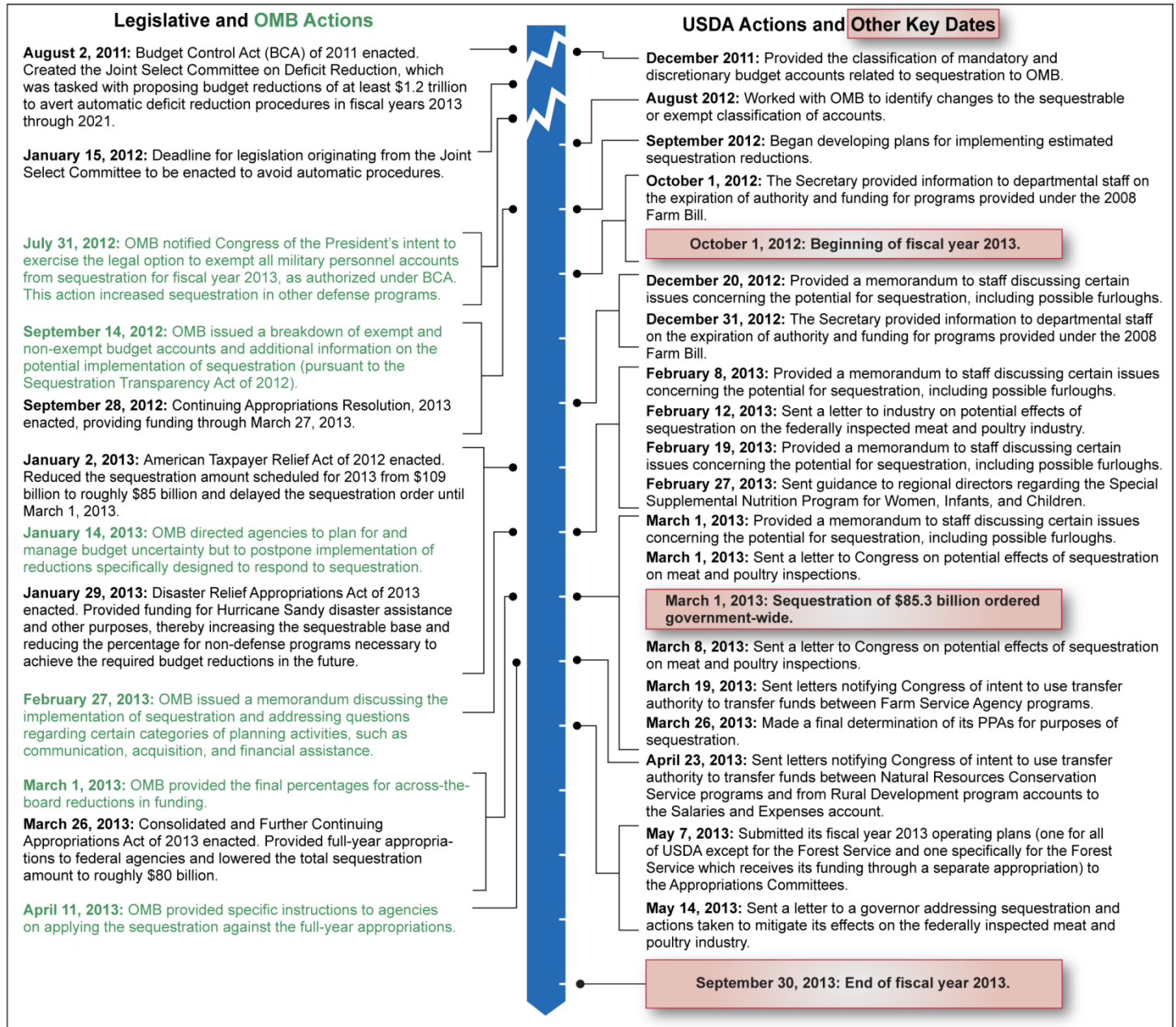
participants as soon as practicable after October 1 of each fiscal year and nearly all of the fiscal year 2013 financial assistance had been paid as of April 2013. The document stated that, after applying sequestration, the program had insufficient funds to cover these payments and the transfer avoided the need to request reimbursement from program participants who had signed 12,362 multi-year contracts with USDA.

- USDA transferred \$8.3 million from various Rural Development programmatic accounts to its Salaries and Expenses account to provide adequate funds for staffing and associated costs for delivering the programs and managing the portfolio.

Third, USDA officials said that another important factor was USDA's broad review of administrative functions that was initiated in 2012 by the Secretary of Agriculture. As a result of this review, USDA outlined steps to cut costs and modernize operations. USDA estimates that it has saved a total of about \$920 million to date by carrying out the steps called for in its plan, including workforce reductions, closing offices and laboratories, centralizing purchasing contracts, consolidating cell phone services, and offering early retirement and voluntary separation.

Figure 3 shows USDA's key actions to plan for and implement sequestration.

Figure 3: Timeline of Fiscal Year 2013 Sequestration Planning and Implementation at the U.S. Department of Agriculture



Source: GAO analysis of legislation, OMB guidance, and information obtained from USDA officials and documentation.

USDA officials identified several lessons learned from implementing sequestration in fiscal year 2013, including the importance of critically examining the department's budget over a period of time. Specifically, prior to sequestration, USDA had already undertaken a variety of measures that allowed for savings, cost avoidances, and efficiencies. Through these and other planning measures USDA was able to adjust to reduced budgets which helped to offset the effects of sequestration.

Should sequestration occur again in a future fiscal year, USDA officials indicated that they could replicate the fiscal year 2013 actions without changes to the agency's mission or authorization language.

Effects on Operations, Performance, or Services to the Public

USDA documents and officials indicated that the public was likely affected by sequestration through a reduction in services and benefits provided by the department. Although USDA officials have not yet determined the extent to which these effects actually occurred, USDA documents provided examples of how the public might have been affected.

- The WIC Farmers' Market Nutrition Program for fiscal year 2013 was projected to have been reduced by about 142,000 participants from its fiscal year 2012 level of 1.56 million.²
- About 3,500 fewer farmers and ranchers were expected to receive assistance in developing conservation plans, resulting in less opportunity to achieve the benefits of conservation efforts.
- Approximately 100 fewer grants were estimated to have been provided for university scientists and private partners to conduct research across a variety of topics.³

In addition, USDA officials estimated that about 11,000 fewer agricultural producers and landowners were provided technical and financial assistance from across a number of programs, which may affect water quality and quantity, soil erosion, and wildlife habitat.⁴

USDA officials also stated that sequestration affected the department's human capital planning. Specifically, as a result of sequestration, USDA agencies will be less able to carry out the kind of succession planning necessary to manage attrition of staff. However, the officials were unable to provide specific information on this effect.

According to USDA officials, USDA made good progress toward meeting its performance goals. Further, USDA's goal to ensure that children have access to safe, nutritious, and balanced meals is unlikely to be affected by sequestration because the Supplemental Nutrition Assistance Program is

²States can provide different WIC benefit levels and some states may reduce their benefit before they cut participants. The Food and Nutrition Service estimated that a 5 percent sequestration cut would result in a reduction of about 79,000 participants.

³USDA indicated that there were 100 fewer grants compared to the 5-year average of 2,170. However, USDA indicated that it did not have final data on the grant reduction associated with sequestration because some awards will not be processed until fiscal year 2014. Also, other factors could have influenced the number of awards made, such as providing a smaller amount of funding per award.

⁴USDA officials indicated that 11,000 fewer producers and landowners, out of about 200,000 prior to sequestration, may have been provided assistance.

exempt from sequestration.⁵ However, officials were unsure of USDA's ability to achieve other agency performance goals, and indicated that the data are not yet available to understand potential performance effects. USDA officials said that the effects of sequestration would be contained in an annual performance report that will be issued in February 2014. Even then, they said the effects of sequestration may be difficult to separate from other effects of ongoing budget constraints.

Agency Comments

We provided a draft of this report to USDA. USDA provided technical comments, which we incorporated as appropriate.

GAO Contact

For additional information, contact John Neumann at (202) 512-3841 or neumannj@gao.gov.

⁵In commenting on a draft of this report, OMB noted that while Supplemental Nutrition Assistance Program benefits and State administrative expenses are exempt from sequestration, some administrative funding, including funding for program integrity activities, is subject to mandatory sequestration.



Mission and Budget Overview

Mission

The U.S. Department of Commerce promotes job creation, economic growth, sustainable development and improved standards of living for all Americans.

2013 Funding Prior To Sequestration

Commerce received a total of \$8.15 billion in funding for fiscal year 2013, including \$8.07 billion in discretionary appropriations and \$81 million in direct spending. Of this, \$326 million was provided in supplemental funding after Hurricane Sandy for the National Oceanic and Atmospheric Administration to assess the hurricane's effect, to repair or replace damaged equipment and facilities, and to improve weather forecasting, among other activities. USPTO is funded by patent and trademark fees. Congress appropriated \$2.9 billion, of which USPTO could spend as much as it collected that was not sequestered. In fiscal year 2013, within certain requirements, any amount collected beyond the appropriated amount could be made available and treated as a reprogramming under appropriations law. In fiscal year 2013, USPTO collected \$2.8 billion.

Sequestered Amount

\$408 million of Commerce's funding was sequestered, nearly all of which were discretionary funds. In addition, USPTO's authority to spend the fees it collects was reduced by \$148 million.

Programs, Projects, and Activities (PPA)

Sequestration applied to 214 PPAs at Commerce within 53 accounts. Agency officials reported that they did not encounter any challenges in identifying their PPAs.

(Continued on following page.)

Department of Commerce

The actions the Department of Commerce (Commerce) took to implement sequestration varied across its components. Some components had begun early retirement offerings in fiscal year 2012 or restructured field offices in 2011 or 2012, which provided savings that were used to address fiscal year 2013 sequestration cuts. Commerce also used funding flexibilities to respond to sequestration. The National Oceanic and Atmospheric Administration (NOAA) initially planned to furlough its employees for 4 days, but canceled the furlough in late May 2013 after reprogramming funds across numerous PPAs. According to Commerce officials, sequestration led to a delay of one quarter for a next-generation weather satellite program and hindered the development of lower-cost options for conducting the 2020 Census. Further, officials told us sequestration delayed U.S. Patent and Trademark Office (USPTO) information technology upgrades and field office openings. Along with reduced hiring, this increased the number of years USPTO estimates it will take to meet its goals for the average time to process patent applications.

Planning

Commerce began planning its sequestration implementation in January 2013 after OMB's January 14 memorandum on planning for uncertainty in fiscal year 2013. Commerce officials told us that the only planning they had done before that date was to determine which accounts would be subject to sequestration. Commerce officials also told us that they had determined their PPAs for sequestration purposes before January 2, 2013, the originally scheduled date for sequestration. In March 2013, Commerce developed a written overview of the actions it would take in 2013. This document also served as Commerce's operating plan submitted to Congress pursuant to the Consolidated and Further Continuing Appropriations Act, 2013.

According to agency officials, Commerce's goals in implementing sequestration were to follow OMB guidance; correctly apply sequestration to accounts and PPAs; and keep high-priority, long-term projects moving forward. Commerce officials reported that the greatest challenge they faced was determining which accounts would be subject to sequestration, which took them 2 months and involved frequent discussions with OMB.

Concerning USPTO, which is funded by the fees it collects as part of the patent application and trademark registration process, Commerce officials told us they were initially uncertain whether sequestration would apply to the amount it collected or the amount it was appropriated. This issue was not resolved until April 2013, when it was determined that sequestration would apply to the amount collected.⁶ Commerce officials also told us that they were also initially uncertain as to whether and how the sequestered

⁶USPTO's appropriation gave it authority within certain restrictions to spend fees collected in excess of its appropriated level and also specified that its appropriated amount would be reduced to the level of fees collected if it collected less than its appropriated level. As a result, USPTO's authority to spend funds was reduced by sequestration based on the amount of fees it collected.

Transfer Authority

In fiscal year 2013, Commerce had general authority to transfer up to 5 percent of funds from an account, provided that no account was increased by more than 10 percent by transfers, among other restrictions.

Reprogramming Limitations

In fiscal year 2013, Commerce had general authority to reprogram funds within an account, though it had certain limitations in specific situations such as if the reprogramming augmented an existing PPA in excess of \$500,000 or 10 percent, whichever was less, or reduced funding or personnel for an existing PPA by 10 percent.

For information on the objectives, scope, and methodology, see [appendix I](#). For a detailed glossary of budget terms, see [appendix V](#).

fees would be available in future years. They reported that in March 2013 OMB informed them that the sequestered fees would not be available to USPTO without additional appropriations.⁷ Officials told us these issues made it difficult to effectively estimate and plan USPTO's budget for the year.

Implementation

In general, according to officials, Commerce's components reduced personnel costs by curtailing hiring, reducing overtime, and canceling or strictly limiting monetary awards. Commerce also reduced employee training and travel, and reduced facility maintenance costs by canceling some projects.

The specific actions Commerce took to implement sequestration varied across its components, depending on the budget situation of each component. For example, Commerce reported that several offices participated in an early retirement offering in fiscal year 2012. By delaying hiring to fill the vacated positions, the offices obtained substantial savings. Some components also had restructured their field offices in recent fiscal years. While not directly related to sequestration, these restructurings provided savings that were helpful in implementing sequestration. For example, in 2011, according to officials, the Census Bureau began reducing the number of field offices it operated from 12 to 6, and in 2012 the Minority Business Development Agency began closing its field offices, leading to vacancies that helped it implement sequestration.

NOAA initially planned to furlough its employees for 4 days, because a large proportion of its budget was dedicated to personnel and its numerous PPAs limited the actions available to achieve the required sequestration reduction. In consultation with congressional committees, Commerce canceled the furlough by reprogramming funds across multiple PPAs, including \$13.7 million it intended to use for the COSMIC-2 satellite program, a multiyear joint program with the Department of Defense and Taiwan to increase the accuracy of weather forecasting.

According to officials, the Economic Development Administration also avoided furloughing its employees by, in consultation with congressional committees, transferring \$1.1 million in funding for grants and cooperative agreements from its Economic Adjustment Assistance and Public Works programs to its Salaries and Expenses account. Commerce estimated that without these transfers it would have needed to furlough this component's employees for 20 days.

In addition to cuts to salaries and expenses accounts across the department, sequestration reduced funding for many Commerce programs, including the following:

- Funding for NOAA's next-generation Geostationary Operational Environmental Satellites was cut by \$54 million.
- The \$47 million required reduction to the Census Bureau's \$887 million budget was achieved in part by canceling or modifying over 40 existing and planned contracts, some of which were related to

⁷In July 2013, an OMB official notified Commerce that if the sequestered fees were appropriated in the future, they would count toward discretionary spending limits under federal law, which the OMB official stated reduced the likelihood of the funds being appropriated.

development, management, and testing for the 2020 Census, totaling about \$32 million.

- The National Institute of Standards and Technology's (NIST) funding was reduced by \$37.8 million. NIST officials said that reprogramming actions mitigated the effects of this reduction on core laboratory, standards coordination, and special programs in part by reprogramming \$20 million from a portion of the funds appropriated to create interdisciplinary Centers of Excellence and the Innovations in Measurement Science grant program.
- Funding for the Bureau of Industry and Security, which, among other activities, regulates the export of dual-use items that have both commercial and military applications, was reduced by \$8.2 million. Commerce mitigated some of the effects of this cut, in consultation with congressional committees, by transferring \$3 million from NIST's Advanced Manufacturing Technology Consortia program, which provides grants for manufacturing research. According to officials, this transfer will enable the bureau to complete the migration to a new export licensing information technology system.

Sequestration reduced USPTO's authority to spend the fees it collects by \$148 million. Commerce officials told us that in recent years, USPTO has begun using new authority from the Leahy-Smith America Invents Act of 2011 to reduce average patent application review times and the backlog of applications. The sequestered portion of the fees USPTO collects remains in its account but cannot be spent by USPTO without additional appropriations. In response to sequestration, USPTO delayed plans to fully open and staff three new regional offices as mandated by the America Invents Act.⁸ In addition, it scaled back plans to hire 1,000 new patent examiners; instead it hired 559 new patent examiners, which led to a net increase of 116 patent examiners after attrition. USPTO also reduced spending on IT modernization contracts by \$80 million. The new offices as well as other programs to improve services were to be funded by a 15 percent surcharge on many patent fees added in 2011 and a March 2013 restructuring of patent fees.⁹

The Consolidated and Further Continuing Appropriations Act, 2013 reduced funding for the Economic Development Administration's program account by about \$37 million—from \$220 million to \$183 million. As a result, that account's funding was not sequestered.¹⁰

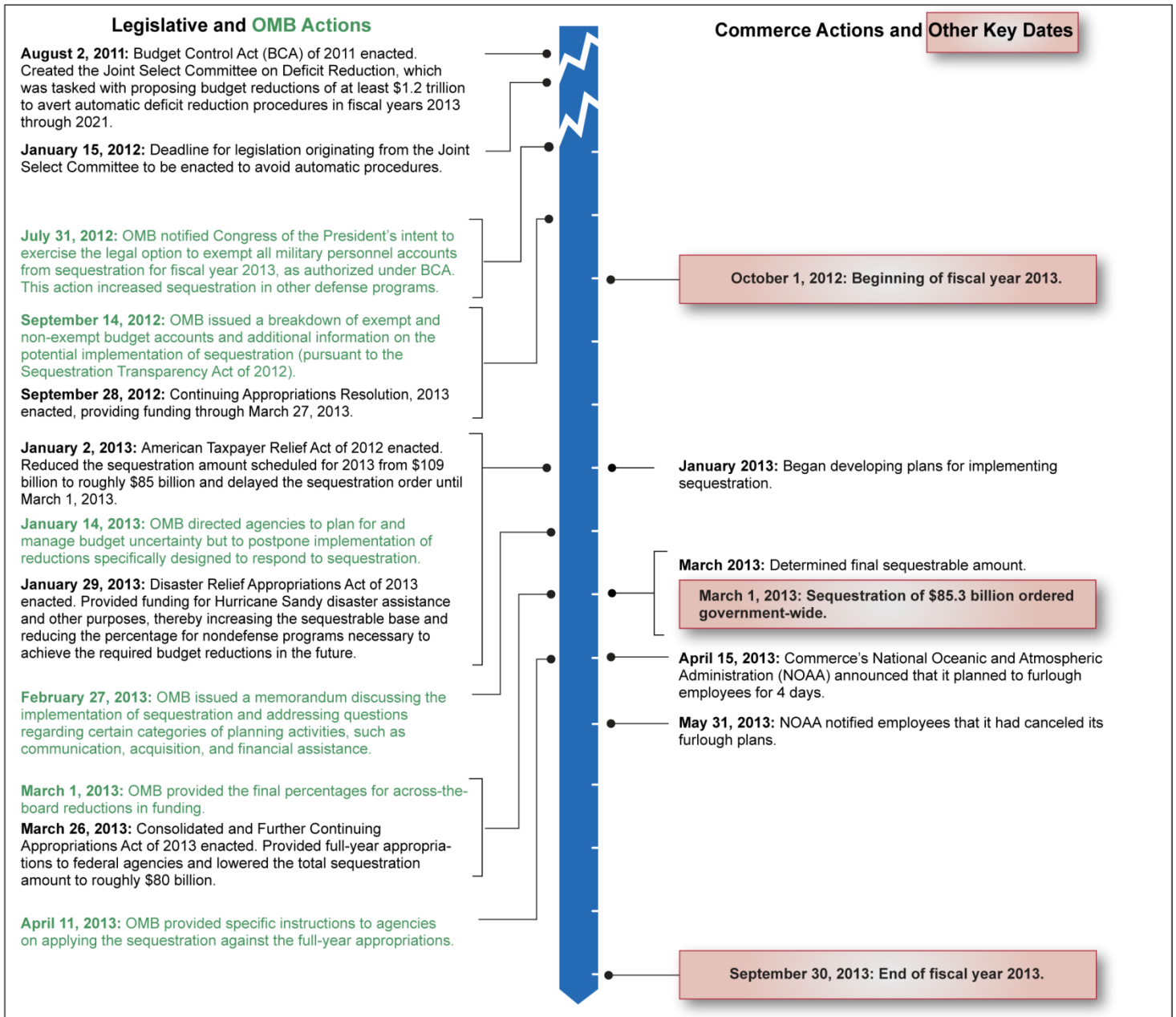
See figure 4 for a timeline of key events in Commerce's planning for and implementation of sequestration.

⁸While the America Invents Act required the USPTO to open three satellite offices by September 2014, this mandate was subject to available funds. USPTO's first satellite office, located in Detroit, was fully opened in July 2012. Three additional field offices beyond Detroit are currently housed in temporary space with smaller than planned staffing.

⁹In the fee restructuring, USPTO increased some fees and decreased or eliminated others, and provided discounts for small and micro entity filers. Overall, the fee changes were expected to increase the amount of fees collected.

¹⁰Under federal law, if sequestration goes into effect when there is only a part-year budget, when a full-year budget is enacted any account receiving a reduction from the part-year budget to the full-year budget equal to or more than the calculated sequestered amount will not be reduced any further. 2 U.S.C. § 903(f)(2).

Figure 4: Timeline of Fiscal Year 2013 Sequestration Planning and Implementation at the Department of Commerce



Source: GAO analysis of legislation, OMB guidance, and documentation from Commerce.

Effects on Operations, Performance, or Services to the Public

Commerce officials stated that the effects of sequestration on some of its programs would depend on future funding. For example, they stated that although the reduced funding decreased their ability to research and develop lower cost ways to conduct the Census, additional funding in future years could allow this work to be conducted. Similarly, although NOAA's COSMIC-2 satellite system was not funded in fiscal year 2013, officials stated the project could stay on track for deployment in 2015 with appropriate future funding. Delays in the deployment of COSMIC-2 would lessen forecasting accuracy that is needed to mitigate the risk of a gap in polar satellite data that could occur as early as 2014. We designated potential gaps in satellite capacity as a high-risk area in 2013, because such gaps would lead to less accurate and timely weather forecasting that can reduce the advance warning of extreme events.¹¹

Commerce estimated sequestration cuts led to a delay of one quarter in the development of the first of its next-generation Geostationary Operational Environmental Satellites, which are expected to more than double the clarity of satellite imagery and provide more frequent images after their anticipated launch in 2016. In September 2013, however, we reported that the development of these satellites had experienced delays in planned dates for program-wide milestones, which could have contributed to the delay. Moreover, we reported the project was experiencing technical issues that could cause further delays.¹² Commerce officials told us that they could not determine the effect of sequestration on the development of the Joint Polar Satellite System because the project was recently reformulated to address risks in the program. The system is needed to replace current polar satellites nearing the end of their service life.

Regarding USPTO, Commerce officials told us that reduced hiring and the delay in completing IT upgrades would increase the number of years it takes USPTO to reach its goals for reducing patent application review times and the backlog of patents waiting to be reviewed. USPTO's performance data showed that in fiscal year 2012 it reduced the average time it took to take first action on a patent application review by 6 months, to 22 months, while in fiscal year 2013 it reduced this by 4 months, to 18 months. USPTO had set a goal for reducing this average to 10 months by 2016, but with the reduced funding from sequestration as well as potential lower than planned collections and other factors, Commerce officials told us they likely will not meet this goal until 2019.

Agency Comments

We provided a draft of this report to Commerce. Commerce provided technical comments, which we incorporated as appropriate.

GAO Contact

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¹¹GAO, *High-Risk Series: An Update*, [GAO-13-283](#) (Washington, D.C.: February 2013), 21.

¹²GAO, *Geostationary Weather Satellites: Progress Made, but Weaknesses in Scheduling, Contingency Planning, and Communicating with Users Need to Be Addressed*, [GAO-13-597](#) (Washington, D.C.: Sept. 9, 2013), 21-23.



Mission and Budget Overview

Mission

DOD's mission is to provide the military forces needed to deter war and to protect the security of the United States.

2013 Funding Prior to Sequestration

In fiscal year 2013, DOD received about \$621.2 billion, including about \$614.8 billion in discretionary appropriations and about \$6.4 billion in direct spending. About 73 percent of DOD's discretionary appropriations were devoted to its operation and maintenance, procurement, and research, development, testing, and evaluation accounts.

Sequestered Amount

All of DOD's funding was subject to sequestration, except for its military personnel accounts, which totaled approximately \$149.7 billion, and certain other funds. Available unobligated balances from prior years were also subject to sequestration. DOD estimated these balances to be about \$62.2 billion. Of DOD's total funding subject to sequestration, approximately \$37.2 billion in discretionary appropriations and about \$37.6 million in direct spending funds were sequestered.

Programs, Projects, and Activities (PPA)

Sequestration applied to 3,905 PPAs across 467 of DOD's total appropriation accounts. The agency's direct spending PPAs are synonymous with its appropriation accounts for the purposes of sequestration and the only direct spending accounts subject to sequestration were trust fund accounts receiving offsetting

(Continued on following page.)

Department of Defense

As we previously reported, spending reductions affected the Department of Defense's (DOD) civilian workforce and many programs and functions, and required DOD to accept some risk in maintaining the readiness of military forces.¹³ However, DOD was able to mitigate some near-term effects of sequestration on its mission. Reduced spending levels required DOD to take actions such as furloughing most civilian employees for 6 days, canceling or curtailing training for units that were not preparing to deploy by early in 2014, postponing some planned equipment maintenance at its depots and repairs or renovations of facilities, reducing some weapon systems quantities or deferring modifications, and delaying system development and testing. DOD's approach to sequestration was a short-term response focused on addressing the immediate funding reductions for fiscal year 2013. DOD was able to reduce spending levels for the remainder of fiscal year 2013 without making permanent changes, such as adjusting the size of its forces or canceling weapon systems programs. We reported that by setting priorities for funding and using available prior year unobligated balances to help meet required reductions, DOD was able to protect or minimize disruptions in certain key areas, such as maintaining support for ongoing operations and adhering to plans for major weapon systems acquisitions. In addition, because of the flexibility afforded from its reprogramming and transfer authorities, DOD was able to manage and, in some cases, later reverse some initial actions taken to implement the spending reductions, such as resuming some aircraft training. DOD officials reported that some effects of the spending reductions were felt in fiscal year 2013 but that the full effect of sequestration would likely not be realized until fiscal year 2014 and beyond, and may vary by service.

Planning

DOD reported that it began actively planning for sequestration in December 2012. Prior to that time, DOD issued guidance but did not initiate formal planning activities. Specifically, in September 2012, based in part on OMB's initial July 2012 guidance that instructed federal agencies to continue normal spending and operations, DOD issued its first sequestration-related guidance. At that time, DOD instructed its components to spend at normal levels and not to take steps to plan for the implementation of sequestration. DOD officials reported that they began some planning activities for sequestration in December 2012, such as identifying certain areas that would be protected and discussing the use of civilian furloughs to reduce spending, and that planning efforts intensified early in 2013. On January 10, 2013, the department issued additional guidance, instructing its components to begin implementing near-term actions, reversible if possible, to mitigate risks caused by the continuing resolution in place at the time and potential sequestration. In addition,

¹³We recently reported on sequestration at the Department of Defense, see GAO, *Sequestration: Observations on the Department of Defense's Approach in Fiscal Year 2013*, GAO-14-177R (Washington, D.C.: Nov. 7, 2013).

collections. The structure of PPAs varied across DOD's discretionary appropriations accounts. For example, for operation and maintenance accounts, PPAs were defined at the appropriation account level. However, PPAs for other accounts, such as procurement and military construction accounts, were defined as the most specific budget item identified in the Consolidated and Further Continuing Appropriations Act, 2013, classified annexes and explanatory statements to that act, or certain agency budget justification materials, which would include individual acquisition programs and military construction projects. As a result of differences in how PPAs were defined, DOD officials stated they had more flexibility to identify spending reductions in operation and maintenance accounts than they did for procurement and research, development, testing, and evaluation accounts.

Transfer Authority

Subject to certain restrictions, DOD has the authority to transfer funds between appropriation accounts.

For fiscal year 2013, DOD had the broad statutory authority to transfer \$7.5 billion between appropriation accounts and reprogram funds within an account within certain thresholds. DOD's transfer authority included \$3.5 billion in special transfer authority for overseas contingency operations-related purposes and \$4 billion in general transfer authority that could be used to, among other things, minimize the effect of sequestration. These amounts were generally consistent with DOD's broad transfer authority in fiscal years 2011 and 2012.

Reprogramming Limitations

Subject to certain limitations, DOD also has the authority to reprogram funds within an appropriation account.

For information on the objectives, scope, and methodology, see [appendix I](#). For a detailed glossary of budget terms, see [appendix V](#).

DOD established certain funding priorities to minimize harmful effects on operations and unit readiness. For example, the guidance instructed DOD components to protect programs such as funding for ongoing operations, selected family programs, and Wounded Warrior programs focused on the health of service members. Among other things, DOD's near-term actions included imposing freezes on hiring civilians, reducing spending for operating expenses at military bases, and curtailing travel, training, and conferences.

DOD officials reported various challenges in planning for sequestration. One challenge was the limited amount of time they had to plan and implement spending reductions. Specifically, DOD officials stated they initially assumed that sequestration would not occur, and as a result did not initiate planning efforts until the end of 2012. Furthermore, officials noted that the President's sequestration order was not issued until 5 months into the fiscal year. As a result they were limited in the number and types of options available to implement the reductions. DOD officials said that planning for sequestration earlier in the fiscal year would have provided the department with more time and greater flexibility to execute spending reductions.

While DOD officials told us they did not encounter any challenges in determining PPAs, DOD did face difficulty in determining the total funding subject to sequestration. Specifically, on March 1, 2013, OMB initially calculated DOD's total funding subject to sequestration based on the annualized amount set forth in the continuing resolution then in effect and an estimate of available unobligated balances. OMB's initial estimate was based on a 7.8 percent reduction to nonexempt defense discretionary funding, or approximately \$41 billion. OMB revised this estimate primarily based on different budget amounts provided in the Consolidated and Further Continuing Appropriations Act, 2013. According to OMB staff, determining the change in the amount of sequestration reductions for DOD accounts after passage of the appropriations act required conversations between DOD and OMB to resolve technical issues. According to DOD officials, the issues were not officially resolved until OMB released technical guidance on May 15, 2013, at which point it was ultimately decided that DOD's reduction would be \$37 billion. DOD officials stated that not knowing the final amount subject to sequestration until May 2013 affected their ability to finalize decisions on allocating funding reductions.

DOD officials stated that another factor that complicated planning efforts was the interrelationship among the types of activities that had to be considered when implementing spending reductions. For example, to be able to execute training, the services need equipment that has been maintained and is available for use. Also, DOD depends on a significant number of civilians to maintain bases, perform depot maintenance, operate training ranges and simulators, and serve as instructors at training locations. Service officials told us that reduced depot maintenance funds and civilian furloughs could affect the services' ability to effectively execute training. Specifically, while funding could be available for flying hours, flying hours might not be executed if aircraft are grounded for maintenance or if training ranges are closed due to furloughs of civilian instructors or simulator operators. In addition, service officials reported that many installation support services, such as legal support and financial management, would be affected by civilian furloughs.

Implementation

Following the President's March 1, 2013, sequestration order, DOD issued guidance on allocating the spending reductions across PPAs and identifying actions to implement sequestration. DOD officials reported that the President's exemption of military personnel accounts from sequestration—as allowed by legislation—and DOD's decisions to protect certain programs had the effect of narrowing the number of areas where spending reductions could be applied. Based on the overall priorities it identified, DOD components, including the military services, prioritized certain areas for funding and identified alternatives for applying spending reductions. We reported that to do this DOD relied on existing governance structures and processes or it established new processes to obtain the input of senior officials to formulate proposed actions and reach decisions on spending reductions.¹⁴ For example, DOD relied on the Deputy Secretary of Defense's Defense Management Advisory Group, consisting of senior-ranking officials, to evaluate proposals and coordinate implementation of sequestration across the department. In addition, the military services used task forces or other approaches to develop funding priorities and options for spending reductions.

We reported that ultimately, DOD's approach to sequestration was a short-term response focused on addressing the immediate spending reductions for fiscal year 2013. In general, this response did not reflect a comprehensive review of potential long-term implications should sequestration occur in subsequent years. Following the sequestration order, DOD identified and began implementing various actions to reduce spending levels for the remainder of the fiscal year, such as curtailing training for certain units, postponing some planned maintenance, reducing installation support services, reducing procurement quantities for some weapon system acquisitions, and delaying system development and testing. DOD reported that it did not make permanent changes such as adjusting force structure or canceling weapon systems programs. The following are examples provided by DOD officials on of the actions taken to reduce spending levels:

- The military services prioritized training programs for deployed and next-to-deploy forces and took actions to cancel or limit training for forces that were not preparing to deploy in early fiscal year 2014, and to shorten, cancel, or modify some scheduled deployments. For example, the Army curtailed training for all units except those deployed, stationed overseas, or preparing to deploy in fiscal year 2013 or early in fiscal year 2014, and canceled combat training center exercises for all but those units that were preparing to deploy for ongoing operations. In addition, the Air Force initially ceased flight operations for about one-third of its active duty combat Air Force units. It resumed flight operations in July 2013.
- Some of the military services deferred depot maintenance that had been planned for fiscal year 2013 until future years. For example, Air Force officials estimated that about \$100 million of maintenance for the active duty force would be deferred from its public depots.
- Military service installation commands and other organizations identified areas where spending reductions at military bases could be implemented without sacrificing the protection of life, health, and

¹⁴[GAO-14-177R](#).

safety, such as deferring building sustainment, delaying the renewal of contracts, and reducing electricity usage.

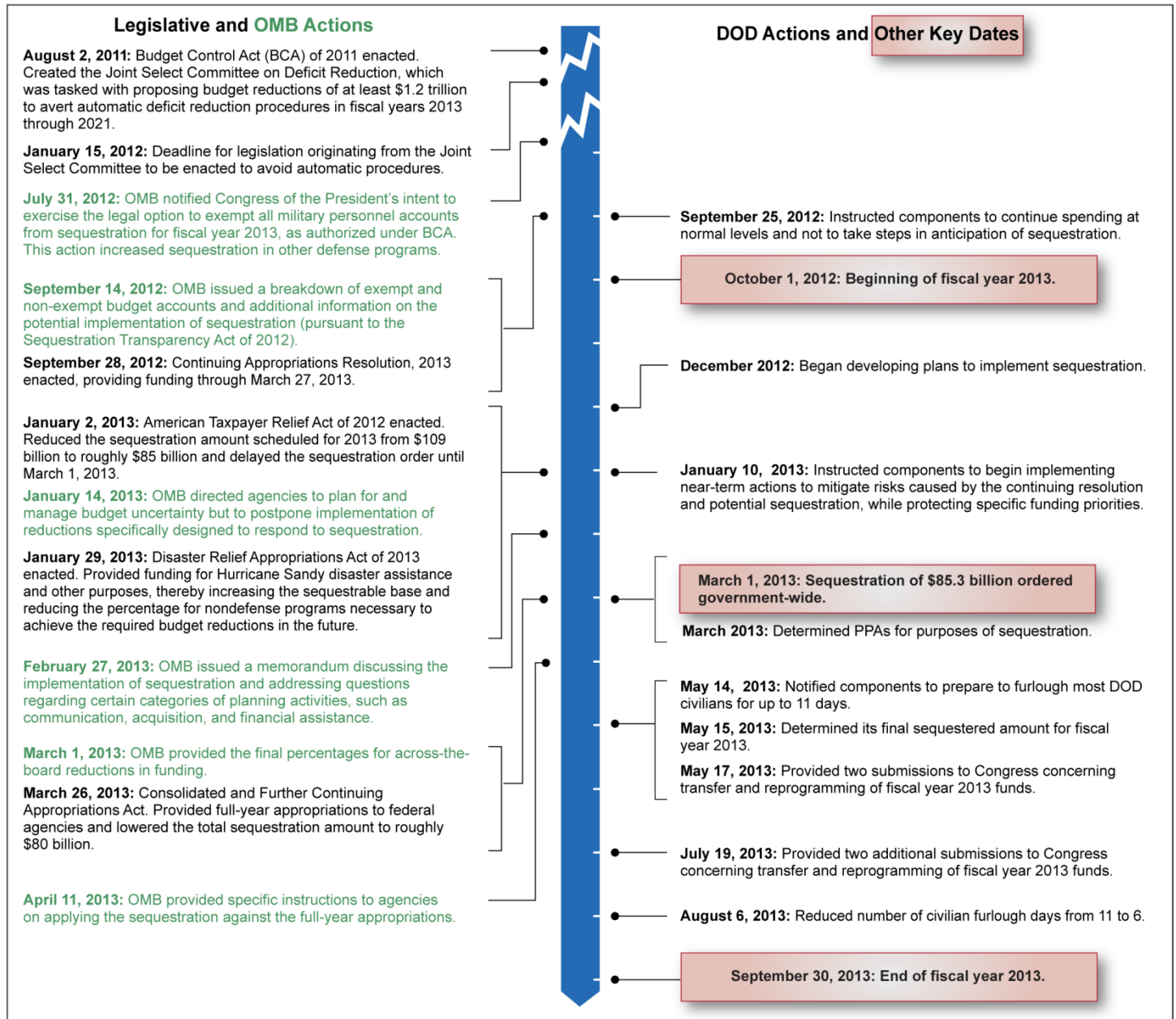
- To achieve the spending reductions required in its procurement and research, development, test, and evaluation funds, DOD's actions included reducing some weapon systems procurement quantities, deferring modifications, and reducing or delaying research projects or system development and testing. To cover some of the reductions, DOD used approximately \$5 billion in available prior year unobligated balances.

In our prior work, we reported that DOD also relied on civilian furloughs to achieve spending reductions.¹⁵ On May 14, 2013, DOD issued guidance directing its components to prepare to furlough most DOD civilians for up to 11 days beginning the week of July 8, 2013. As part of the guidance, DOD identified exemptions to be granted across the department for specific personnel, including shipyard and National Intelligence Program personnel and employees who were necessary to protect life and property. On August 6, 2013, the Secretary of Defense reduced the number of furlough days to 6. According to DOD officials, this reduction was possible because additional funding became available through transfers, reprogramming actions, and other DOD management actions. As of September 2013, DOD estimated that 640,592 of 767,062 civilian personnel had been furloughed for 6 days, for an estimated spending reduction of approximately \$1.2 billion. DOD officials stated that the calculations of the actual number of civilians furloughed and the associated spending reduction would not be finalized until after the end of fiscal year 2013.

Following the President's sequestration order on March 1, DOD made use of available reprogramming and transfer authorities in large part to address funding needs related to ongoing overseas contingency operations. Officials told us that although the department did not use its reprogramming and transfer authority to directly mitigate the effects of sequestration, the flexibility to transfer or reprogram funds to cover expenses for overseas contingency operations that otherwise would have been funded by other areas in the budget allowed DOD to reverse some actions taken to achieve spending reductions. For example, in addition to DOD reducing the number of civilian furlough days from 11 to 6 in August 2013, Air Force officials stated that they were able to resume flight operations in July 2013 for combat air force units whose flying operations had been previously suspended due to spending reductions. Figure 5 provides a detailed timeline of DOD, OMB, and legislative actions taken to plan for and implement sequestration.

¹⁵[GAO-14-177R](#).

Figure 5: Timeline of Fiscal Year 2013 Sequestration Planning and Implementation at the Department of Defense



Source: GAO analysis of legislation, OMB guidance, and documentation from DOD.

Effects on Operations, Performance, or Services to the Public

DOD officials stated that in general it is difficult to attribute specific effects directly to fiscal year 2013 sequestration reductions, because other actions have also affected DOD funding levels and programs.

- In May 2010, the Secretary of Defense directed DOD to undertake a department-wide initiative to assess how the department is staffed, organized, and operated, with the goal of reducing excess overhead costs and reinvesting any resulting savings. DOD is still in the process of implementing this initiative.
- DOD operated under a continuing resolution for the first 6 months of fiscal year 2013, which limited its budget authority and flexibility to move funds.
- DOD officials stated that changing assumptions for overseas contingency operations, such as the increased costs associated with contract services to support the drawdown of forces in Afghanistan, led to higher than projected costs for fiscal year 2013.

DOD officials also reported that while some effects of sequestration and spending reductions will be felt in fiscal year 2013, a number of effects will likely not be fully realized until fiscal year 2014 and beyond and may vary by service. For example:

- Due to cancellations or limitations placed on training for a portion of their forces, the military services identified potential future effects which would take time to reverse, such as increases in the number of nondeployable units, diminished ability to provide ready forces to quickly surge to meet additional operational requirements, and delays in implementing plans for rebuilding core readiness after more than a decade of ongoing operations.
- Military service officials expressed concerns that as a result of deferred depot maintenance, they could face equipment readiness shortfalls and delays in resetting the force, increases in depot rates that would lead to more expensive maintenance costs, and affect depot workforce capabilities.
- Officials from the military services stated that delaying and reducing installation support services in fiscal year 2013 will likely lead to higher future costs for these services due to facility degradation.
- As a result of furloughs, most civilian staff experienced 20 percent pay reductions during the furlough period; according to DOD officials, furloughs have the potential to negatively affect productivity and morale in the civilian workforce and negatively affect local economies.

While DOD did not make any permanent changes in fiscal year 2013 as a result of sequestration, such as reducing force structure or canceling weapon systems programs, its actions have required it to accept risks to readiness in the current year and have pushed some costs into future years. For example, DOD reported that while the fiscal year 2013 procurement quantities for some weapon system acquisitions were reduced, those actions may have only deferred the acquisition to future years. Furthermore, as a result of some of the actions taken in fiscal year 2013, DOD reported that it may have to consider alternative actions to make spending reductions in fiscal year 2014 and beyond, should sequestration continue.

As of September 2013, DOD reported that some activities were under way to monitor the effects of actions taken in specific areas. For example, DOD and the services have begun conducting some assessments of the effects of spending reductions on readiness, such as on DOD's ability to meet combatant command requirements, but these efforts are in the early phases. Furthermore, DOD has begun conducting some activities that may inform its decisions for fiscal year 2014 and beyond and may position the department to make more strategic choices should sequestration continue. For example, in June 2013, DOD completed its Strategic Choices Management Review, which is intended to help inform DOD's preparation for alternative funding levels over a 10-year period. In addition, DOD will soon begin conducting the 2014 Quadrennial Defense Review, which will be an assessment of U.S. defense strategy, force structure, and budget plans.

Agency Comments

We provided a draft of this report to DOD. DOD concurred with our report.

GAO Contact

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Mission and Budget Overview

Mission

Education provides grants to support elementary and secondary education; grants for career, technical, and adult education; and grants and loans for students pursuing postsecondary education, among other things.

2013 Funding Prior to Sequestration

Education's total funding for fiscal year 2013 was \$53 billion; including \$66 billion in discretionary appropriations and -\$12 billion in direct spending. The -\$12 billion reflects \$16 billion for several programs, plus an estimated -\$28 billion subsidy amount for new loans in the Direct Student Loan program. The negative subsidy amount, estimated over the life of the loans, would result in a net gain to the federal government.

Sequestered Amount

An estimated \$2.5 billion was sequestered from the Education budget—\$2.3 billion from discretionary appropriations and about \$200 million in direct spending.

Programs, Projects and Activities (PPA)

Sequestration applied to an estimated 120 PPAs within 23 accounts at Education. The sequestered PPAs and accounts include grants that Education provides to states and local educational agencies, and Education's administrative accounts, among others. Pell Grants to students for postsecondary education, which account for about one third of Education's discretionary appropriations, were exempt from sequestration.

(Continued on following page)

Department of Education

The Department of Education (Education) reported that it planned for and implemented reductions in numerous grant programs designed to aid schools and students nationwide, and identified and reduced administrative and other costs to achieve spending reductions required by sequestration. In part due to unexpected savings in two of its contracts, Education reported that it avoided employee furloughs in fiscal year 2013. Education officials also described their planning and actions for sequestration as a continuation of reductions—for example, in hiring, travel, and conferences—undertaken since the last of the additional funding made available by the American Recovery and Reinvestment Act of 2009 (Recovery Act) was awarded in 2010. While Education officials stated that the loss of agency personnel could negatively affect the agency's performance, they said it was too soon to assess other effects and it might be difficult to determine the full and longer-term effects of sequestration on Education's operations and services to the public. For example, while some grant reductions occurred during the last school year, others occurred during the 2013-2014 school year with effects not yet known. In addition, because school district budgets are determined by many factors, including local taxes and state government contributions, it might be difficult, even in the longer term, to assess the effects of sequestration independent of other factors.

Planning

According to Education officials, they started developing their first plan for sequestration in August of 2011 in response to the enactment of the Budget Control Act of 2011. Education officials said that this planning involved continuing the budget reductions in its administrative spending that Education had been absorbing since the agency finished awarding all the funds appropriated under the Recovery Act at the end of fiscal year 2010, which involved areas such as personnel, travel, and conferences. Additionally, Education officials told us they were constrained in how they could allocate reductions because much of the agency's spending is determined by statute, such as specified formulas for allocating grant funds.

Furthermore, agency officials told us it was challenging to determine the exact amount to be sequestered for some grant programs because of other statutory requirements, which in some cases include provisions that protect a grantee's allocation from being reduced below a certain level, such as those contained in the statute authorizing the Title I grant program.¹⁶ Agency officials also said that uncertainty about the timing and size of the sequestration made planning difficult. For example, Education needed to revise its planning in response to legislative changes and

¹⁶Title I is a grant program established under Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended. The program provides financial assistance to local educational agencies and schools with high numbers or high percentages of children from low-income families to help ensure that all children meet challenging state academic standards.

Transfer Authority

Education was statutorily authorized in fiscal year 2013 to transfer up to 1 percent of its discretionary appropriated funds between appropriations, provided that no appropriation was increased by more than 3 percent by any such transfer, the transfer authority was not used to create a new program or fund any project or activity for which no funds were provided in the appropriations act, and that the Appropriations Committees were notified at least 15 days in advance of any transfer.

Reprogramming Limitations

Education may reprogram funds, although for fiscal year 2013 Education was required to notify the Appropriations Committees 15 days in advance of certain reprogramming; for example, any reprogramming that created new programs, or any reprogramming in excess of \$500,000 or 10 percent, whichever was less, that augmented existing PPAs, among others.

For information on the objectives, scope, and methodology, see [appendix I](#). For a detailed glossary of budget terms, see [appendix V](#).

updated OMB guidance. Agency officials told us they regularly consulted with OMB to finalize Education's determination of PPAs and the allocations of the sequestration cuts.

Implementation

A number of the actions Education took in response to sequestration involved adjusting grant funding in order for the programs to absorb the sequestration cuts while also providing guidance and information to grantees. Education's grant programs comprise a mix of discretionary grants, which are typically awarded through a competitive review process, and formula grants. For the formula grant programs, such as Title I grants, eligibility criteria and the distribution of funds to eligible grantees are established by law, which limited Education's ability to reduce spending since the agency is required to fund grantees that meet the criteria. In contrast, Education officials noted that the agency had some flexibility in how it implemented reductions for its discretionary grant programs. Officials said that the agency's regulations generally require them to prioritize funding continuing grants over new grants, so in some cases they chose to reduce the number of competitions for new grants depending on how much funding remained.

Although sequestration was ordered on March 1, 2013, reductions to some of the formula grants for elementary and secondary education did not go into effect until the 2013-2014 school year. For example, this was the case for certain formula grant programs within four of Education's accounts—Education for the Disadvantaged (Title I), Special Education, School Improvement Programs, and Career, Technical, and Adult Education—which received some of their funding from advance appropriations.¹⁷ In contrast, a formula grant that did not receive funding from advance appropriations experienced some of the reductions during the 2012-2013 school year. School districts receiving Impact Aid—a grant program that provides money to school districts that educate students residing on federal lands such as military bases or Indian lands,¹⁸ which did not receive any funding from advance appropriations—received reduced grant payments during the 2012-2013 school year.¹⁹ In a July 2012 letter, Education informed the chief state school officers of the potential timing of the sequestration for these formula grant programs and, according to Education officials, to help the states plan for sequestration should the reductions occur.

While Education indicated that administrative expenses make up a relatively small portion of its overall budget (about 2 percent of its discretionary appropriations), the agency took a number of steps to absorb

¹⁷An advance appropriation is budget authority provided in an appropriation act that becomes available one or more fiscal years after the fiscal year for which the appropriation act was enacted. For example, of the funding provided to carry out Title I in the Department of Education Appropriations Act, 2012, a certain portion was made available on July 1, 2012 (in fiscal year 2012), and another portion was made available on October 1, 2012 (in fiscal year 2013). The funding that was made available on October 1, 2012, was an advance appropriation.

¹⁸Impact Aid grants assist local school districts that have lost property tax revenue due to the presence of tax-exempt federal property, or that have experienced increased expenditures due to the enrollment of federally connected children, including children living on Indian lands.

¹⁹According to agency officials, Education distributed 80 percent of the Impact Aid grants to school districts at the beginning of the school year in 2012, and then applied the sequestration reductions to the remaining payments made later in the school year.

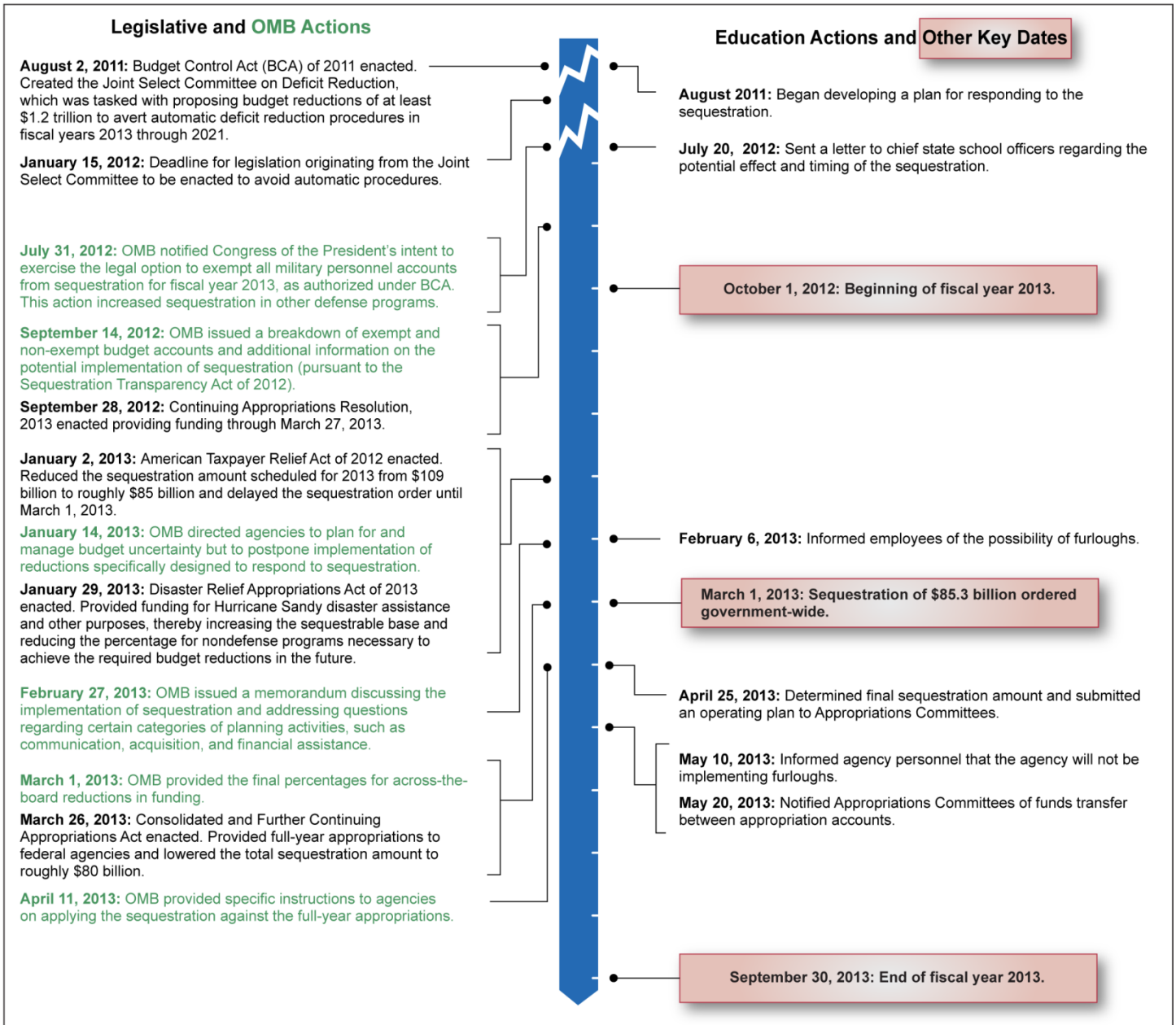
\$85 million of reductions in its four administrative accounts. For example, the agency decreased hiring in order to reduce spending on salaries. Education's April 2013 operating plan stated that, as of that date, the agency had replaced about 57 percent of the staff that had left the agency since the passage of the Budget Control Act in 2011. In addition, Education reduced its travel budget by about 15 percent for fiscal year 2013 and its conference budget by about 10 percent. Education also reported rescoping its contracts in areas such as IT and building services. Further, Education officials said that the agency received unexpected savings when the cost of two of its contracts for Student Aid Administration came in lower than expected due, in part, to a lower volume of loans and a legal settlement with a former vendor.

Education considered employee furloughs but did not implement them. Education officials told us that they notified employees about possible furloughs as early as December 2012. In communications prior to the March 2013 sequestration implementation date, Education anticipated needing to furlough most personnel for about 5 days. However, the savings Education obtained from its Student Aid Administration account allowed it to transfer about \$10 million in funds to the Program Administration, Office of Inspector General, and Office for Civil Rights administrative accounts. Transferring these funds, along with the savings the agency obtained from rescoping contracts and reducing travel, allowed the agency to avoid furloughs, which was communicated to employees in May 2013. Education officials, however, expressed concern that the unexpected savings in the two accounts in fiscal year 2013 may not be available again to help offset potential reductions in other accounts in subsequent years.

In response to sequestration, Education officials told us that the agency implemented a process for approving personnel actions in which components within the agency were required to submit hiring plans for approval that prioritized proposed personnel actions along with a description of the effects of not fulfilling the proposed positions. The Office of Management, the Budget Service, and Office of the Deputy Secretary were required to coordinate in approving high-priority personnel actions while also allowing the agency to operate within post-sequestration budget levels.

For further information regarding the timeline of Education's sequestration planning and implementation, see figure 6.

Figure 6: Timeline of Fiscal Year 2013 Sequestration Planning and Implementation at the Department of Education



Source: GAO analysis of legislation, OMB guidance, and documentation from Department of Education.

Effects on Operations, Performance, or Services to the Public

For several reasons, it might be difficult to determine the immediate and complete effects of sequestration on Education's operations and services to the public. For example, some of the cuts to grants did not occur for grant recipients until the 2013-2014 school year, which is still under way, so it may be too early for effects to be known.²⁰ In addition, it will be difficult in many cases to clearly identify the effects of sequestration on grantees like schools and their students because school district budgets are determined by many factors, including local taxes and state government contributions. The effects will likely vary greatly for different grant programs and for grantees based on their situations, such as the availability of other resources to fill any budget gaps. For example, Title I generally accounts for a relatively small share of public school budgets, about 3 percent nationwide, according to the National Center for Education Statistics for fiscal year 2010, although this can vary among districts. In contrast, while far fewer school districts receive Impact Aid, some relied on these federal grants for as much as 88 percent of their budgets, according to Education data for fiscal year 2013.

In addition, Education officials told us it was challenging to do the agency's work with fewer personnel. They anticipated the loss of personnel would affect the agency's performance measures. Agency officials expressed concern about burnout among staff whose workloads are increasing due to staffing reductions over time; however, it is likely too early to determine any effects on agency performance. Agency officials also expressed concern about being able to conduct effective workforce planning to help maintain the agency's core functions.

Agency Comments

We provided a draft of this report to Education. Education provided written comments which are presented in appendix II of this report. In its written comments, Education agreed with our findings. Education also provided technical comments, which we incorporated as appropriate.

GAO Contact

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²⁰ Although these grant reductions occurred later than some others, grantees likely had already made adjustments in their overall budgets in anticipation of reduced funding levels. Education officials said that they regularly communicated with grant recipients—up to a year in advance of the sequestration—to help them better understand the possible effects of sequestration on their programs. However, Education did not have information on the extent of those adjustments.



Mission and Budget Overview

Mission

DOE spends 90 percent of its annual budget on contracts, making it the largest civilian contracting agency in the government. DOE spends the bulk of its discretionary funds on the National Nuclear Security Administration's (NNSA) efforts to maintain the safety, security, and effectiveness of the U.S. nuclear weapons stockpile; on the Office of Environmental Management's (EM) efforts to clean up sites related to past nuclear weapons development, production, and research activities; and on the Office of Science's sponsorship of research and oversight of 10 national laboratories.

2013 Funding Prior to Sequestration

DOE received \$27 billion in discretionary appropriations and \$4.9 billion in direct spending for fiscal year 2013. This funding was offset by \$5 billion in direct spending receipts, for a total net new budget authority of \$26.8 billion.

Sequestered Amount

Approximately \$1.9 billion was sequestered, consisting almost entirely of discretionary appropriations. DOE budgetary resources exempt from sequestration generally represented intragovernmental funds and voluntary payments across a variety of accounts, as well as certain other resources. Intragovernmental funds include certain reimbursable work for others, such as that done by the national laboratories. Voluntary payments include the Power Marketing Administrations' receipts from their customers.

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Department of Energy

Department of Energy (DOE) officials reported some challenges in planning for sequestration, but a variety of circumstances and actions helped the agency mitigate sequestration's effects. For example, DOE officials said that planning for sequestration was a challenge because some of DOE's PPAs represented individual projects, such as site-specific cleanup activities, that were already completed, required less funding than DOE received, or were not a priority for fiscal year 2013. To address this issue, DOE reprogrammed funding from such PPAs to higher priority projects. For DOE's Weapons Activities account, which funds activities for maintaining the U.S. nuclear weapons stockpile, DOE also benefited from a fiscal year 2013 funding increase compared to the previous year, as well as greater flexibility to reprogram funds. Moreover, DOE officials said that the department's ability to use carryover balances from prior fiscal years helped it mitigate the effects of sequestration. However, the officials noted that decreasing carryover balances reduces DOE's ability to absorb large budget reductions in subsequent years. DOE did not furlough its employees but estimated that contractors furloughed approximately 3,600 employees as a result of sequestration reductions.

Planning

DOE officials said that the department conducted informal sequestration planning in January and February 2013. However, they said that the initial planning efforts of the program offices were decentralized across the department, and that there were no detailed plans prior to March 2013. DOE officials told us that the department began formal planning for sequestration after the March 1, 2013, order and determined its final sequestered amount by May 2013.

In its sequestration planning, DOE officials stated that the department sought to follow OMB guidance and to consider long-term goals, not just short-term needs. In particular, the department sought to preserve: (1) DOE's long-term mission, (2) specialized contractor resources that cannot be easily replaced, such as nuclear engineers, and (3) the availability of federal employees to maintain oversight of contracts. DOE officials also said that the department's planning was informed directly by the Budget Control Act of 2011 and subsequent legislation and OMB guidance, and that they sought to minimize mission disruption using all the tools available.

DOE officials said that they did not encounter any challenges in determining PPAs, but faced challenges in planning for sequestration, including:

- general uncertainty about the agency's overall budget;
- difficulties in determining or estimating the total funding subject to sequestration;
- uncertainty over the final sequestration percentage;

Programs, Projects, and Activities (PPA)

Sequestration applied to 252 PPAs within 31 accounts at DOE.

Transfer Authority

DOE is authorized to transfer between accounts up to 5 percent of funds that are authorized to be appropriated pursuant to a national security authorization under 50 U.S.C. § 2745. Among other limitations, this authority may be used only to provide funds for activities necessary for national security programs that have a higher priority than the activities from which the funds are transferred.

Reprogramming Limitations

DOE may reprogram funds within an account, subject to certain limitations, which the Secretary of Energy may waive in certain circumstances. Specifically, DOE is: (1) required to notify the Appropriations Committees at least 30 days prior to reprogramming an amount that would cause a PPA funding level to increase or decrease by \$5 million or 10 percent, whichever is less, and (2) prohibited from reprogramming funds that create, initiate, or eliminate a PPA or which would reduce funding levels prescribed for specific PPAs by its appropriation, among other limitations. The fiscal year 2013 continuing resolution eased these limitations for DOE's Weapons Activities account. DOE also may not generally reprogram funds authorized to be appropriated pursuant to a national security authorization such that a program receives more than 115 percent or \$5 million more than the amount initially authorized for that program, under 50 U.S.C. § 2742.

Other Funding Flexibilities

DOE generally receives no-year funding for its accounts (i.e., appropriations available for obligation without fiscal year limitation). As a result, DOE may carry over funds not yet obligated or

(Continued on following page.)

- no authority to transfer funds within the department except among its national security program accounts; and
- the structure of DOE's PPAs.

DOE officials noted that the structure of DOE's PPAs posed a challenge because some of the department's PPAs represented individual projects, such as site-specific nuclear cleanup activities. In a February 2013 letter to the Senate Appropriations Committee, the Secretary of Energy noted that the need to apply sequestration equally to each PPA within an account severely constrained DOE's ability to prioritize and make tradeoffs among activities. DOE was not allowed to reprogram funds in such a way as to terminate a PPA from the list of its fiscal year 2012 PPAs, in accordance with the requirements of the continuing resolution.²¹ As such, DOE officials said that in some instances they had to initially plan for spending on projects that were completed, required less funding than DOE received, or were not a priority for fiscal year 2013. Accordingly, the officials stated that DOE reprogrammed funds to support other higher priority efforts.

Implementation

To implement sequestration, DOE took a variety of contracting, personnel, and other actions across the department, according to DOE officials. For example, officials told us that DOE:

- rescoped or delayed contracts for information technology, facilities and building services, program management and support services, and hardware procurement, among others;
- curtailed external hiring, reduced overtime, offered Voluntary Early Retirement Authority or Voluntary Separation Incentive Payments, and canceled or strictly limited monetary awards (DOE officials estimated that approximately \$218 million of the sequestration reduction was implemented through reductions to personnel costs—both for the department and for its contractors);²²
- reduced employee training and travel; and
- rescoped, delayed, or canceled grants, planned maintenance or repairs, or major activities or events related to agency core functions.

As shown in figures 7 and 8, nearly half of DOE's \$1.9 billion in sequestration reductions were at NNSA, and the reductions were made across a variety of activity types, such as construction, cleanup activities, and grants.

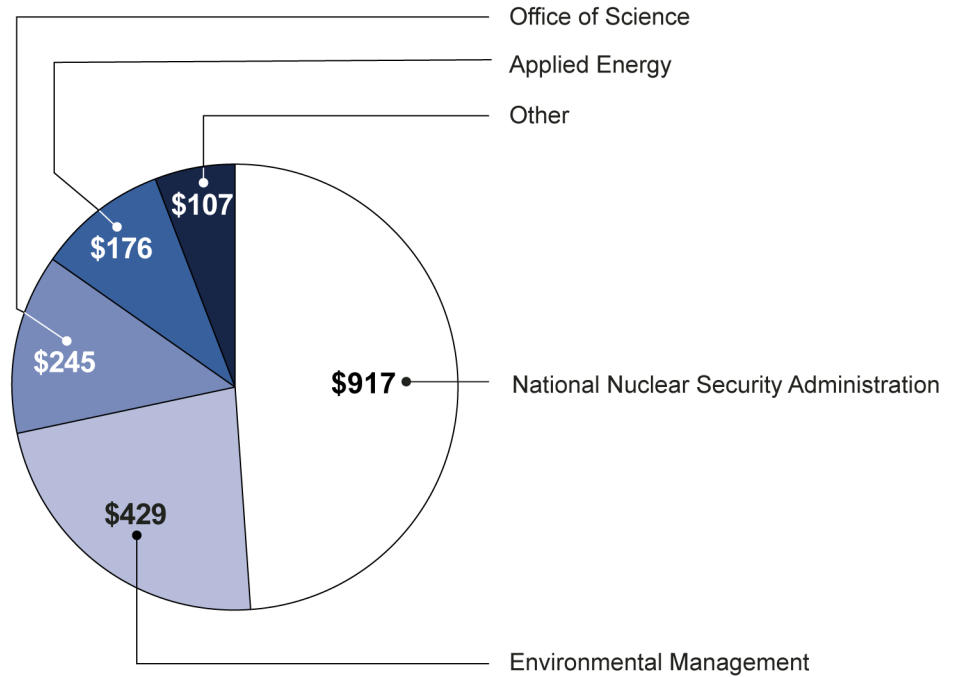
²¹Pub. L. No. 112-74, 125 Stat. 786 (2011).

²²According to DOE officials, the contractors are those with whom the department has a direct contractual relationship.

expended from one fiscal year to another, indefinitely. DOE officials told us that in past practice, the department has relied on these carryover balances to manage its work, particularly for multiyear programs and projects.

For information on the objectives, scope, and methodology, see [appendix I](#). For a detailed glossary of budget terms, see [appendix V](#).

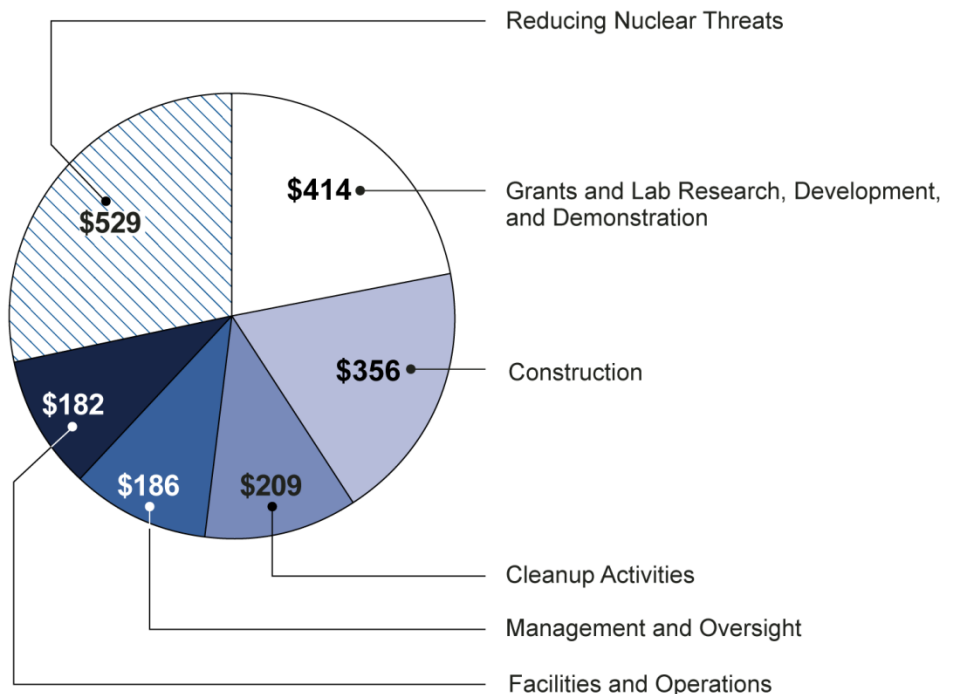
Figure 7: Fiscal Year 2013 Sequestration Reductions by Department of Energy Program Area (Dollars, in Millions)



Source: GAO analysis of DOE data.

Note: According to DOE officials, these reductions account for the mitigating influence of transfers, carryover funds, and reprogramming. However, they noted that these types of mitigating actions are generally not visible unless the data are shown at the PPA level and below.

Figure 8: Fiscal Year 2013 Sequestration Reductions by Department of Energy Activity Type (Dollars, in Millions)



Source: GAO analysis of DOE data.

Note: According to DOE officials, these reductions account for the mitigating influence of transfers, carryover funds, and reprogramming. However, they noted that these types of mitigating actions are generally not visible unless the data are shown at the PPA level and below.

DOE officials noted that having no-year funding gave DOE some flexibility to mitigate the effects of sequestration by enabling the department to use funds carried over from prior years. For example, DOE officials told us that for the Fossil Energy Research and Development account, the National Energy Technology Laboratory's Coal Research and Development program used \$925,000 of unobligated prior year budget authority to help mitigate the effects of sequestration. According to DOE officials, this averted the possible termination of contractor support services in Pennsylvania and West Virginia, but reduced budget authority that would have been available for research on the clean use of coal. Department officials also told us that DOE used carryover balances to mitigate the effects of sequestration on its Weapons Activities account, which they said helped NNSA to avoid involuntary separation of employees, among other things.

In addition to using carryover funding to mitigate sequestration, officials said that DOE reprogrammed funds from lower to higher priority activities, particularly within the Weapons Activities account, where it had increased flexibility.²³ A DOE official told us that this helped to shift funding towards those PPAs that were most affected by sequestration reductions. For example, DOE requested approximately \$47 million in its fiscal year 2013 budget for construction of the National Synchrotron Light Source-II at Brookhaven National Laboratory, but under the continuing resolution \$151 million was allocated for the project, roughly the same amount that was allocated in fiscal year 2012. Consequently, according to DOE officials, DOE reprogrammed approximately \$96 million from this PPA to other efforts in fiscal year 2013. According to department officials, DOE based its fiscal year 2013 reprogramming actions on its determination of mission-critical needs—particularly critical health and safety-related activities—and preserving mission-critical staff. DOE officials said that they cannot always differentiate between actions taken in response to sequestration and actions taken in response to the continuing resolution and its constraints on DOE's spending. For example, EM program officials reported that, in order to minimize the effects of both the year-long continuing resolution and sequestration, the office instituted a reprogramming strategy within the Defense Environmental Cleanup and Uranium Enrichment Decontamination and Decommissioning accounts. They stated that this helped to optimize cleanup progress in fiscal year 2013 and reduce workforce, programmatic, and regulatory compliance effects. DOE also used its transfer authority to help mitigate sequestration but did not seek additional transfer authority because, according to DOE officials, the department's past requests for additional transfer authority had not been approved.

DOE officials also said that the department's approach to operating under a constrained budget in fiscal year 2013, overall, helped it mitigate the effects of sequestration. According to DOE officials, except for its weapons activities, the department planned to operate at lower funding levels during fiscal year 2013 as a result of the continuing resolution funding level and its constraints on DOE's spending. They said that this planning helped DOE to implement sequestration because the terms of the continuing resolution were such that DOE's planned level of spending under the resolution was roughly consistent with spending under sequestration. The officials also noted that in a normal fiscal year, DOE's

²³Pub. L. No. 112-175 § 125(b), 126 Stat. 1313, 1319 (2012); Pub. L. No.113-6, Div. F, Title II, § 1205(b), 127 Stat. 198, 416 (2013).

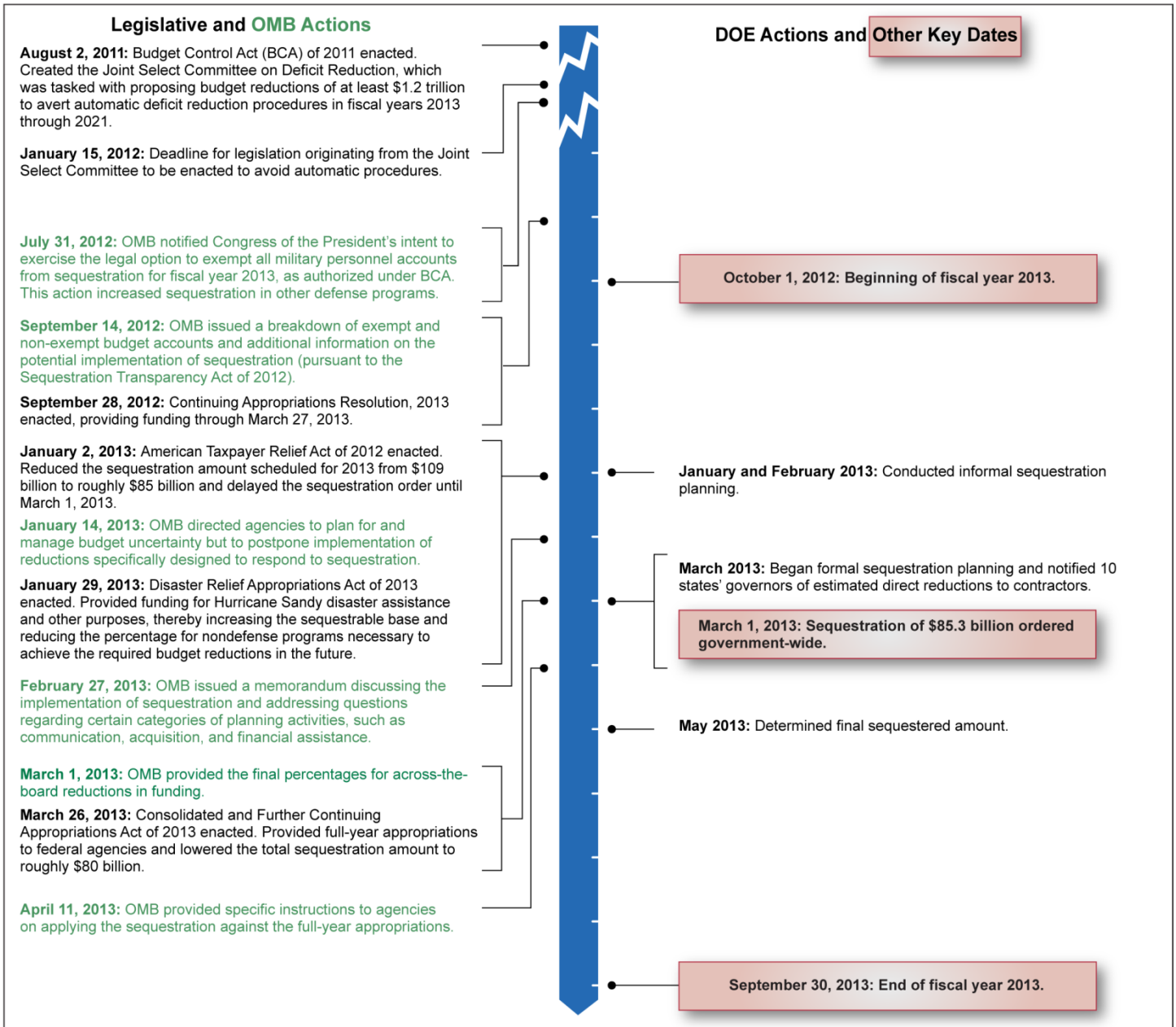
level of obligation through March is about \$16 billion, whereas in fiscal year 2013, the level of obligation through March was \$12 billion as DOE did not, for example, issue grants or new contracts and was very conservative about hiring. DOE officials said that, because the department did not hire as many new employees as it could have earlier in fiscal year 2013, it was able to avoid furloughing employees to implement sequestration, which it initially considered. The officials reported that DOE had approximately 400 fewer full-time employees in fiscal year 2013 compared to the previous year.

DOE officials also identified other developments or circumstances that helped the department mitigate the effects of sequestration. For example, most DOE programs were funded in fiscal year 2013 at their fiscal year 2012 levels; however, the continuing resolution provided DOE's Weapons Activities account with the amount requested in the department's fiscal year 2013 budget request—an increase of \$343 million compared to 2012.²⁴ DOE officials said that this helped mitigate the effects of sequestration. In addition, DOE officials said that several large program offices, such as the Office of Energy Efficiency and Renewable Energy, historically have obligated most of their funds in the second half of the year because their grant decisions are often made in the third and fourth quarters. DOE was able to use some of the grant funding for other activities.

Figure 9 summarizes DOE's key actions to plan for and implement sequestration.

²⁴Pub. L. No. 112-175 §125(a), 126 Stat. 1313, 1319 (2012).

Figure 9: Timeline of Fiscal Year 2013 Sequestration Planning and Implementation at the Department of Energy



Source: GAO analysis of legislation, OMB guidance, and information from DOE.

DOE officials told us that if sequestration reoccurs the department would again pursue reprogramming actions. However, they said that some other actions could not be used again and that the department cannot continue to reduce its staff levels and still accomplish its mission. Department officials also said that reducing DOE's balance of carryover funds, which can include unobligated funds as well as unexpended obligations, to mitigate sequestration reduces the department's future flexibility. They explained that using carryover balances to mitigate budget reductions allowed for more gradual reductions, rather than drastic cuts, and that decreasing carryover balances reduces DOE's ability to absorb large budget reductions in subsequent years. DOE officials told us that certain offices greatly reduced their uncosted balances—DOE's term for unexpended obligations—in fiscal year 2013 to minimize the effects of sequestration.²⁵ For example, the officials said that NNSA and DOE's Office of Science reduced their uncosted balances by approximately \$242 million and \$210 million, respectively. However, DOE officials said that it is difficult to determine the extent to which carryover balances may be used until they have more information on sequestration, if it were to occur again.

Effects on Operations, Performance, or Services to the Public

DOE officials did not identify significant effects on DOE operations, performance goals, or services to the public as a result of sequestration. They did, however, identify some effects on specific activities, including the following:

- Reductions to DOE's EM program would stop or delay cleanup progress at some sites. DOE officials reported that cleanup milestones for sites were established in compliance agreements negotiated with the Environmental Protection Agency (EPA) and state environmental regulators, and in consent orders and decrees settled within the judicial system. They noted that these milestones were negotiated with assumptions of higher funding levels. Consequently, they said that DOE is discussing the possibility of renegotiating those milestones that may be in jeopardy with EPA and state regulators because failure to meet them can result in fines and penalties. For example, DOE officials reported a sequestration reduction of approximately \$173 million at DOE's Hanford site near Richland, Washington: about \$80 million at DOE's Richland office, and about \$93 million at its Office of River Protection.²⁶ Cleanup activities at the Hanford site include cleaning up dangerous waste stored in 177 large underground storage tanks, called tank farms, and constructing a waste treatment and immobilization plant to stabilize large quantities of this waste and prepare it for disposal. As a result of sequestration, DOE contractors reduced Hanford's workforce by laying off 226 employees and furloughing 2,478 employees, according to DOE officials. Officials noted that the workforce actions related to the tank farms project may affect their ability to meet consent decree milestones. However, it is

²⁵According to a May 2013 report to Congress on DOE's uncosted balances for fiscal year 2012, these balances increased steadily from fiscal year 1998 through 2009. DOE officials stated that, each year since fiscal year 2010, the department has reduced the amount of its uncosted balances and is committed to doing so in the future.

²⁶DOE is responsible for cleanup of radioactive and hazardous waste at the Hanford site—a 586-square-mile site that is one of the world's largest environmental cleanup projects—that resulted from the operation of nine nuclear reactors and other facilities until the late 1980s.

difficult to determine the specific effects of sequestration on progress at the site. For example, a DOE official noted that reprogramming of funds for the tank farms project after contractor employees were laid off or furloughed replaced a \$35 million sequestration reduction incurred by DOE's Office of River Protection for this project. Also, we have previously reported concerns about DOE's management of contracts for major EM projects,²⁷ and legal, technical, and management challenges and uncertainties could cause cost increases and schedule delays at the Hanford site.²⁸

- Reductions to NNSA's Weapons Activities account have, among other things, reduced activities to clean out the storage vault at the PF-4 Plutonium Facility at Los Alamos National Laboratory, according to DOE officials. The vault stores excess and waste materials from production of nuclear weapons that are radioactive and extremely hazardous to human health. However, the vault was not designed to store the large amounts of material resulting from large-scale manufacturing operations. The vault is of particular concern because, as the Defense Nuclear Facilities Safety Board noted in a January 2013 letter to the Secretary of Energy, the potential for seismic activity at Los Alamos, combined with the facility's proximity to the public and large inventory of plutonium, has the potential for very high offsite exposures to radiation if the building were to collapse.²⁹ Accordingly, the board strongly urged DOE to take additional near-term measures to reduce risks, such as accelerating disposition of plutonium already designated as waste or surplus. However, according to DOE officials, the sequestration reduction for PF-4 activities was \$6 million, which DOE implemented by deferring some of the waste removal and consolidation activities to fiscal year 2014.

DOE's management of major contracts and projects executed by NNSA and EM—those with values of \$750 million or greater—is included in our biennial report on government operations that we identify as high risk.³⁰ As we noted in that report, we have continued to document significant cost increases and schedule delays for such projects, as well as technical challenges affecting project design. DOE officials said that the department does not yet have full information on how sequestration will affect this high-risk area, but they reiterated that one of the guiding principles for their sequestration planning was to maintain federal employees to oversee contracts. They stated that this is a priority for the department and that the Secretary of Energy is heavily focused on improving contract management.

DOE officials also noted that the effects of sequestration on DOE's science and energy programs may not be apparent initially and stated that

²⁷GAO, *High-Risk Series: An Update*, [GAO-13-283](#) (Washington, D.C.: February 2013).

²⁸GAO, *Hanford Waste Treatment Plant: DOE Needs to Take Action to Resolve Technical and Management Challenges*, [GAO-13-38](#) (Washington, D.C.: Dec. 19, 2012). GAO, *Nuclear Waste: Uncertainties and Questions about Costs and Risks Persist with DOE's Tank Waste Cleanup Strategy at Hanford*, [GAO-09-913](#) (Washington, D.C.: Sept. 30, 2009).

²⁹The mission of the Defense Nuclear Facilities Safety Board, an independent agency, is to provide analysis and advice to the Secretary of Energy on adequate protection of public health and safety at DOE's defense nuclear facilities.

³⁰Areas are identified as high risk due to their greater vulnerabilities to fraud, waste, abuse, and mismanagement or the need for transformation to address economy, efficiency, or effectiveness challenges. See [GAO-13-283](#).

they may be impossible to determine. For example, as a result of sequestration, DOE officials said that the department cut \$85 million in funding for the Office of Science's Basic Energy Sciences Research program, which funds research at more than 160 institutions to support new energy technologies, as well as construction and operation of major scientific research facilities. However, it may not be possible to determine if reducing research funding resulted in fewer scientific discoveries and technological advancements. Also, it is difficult to separate the effects of sequestration from the effects of the continuing resolution, according to DOE officials.

According to DOE officials, sequestration affected DOE contractors that carry out much of the department's work and which outnumber DOE employees by a ratio of at least 5 to 1. DOE estimated that contractors furloughed approximately 3,600 employees as a result of sequestration. DOE officials also estimated that contractors reduced or left vacant approximately 1,000 positions in fiscal year 2013, including laying off or voluntarily separating more than 300 contractor employees. These estimates did not include subcontractor employees, university researchers, and others who do not have a direct contractual relationship with DOE. Most of the affected contractors work at DOE's national laboratories or on defense environmental cleanup activities.

In considering lessons learned from planning for and implementing sequestration, DOE officials noted that they would like to have more information on the potential effects of sequestration reductions. They said that the department has focused primarily on identifying direct financial effects because they are more readily quantifiable. According to officials, DOE has not yet identified ways to improve the department's ability to evaluate the effects of reductions, but they plan to do so in fiscal year 2014.

Agency Comments

We provided a draft of this report to DOE. DOE provided technical comments, which we incorporated as appropriate.

GAO Contact

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Mission and Budget Overview

Mission

HHS's purpose is to enhance the health and well-being of Americans. It administers Medicare, a federal health insurance program for the aged, disabled, and individuals with end-stage renal disease, and Medicaid, a federal-state program that finances health care coverage for certain low-income individuals as well as various programs related to assistance for vulnerable families and underserved populations, biomedical research, and food and drug safety, among others.

2013 Funding Prior to Sequestration

HHS received about \$983.1 billion in total funding for fiscal year 2013, including \$78.6 billion in discretionary appropriations and an estimated \$904.5 billion in direct spending.

Sequestered Amount

As of March 2013, the estimated total amount of sequestration for HHS was about \$15.8 billion—\$3.9 billion in discretionary appropriations and \$11.9 billion in direct spending. HHS will not know its final sequestered amount until the agency has reconciled final Medicare payments for the period from April 2013 through March 2014.

By law, the sequestration reductions varied across HHS programs with some programs exempt, some partially reduced, and others cut by the full amount. Specifically, a number of programs funded by direct spending, such as Medicaid, the State Children's Health Insurance Program, Temporary Assistance for Needy Families, and payments for

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Department of Health and Human Services

At the Department of Health and Human Services (HHS), a 2 percent reduction to Medicare payments accounted for the majority (71 percent) of sequestration reductions. Sequestration also reduced funding for a variety of public health, social services, and research grant programs, according to HHS. HHS reported that it cut administrative and personnel-related activities, such as infrastructure contracts and employee travel, to achieve required reductions without affecting program operations, though the actions varied by HHS operating division. HHS also reported that it used its existing transfer authority to minimize the effect of sequestration on certain programs, such as processing of Medicare appeals. HHS officials told us that data needed to demonstrate the immediate effects of sequestration on agency operations and services to the public were not available as of November 2013 and the longer-term effects may be difficult to isolate from other factors.

Planning

In late 2011, HHS began preparing for potential sequestration by holding discussions and sharing data with OMB, according to HHS officials. OMB used this information to identify the accounts that were subject to sequestration and to determine how the law applied to such accounts. HHS's Office of the Assistant Secretary for Financial Resources was responsible for coordinating sequestration preparation and planning. Agency officials said that the office held conference calls with the operating divisions prior to sequestration and distributed draft guidance to operating divisions and certain stakeholders as the guidance became available from OMB. The office also asked operating divisions to conduct informal reviews of their spending authorities, examine preliminary options for implementing sequestration, and produce preliminary impact statements and draft contingency plans. Beyond that which was specifically requested by OMB, HHS did not collect planning documents from the operating divisions or create actionable sequestration planning documents prior to March 2013.

According to officials, HHS began agency-wide planning in January 2013 and intensified communications with stakeholders in March 2013 when it became apparent that sequestration would occur. For example, on March 4, 2013, HHS directed operating divisions to begin informing grantees, contractors, and states of potential cuts due to sequestration.

Officials reported that the agency adjusted its sequestration operating assumptions throughout 2013 as a result of the enactment of the American Taxpayer Relief Act and the two fiscal year 2013 appropriations acts that provided funding to HHS—the Disaster Relief Appropriations Act and the Consolidated and Further Continuing Appropriations Act. Officials said that, until the latter law was enacted, they could not determine their final PPAs or the amount of funding subject to sequestration. HHS documented its formal sequestration planning decisions in the fiscal year 2013 operating plans issued to Congress on April 25, 2013.

foster care and permanency, were exempt from sequestration. Medicare payments as well as certain direct spending for community and migrant health centers and the Special Diabetes for Indians program within the Indian Health Service (IHS) were subject to a 2 percent reduction.

Offsetting collections—those authorized by law to be credited to appropriation or fund expenditure accounts and available without further appropriation—were among HHS funds subject to sequestration. For example, nearly all of the Food and Drug Administration’s (FDA) user fees, which support FDA’s review of medical devices, drugs, foods, color additives, and tobacco products and accounted for about 41 percent of FDA’s discretionary appropriations in fiscal year 2013, were sequestered. With certain exceptions, sequestration meant that a portion of the fees collected were not available for use in fiscal year 2013 or subsequent years absent congressional action.

Programs, Projects, and Activities (PPA)

Sequestration applied to 582 PPAs within 40 accounts at HHS. HHS indicated that it made its final determination of PPAs subject to sequestration after the March 26, 2013, enactment of the Consolidated and Further Continuing Appropriations Act.

Transfer Authority and Reprogramming Limitations

For all but two of its operating divisions—the exceptions being FDA and IHS—for fiscal year 2013 as continued from fiscal year 2012, HHS was statutorily authorized to transfer up to 1 percent of any discretionary appropriations for the fiscal year from one account to another, provided that the transfer did not increase that account’s appropriation by more than 3 percent and that the transfer was not used to create any new PPA for which funds were not provided. HHS could also reprogram funds within appropriation accounts, subject to

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According to officials, the agency’s primary guiding principle for sequestration planning was to protect its mission. The officials stated that they developed their plans in accordance with OMB guidance and sought to apply cuts in a balanced manner between administrative and programmatic functions. They further noted that given the variety of missions carried out across HHS’s 11 operating divisions and multiple staff offices, HHS provided operating divisions with guidance and flexibility to implement sequestration reductions in a way that best protected their diverse missions.

Officials indicated that they faced two significant planning challenges. The first was uncertainty related to the timing of sequestration and the continuing resolution late in the year. Officials reported that the timing of these events 5 months into the fiscal year delayed HHS’s ability to make planning decisions. The second challenge was uncertainty about how to implement sequestration rules and how to apply general OMB guidance to complex programs. Specifically, questions arose regarding the application of requirements to Medicare and the application of OMB guidance for implementing reductions to indefinite appropriations. These issues added to the challenges of sequestration planning along with the variety of HHS accounts, technical complexity of the rules, and lack of government-wide institutional knowledge about sequester requirements. For example, HHS officials said that the agency communicated with OMB extensively to determine whether drug and medical device review and other user fees collected by the Food and Drug Administration (FDA) were subject to sequestration and about how to apply the reductions.³¹ Proper understanding of these rules was necessary for FDA to plan appropriately for sequestration. Budget officials said that what they learned through sequestration implementation in fiscal year 2013 has helped them plan for sequestration in fiscal year 2014.³²

Implementation

HHS operating divisions and staff offices took a variety of operational, administrative, and funding actions to meet the estimated \$15.8 billion sequestration reduction. While some of these actions resulted directly from sequestration, some also stemmed from cost-saving efforts initiated prior to sequestration. The options available to HHS operating divisions to absorb the reductions also varied depending on their account structures and other budget factors. For example, operating divisions and offices such as FDA, the Office of Inspector General, and the Office of Medicare Hearings and Appeals had accounts primarily composed of funding for salaries or other fixed costs, which HHS officials reported limited their options for implementing sequestration reductions.

For Medicare, the agency’s largest program, the Centers for Medicare & Medicaid Services (CMS) reduced payments by 2 percent as of April 1, 2013, as required by law. According to estimates in OMB’s March 1 sequestration report, these Medicare payment reductions will account for about 71 percent of HHS’s total estimated sequestration reductions in fiscal year 2013. The payment reduction applied to claims made by all types of Medicare fee-for-service providers and suppliers, including physicians, hospitals, and durable medical equipment suppliers, as well as

³¹FDA user fees were subject to sequestration in fiscal year 2013 except for those related to export certification.

³²Sequestration for HHS’s programs funded by direct spending will continue on an annual basis through fiscal year 2024, in accordance with BBEDCA.

certain limitations. HHS was required to notify the Appropriations Committees in advance of any transfer or reprogramming.

For FDA for fiscal year 2013, HHS also had the authority to transfer or reprogram funds between FDA accounts, subject to certain limitations.

HHS also had the following program-specific transfer authorities:

- HHS could transfer unobligated balances of expired discretionary appropriations into the nonrecurring expenses fund and such funds could be obligated for certain infrastructure purposes.
- In addition, within HHS, the Directors of NIH and its Office of AIDS Research could transfer up to 3 percent from the total amounts they identified as funding for HIV research among institutes and centers.
- Finally, HHS was required to transfer amounts from the Prevention and Public Health Fund, established by the Patient Protection and Affordable Care Act, to other HHS accounts to increase funding, over the fiscal 2008 level, for purposes such as prevention, wellness, and other public health activities.

For information on the objectives, scope, and methodology, see [appendix I](#). For a detailed glossary of budget terms, see [appendix V](#).

payments made to Medicare Advantage and Medicare prescription drug plans—private plans that CMS contracts with to provide services to enrolled beneficiaries.³³

Much of HHS's mission is carried out through grants or contracts with outside entities, according to agency officials. HHS reported that it achieved the remaining cuts required by sequestration primarily by reducing funding for certain annual grants and reducing the number of new grants awarded. Examples of how HHS achieved the required cuts include the following:

- As of May 2013, the National Institutes of Health (NIH), which funds biomedical research, planned to reduce funding for its non-competing research project grants by an average of 4.7 percent below the anticipated fiscal year 2013 award amounts. In addition, NIH ultimately awarded 750 fewer competing research project grants, or 8.3 percent fewer, in 2013 compared to 2012. Each of NIH's 27 institutes and centers had discretion to implement the reductions in a manner that would balance existing investments and new research, according to officials.
- The Centers for Disease Control and Prevention (CDC) made reductions to 128 of its PPAs and various grant programs therein, including those that support local and state public health efforts. For example, HHS reported that in April 2013, CDC reduced Rape Prevention and Education formula grant awards to 55 state governmental entities by 5 percent from the total fiscal year 2012 award amount.
- In April 2013, HHS reported that the Administration for Children and Families (ACF) reduced funding for Head Start activities by 5.27 percent, including Head Start and Early Head Start service grants, which promote the school readiness of children up to age 5 from low-income families, according to officials.

HHS sought to balance programmatic cuts with administrative or personnel-related actions, according to officials. In general, HHS operating divisions and staff offices took steps to rescope support service and infrastructure contracts and reduce employee training and travel, as well as curtail hiring, offer voluntary early retirement authority or voluntary separation incentive payments, and cancel employee monetary awards. For example, HHS reported that in May 2013, CDC and NIH rescoped and canceled contracts for administrative support and infrastructure improvements, respectively. As of June 2013, FDA's National Center for Toxicological Research had declined or rescinded acceptance for 53 invitations to present FDA research or participate in collaborative exercises as a result of sequestration. In addition, CMS implemented a hiring freeze in late February 2013, which helped the operating division avoid a furlough as a result of sequestration, according to agency documents. HHS officials stated that HHS had implemented some of these cost-saving efforts prior to sequestration, such as limitations on employee travel since 2012 per executive order. Officials could not estimate the percentage of sequestration reductions agency-wide that were achieved through hiring limitations or other personnel actions.

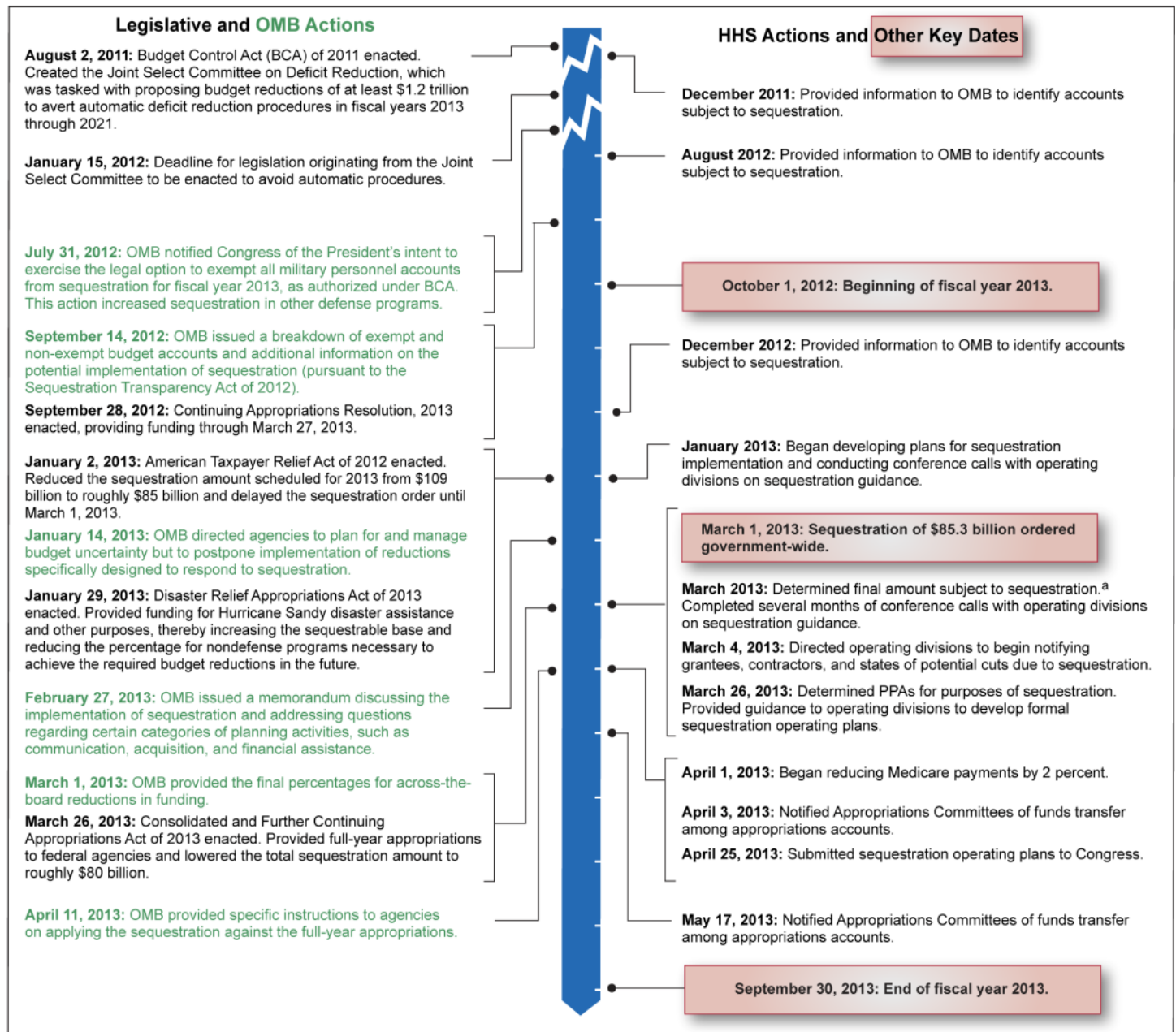
³³These reductions became effective April 1, 2013, and continue through March 31, 2014. Qualified individual premiums, Medicare prescription drug benefit (Part D) low income subsidies, and Part D catastrophic subsidies are exempt from sequestration.

In addition, HHS officials stated that the agency's transfer authority offered only limited flexibility in responding to sequestration reductions. However, consistent with agency notifications to the Appropriations Committees, officials said that HHS used its existing transfer authority, in part, to mitigate the effects of sequestration on priority areas. For example, HHS transferred \$1.2 million from various accounts to the Office of Medicare Hearings and Appeals to help the office process its backlog of Medicare claims appeals. According to officials, the transfer also helped the office avoid a furlough. Another transfer of about \$30 million to the ACF's refugee and entrant assistance account from other ACF accounts helped it to process an increased number of unaccompanied alien children coming into the country while maintaining services for refugees and other entrants.

Officials stated that not all fiscal year 2013 transfers were made in direct response to sequestration and the agency did not use any of its program-specific transfer authorities specifically because of sequestration. Although sequestration reductions intensified the need for reallocations for priority areas, a number of programs were already under considerable budgetary constraints. For example, officials reported that CMS was not provided the budget authority it had requested to implement the Patient Protection and Affordable Care Act and in addition sequestration reduced its available funding.

Other funding flexibilities for certain HHS programs were available to mitigate the effects of sequestration. For example, CMS officials reported that they were able to use unobligated balances of certain multiyear appropriations to mitigate the effects of sequestration on some Medicare Integrity Program activities, though they said such flexibilities would not be available should sequestration continue in the future. HHS officials also told us that agency-wide, use of unobligated balances to mitigate sequestration effects was limited because most discretionary HHS funds were appropriated for one year and those multiyear funds that were unobligated were available only for specific purposes. Figure 10 shows the timeline of HHS sequestration activities.

Figure 10: Timeline of Fiscal Year 2013 Sequestration Planning and Implementation at the Department of Health and Human Services



Source: GAO analysis of legislation, OMB guidance, and documentation from HHS.

Note:

^aThe sequestered amount reflects estimates as of March 2013. HHS will not know its final sequestered amount until the agency has reconciled final Medicare payments for the period from April 2013 through March 2014.

Effects on Operations, Performance, or Services to the Public

HHS officials told us that they could not quantify the immediate effects of sequestration on agency operations or services to the public because performance information was not available at the time of our review. In addition, the complete effects of sequestration are difficult to isolate from other factors. HHS officials stated that the effects were being felt by recipients of HHS funding, such as states and other grantees. However, the immediate effect of fewer and reduced grant awards will not be known until next year because grant funding cycles typically provide funds late in the fiscal year and there is a lag in the collection of grantee performance data. When grantees submit fiscal year 2013 performance data in fiscal year 2014, HHS expects to be in a better position to quantify the effect of sequestration. For example, agency officials estimated that Head Start programs will serve approximately 57,000 fewer children as a result of lower funding levels.³⁴ Their estimate was based on planning data collected from Head Start program grantees. However, HHS will not know the final effects until grantees submit final data after the end of the 2013-2014 school year. Similarly, data to assess the effect of a 2.5 to 3 percent reduced allocation to states for Medicare provider compliance surveys and inspections will not be available until March or April 2014, according to CMS officials. In addition, according to officials, states' survey and inspection completion performance had declined during the recession, so it will be difficult to determine if any performance changes in fiscal year 2013 were due entirely to sequestration.

Regarding reduced payments to Medicare providers and plans, final payments will not be reconciled until after the Medicare sequestration period ends in March 2014; though even then the potential effect of the reductions will be difficult to quantify. For example, research examining the effect of previous Medicare payment cuts suggests that providers may increase the volume or intensity of Medicare services to offset lost revenue. Additionally, Medicare providers were influenced by a number of factors in fiscal year 2013, such as payment increases or decreases resulting from the annual rate-setting process and the implementation of certain statutory provisions. Therefore, it will be difficult to isolate the effect that the 2 percent sequestration reduction had on providers' revenues.

Also remaining to be seen is the effect of curtailed hiring and other personnel-related actions on agency operations, such as FDA drug and medical device review times and foregone savings from reductions to the Health Care Fraud and Abuse Control program. For example, HHS officials said they anticipated that FDA will likely have difficulty meeting performance goals for drug and medical device review times due to sequestration, but these performance data were not available as of February 2014.

³⁴For the 2012-2013 program year reporting period, Head Start had a total funded enrollment of approximately 957,000 children. "Funded enrollment" refers to the total number of funded Head Start slots which may differ from the total number of children served throughout the year.

Agency Comments

We provided a draft of this report to HHS. HHS provided technical comments, which we incorporated as appropriate.

GAO Contact

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Department of Homeland Security

Mission and Budget Overview

Mission

In 2002, DHS was established to, among other things, prevent terrorist attacks from occurring within the United States, reduce U.S. vulnerability to terrorism, minimize resulting damages, and help the nation recover from any attacks that may occur.

2013 Funding Prior to Sequestration

In fiscal year 2013, DHS had budget authority of about \$60 billion, of which approximately \$50 billion was discretionary appropriations and about \$10 billion was direct spending.

Sequestered Amount

The estimated amount of sequestration was about \$2.4 billion—approximately \$2.1 billion in discretionary appropriations and the remainder in direct spending. Certain retirement accounts, such as Coast Guard Retired Pay, and fees paid by other government agencies, such as Federal Protective Service fees, were exempt from sequestration as directed by OMB.

Programs, Projects, and Activities (PPA)

Sequestration applied to 150 PPAs within 56 appropriation accounts at DHS. Some accounts consisted of one PPA and others had several PPAs. For example, the National Protection and Programs Directorate Management and Administration appropriation account had one PPA and the Office of the Secretary and Executive Management appropriation account had 12 PPAs. Some of DHS's PPAs, such as the Border Security and Control Between Ports of Entry PPA within CBP's Salaries and Expenses appropriation, consisted largely of personnel-related expenses. DHS

(Continued on following page.)

The Department of Homeland Security (DHS) mitigated some potential effects of sequestration on its mission in fiscal year 2013, including employee furloughs, by using its existing authorities to transfer and reprogram funding into various salaries and expenses accounts. In addition, DHS reported that prior to fiscal year 2013 it had implemented cost savings initiatives, including a department-wide efficiency review, which helped to assuage some effects of sequestration in fiscal year 2013. Nevertheless, as a result of sequestration, components reported effects to their operations. For example, from fiscal years 2012 to 2013, the U.S. Coast Guard (Coast Guard) observed about a 29 percent reduction in the number of migrant interdictions at sea, a 24 percent reduction in the total pounds of drugs removed, and about 6,000 fewer vessels boarded and inspected. DHS officials stated that spending reductions in future years could affect the department's operations, performance, and services to the public. Further, DHS officials expressed concerns that such reductions could affect the department's ability to continue to meet mission priorities, as well as employee morale, in the long term.

Planning

DHS budget officials stated that the department and its components began holding high-level, internal discussions on sequestration in August 2011 after the Budget Control Act of 2011 was enacted.³⁵ DHS budget officials stated that the department's planning efforts reflected three guiding principles: (1) secure the homeland, (2) maintain progress on major acquisition programs, and (3) minimize effects on DHS employees. According to DHS officials, various cost savings initiatives that DHS had begun implementing prior to August 2011 informed the planning discussions. These initiatives helped the department mitigate some, but not all, of the reductions required by sequestration. For example, in 2009, DHS implemented a department-wide, employee-driven efficiency review to help reduce the department's resource requirements. In April 2013, DHS reported that, as a result, it had identified more than \$4 billion in cost avoidances and reductions since 2009, and redeployed those funds to mission critical initiatives across the department. DHS also reported that it saved \$24 million through component-level efforts to better use excess information technology equipment. In addition to the efficiency review, DHS's Office of the Chief Information Officer planned to reduce funding in fiscal year 2013 for upgrades to the Homeland Secure Data Network, which is used to share and safeguard classified information at the Secret level across DHS and its partners.

In addition to these initiatives, in late 2011, DHS's Balanced Workforce Program Management Office (BWPMO), which manages departmental workforce planning, reported that it began developing a Workforce Planning Budget Modeling Guide that was available to components as a

³⁵See Pub. L. No. 112-25, 125 Stat. 240.

officials stated that generally the department's PPAs are defined within the conference report accompanying its annual appropriations act.

DHS made its final determinations on the PPAs subject to sequestration after the enactment of the Consolidated and Further Continuing Appropriations Act, 2013 on March 26, 2013.

Transfer Authority

DHS was statutorily authorized to transfer up to 5 percent of an appropriation to another appropriation, so long as the receiving appropriation was not increased by more than 10 percent, with 15 days advance notification to the Appropriations Committees and subject to other restrictions.

Reprogramming Limitations

Generally, DHS may reprogram funds, with certain exceptions. DHS was not authorized to reprogram funds in excess of \$5 million or 10 percent, whichever is less, if the reprogramming augmented existing PPAs, reduced by 10 percent funding for any existing PPA, reduced by 10 percent the numbers of personnel approved by the Congress, or resulted from any general savings from a reduction in personnel that would result in a change in existing PPAs, unless DHS notified the Appropriations Committees 15 days in advance.

For information on the objectives, scope, and methodology, see [appendix I](#). For a detailed glossary of budget terms, see [appendix V](#).

voluntary tool to guide DHS sequestration planning.³⁶ According to BWPMO, the office developed this guide to give components an optional framework and starting point for reviewing key workforce factors (such as total population, years of federal service, attrition, and salary costs). In addition, DHS provided the guide to help components assess possible workforce cost reductions, such as the potential cost savings associated with eliminating discretionary overtime. BWPMO reported that the guide offered a means to estimate potential savings with consistent, historical human capital data sets, enabling components to manipulate their data to model different scenarios and potential human capital cost savings. For example, one scenario from the model could estimate the annual cost savings if current retention incentives were terminated, based on incentives paid during the past years.

By December 2012, DHS reported that it had begun formal planning for sequestration after receiving a budget data request from OMB. In January 2013, DHS reported that the department held several meetings as it reviewed the potential effects of sequestration, including a presentation from DHS's Budget Division to the department-wide Chief Financial Officer Council on the department's plans to implement sequestration. Concurrently, DHS components were discussing the possibility that furloughs would be necessary. For instance, following planning discussions in January 2013, DHS reported that 7 of its 15 components planned up to 22 furlough days.³⁷ In particular, the U.S. Secret Service estimated in January 2013 that 15 furlough days would be needed, and the Office of Inspector General estimated 22 furlough days would be needed. According to DHS budget officials, some PPAs in fiscal year 2013 were largely composed of funding for salaries, which reduced planning options that did not involve furloughs or reductions in force. For example, according to the U.S. Customs and Border Protection (CBP), in fiscal year 2013 the Border Security and Control Between Ports of Entry PPA within CBP's Salaries and Expenses appropriation was composed of approximately 94 percent payroll related costs.

DHS budget officials reported that the department faced challenges planning for sequestration because of multiple revisions to the total funding subject to sequestration as a result of the enactment of several pieces of legislation prior to the sequestration order on March 1, 2013, including the American Taxpayer Relief Act of 2012.³⁸ In addition, the Disaster Relief Appropriations Act, 2013, included \$12.1 billion for DHS that was to be included in the total amount subject to sequestration, pursuant to OMB guidance.³⁹

Further, DHS reported that guidance for determining PPAs subject to sequestration was unclear or conflicting. For example, the Consolidated and Further Continuing Appropriations Act, 2013 provided a new

³⁶In October 2013, DHS changed the name of the Balanced Workforce Program Management Office to the Office of Strategic Workforce Planning and Analysis.

³⁷The seven components that had anticipated furloughs were Departmental Management and Operations, Office of the Inspector General, U.S. Customs and Border Protection, the Transportation Security Administration, U.S. Secret Service, the Federal Law Enforcement Training Center, and the Domestic Nuclear Detection Office.

³⁸See Pub. L. No. 112-240, 126 Stat. 2313 (2013).

³⁹See Pub. L. No. 113-2, 127 Stat. 4. For the purposes of this product, we did not include this supplemental funding in our calculations of DHS's total budget authority for fiscal year 2013.

appropriation and PPA structure for CBP.⁴⁰ This change in PPA structure further complicated CBP's planning process. In addition, according to CBP budget officials, planning for and applying sequestration to fee accounts was difficult because CBP did not reach agreement with OMB on how these accounts would be affected by sequestration until August 2013. Regarding the guidance that DHS received from OMB, perceptions of the quality of this guidance differed within the department. In particular one departmental office reported concerns regarding the timeliness of sequestration-related guidance from OMB, due in part to the uncertainty of whether sequestration would happen. By contrast, officials from another departmental office noted that OMB guidance was timely and relatively clear given the evolving nature of sequestration.

Implementation

When sequestration was ordered on March 1, 2013, DHS took steps to determine what additional cuts could be made to absorb sequestration while still meeting the department's priorities. DHS directed its components to develop sequestration implementation plans which, among other things, ranked the components' proposed actions by priority, assessed the operational effect, proposed a mitigation plan, and determined whether the action could be applied in other components. In addition, DHS encouraged components to apply BWPMO's Workforce Planning Budget Modeling Guide to their implementation decisions. Although voluntary, DHS officials stated that components that used this plan were able to provide DHS leadership with consistent data, which aided in making decisions about implementing cuts. Further, BWPMO issued data calls to components seeking information on their planned efforts to implement sequestration throughout the remainder of fiscal year 2013.

DHS budget officials also reported that the department took the following personnel and operational actions to subsequently eliminate the need for furloughs: (1) reducing training; (2) reducing overtime; (3) canceling monetary awards; (4) rescoping or canceling contracts; (5) reducing travel; and, (6) rescoping or delaying planned maintenance and repairs. In addition, according to DHS many components limited hiring or implemented hiring freezes prior to and during fiscal year 2013. For example, the U.S. Secret Service prevented furloughs through a number of administrative steps including a hiring freeze.

Additionally, the enactment of the Consolidated and Further Continuing Appropriations Act, 2013 changed the total funding available to DHS.⁴¹ In the full-year appropriations DHS received more than it had anticipated based on its calculations using its continuing resolution appropriation level. Specifically, as of March 1, 2013, DHS anticipated receiving about \$43 billion in discretionary appropriations for fiscal year 2013.⁴² However, DHS's full-year 2013 appropriation was about \$46.6 billion in discretionary appropriations. As a result, the department received about \$3.5 billion more in fiscal year 2013 than anticipated.

While overall, the department received a greater full-year appropriation for fiscal year 2013, some accounts received less than the sequestration

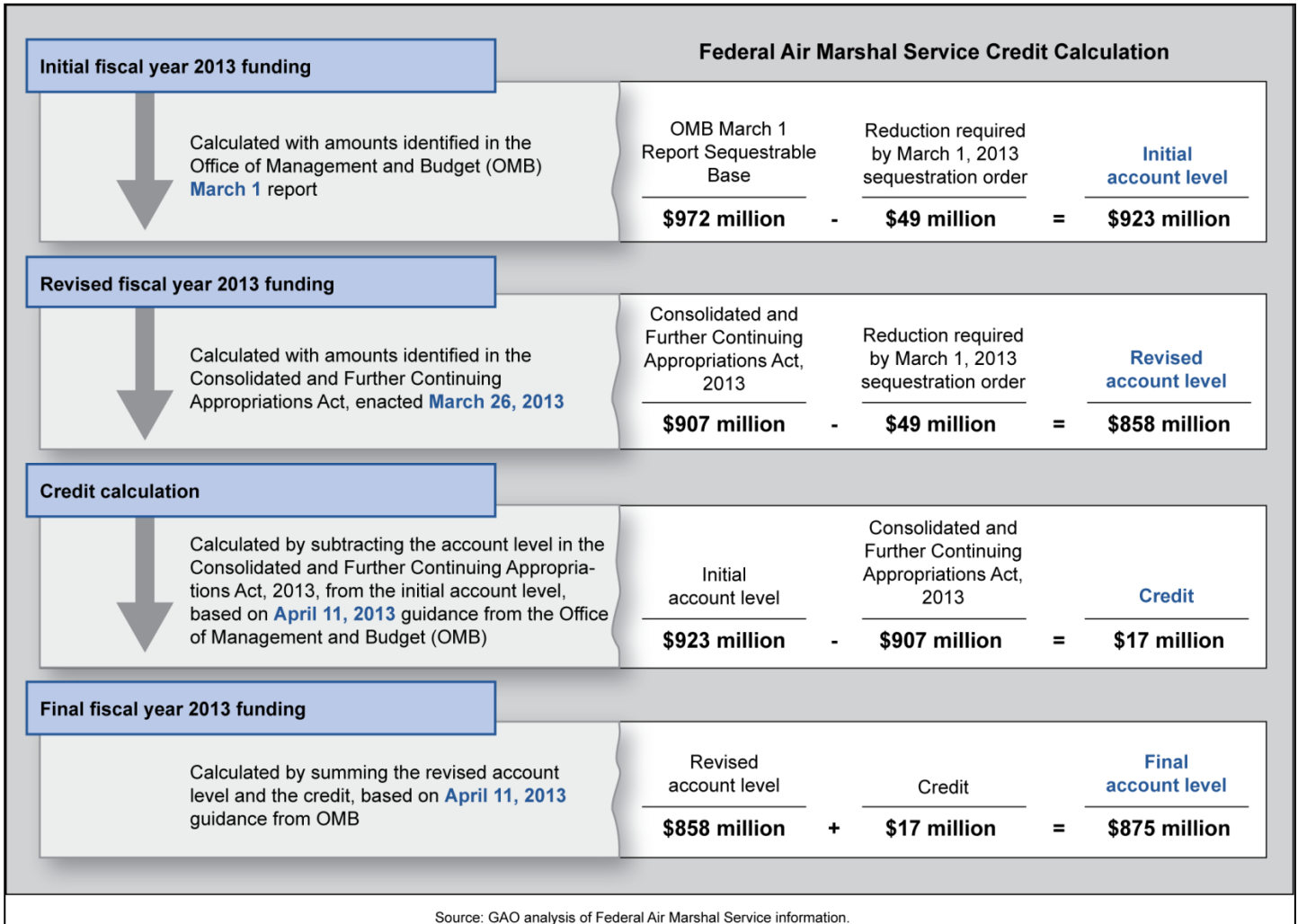
⁴⁰See Pub. L. No. 113-6, 127 Stat. 198.

⁴¹See id.

⁴²The anticipated discretionary appropriations do not include discretionary offsetting collections.

base levels in their full-year appropriations. In certain instances, DHS's full-year appropriation was less than the sequestration base minus the sequestered amount; consequently this produced "credits" within certain appropriations for DHS's use.⁴³ The total amount of credits produced in DHS accounts, as calculated per OMB guidance issued April 11, 2013, was about \$138 million. For example, the Federal Air Marshals Service (FAMS) within the Transportation Security Administration received a credit of \$17 million, which reduced the final reduction of the FAMS appropriation due to sequestration. See figure 11 for a detailed description of DHS's credit calculation for FAMS.

Figure 11: DHS's Credit Calculation for the Federal Air Marshals Service in Fiscal Year 2013



Note: Numbers above are displayed to the nearest million. Totals may not equal the sum of the numbers in each row due to rounding.

⁴³See 2 U.S.C. § 903(f).

In addition, pursuant to the requirements and procedures set forth in DHS's appropriations act, DHS transferred and reprogrammed funds to mitigate the effects of sequestration in fiscal year 2013. According to DHS documentation received through November 2013, in June and July 2013 DHS reprogrammed funds within 5 accounts and transferred additional funds from 29 accounts to 7 accounts. DHS budget officials explained that, as of August 2013, the department was still in a position to meet its performance goals as a result of its ability to reprogram and transfer funds in fiscal year 2013. Transfers from 8 of the 29 accounts used unobligated carryover balances, totaling about \$62 million. For example, at the recommendation of the House Committee on Appropriations, CBP transferred \$7 million in unobligated balances from its 2011 and 2012 Border Security Fencing Infrastructure and Technology accounts to its Salaries and Expenses account. These unobligated balances had been set aside for emerging requirements and pilot programs, but were used instead, along with a transfer from the DHS Office of Intelligence and Operations account, to maintain minimum numbers of Border Patrol agents and CBP officers. CBP was required to maintain 21,370 Border Patrol agents in the Consolidated and Further Continuing Appropriations Act, 2013 and directed to maintain 21,775 CBP officers in the explanatory statement accompanying that appropriations act.⁴⁴ In addition, DHS, in consultation with the Appropriations Committees, was able to increase its fee spending authority in 11 fee accounts, which were used for activities such as maintaining salaries, maintenance, and equipment costs.⁴⁵

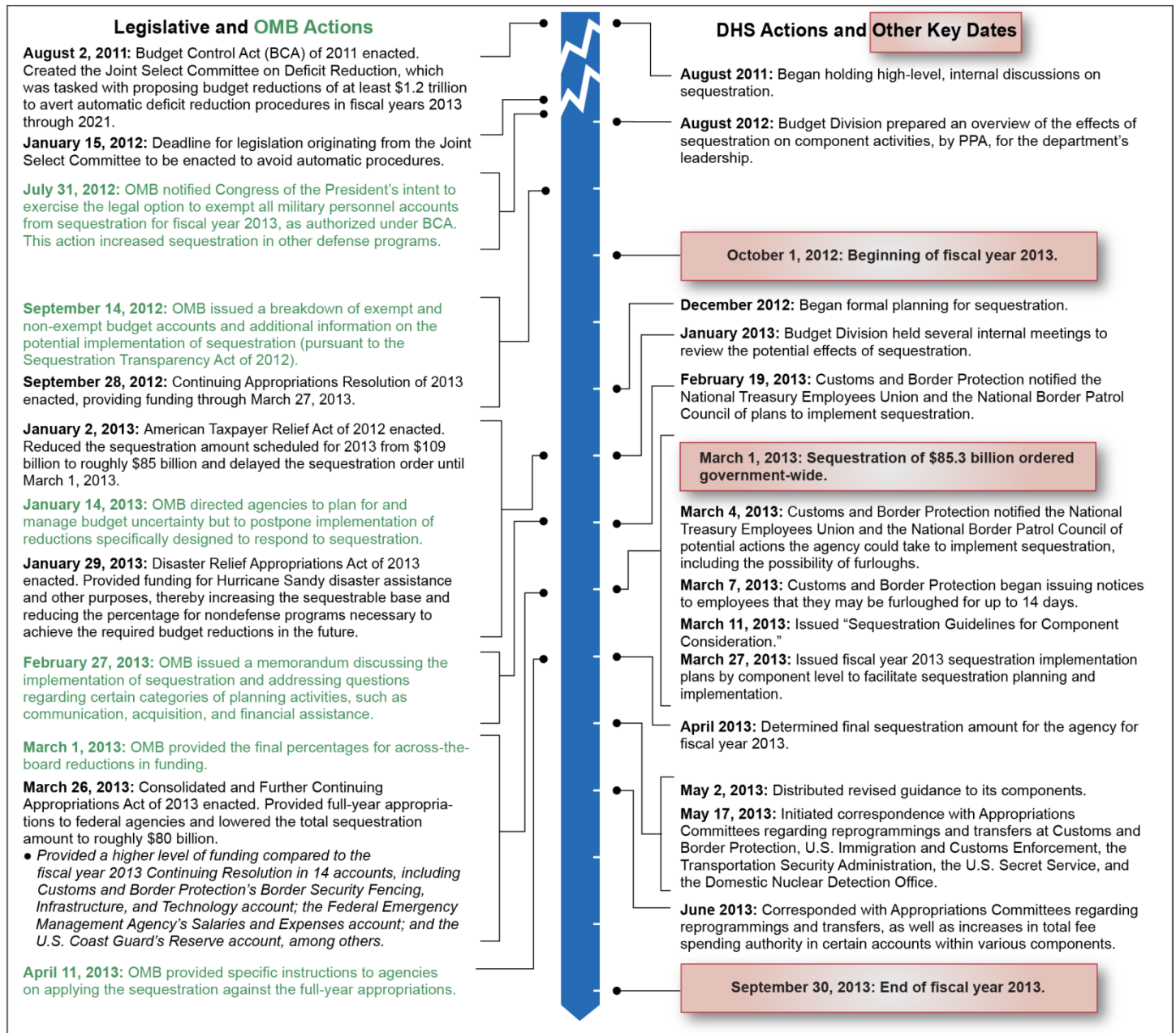
As a result of the personnel actions, operational actions, appropriations and credits, and budgetary actions discussed above, DHS determined that its components would not require furloughs to implement sequestration through the end of fiscal year 2013.

See figure 12 for a timeline of key events related to DHS's planning for and implementation of sequestration.

⁴⁴ Pub. L. No. 113-6, 127 Stat. 198, 345; explanatory statement of the Senate Committee on Appropriations on H.R. 933, accompanying the Consolidated and Further Continuing Appropriations Act, 2013, Pub. L. No. 113-6, 127 Stat. 198.

⁴⁵The increased fees included, for example, an increase of \$299.2 million for accounts such as CBP's Electronic System for Travel Authorization (\$5.1 million), Global Entry (\$36.5 million), and Land Border Inspection Fees (\$17.5 million), which CBP officials attributed to the rising popularity and expansion of CBP's Trusted Traveler programs.

Figure 12: Timeline of Fiscal Year 2013 Sequestration Planning and Implementation at the Department of Homeland Security



Source: GAO analysis of legislation, OMB guidance, and documentation from DHS.

Effects on Operations, Performance, or Services to the Public

According to DHS officials, some of the effects of sequestration in fiscal year 2013 were immediate, but most will be felt long term and are difficult to quantify.⁴⁶ For example, from fiscal years 2012 to 2013, the Coast Guard observed about a 29 percent reduction in the number of migrant interdictions at sea, a 24 percent reduction in the total pounds of drugs removed, and about 6,000 fewer vessels boarded and inspected. In addition, the DHS Budget Office reported that with a \$295 million reduction in funding for U.S. Immigration and Customs Enforcement (ICE), the component had to implement reductions in training, contracts, and other operating expenses to meet ICE's legislatively mandated level of beds for 34,000 detainees in fiscal year 2013.⁴⁷

In addition, DHS reported that amounts available for several types of grants within the Homeland Security Grant Program were decreased in fiscal year 2013. This grant program is managed by the Federal Emergency Management Agency (FEMA) to support its core mission capabilities of prevention, protection, mitigation, response, and recovery. Among the funding reductions, the Port Security Grant Program reduced the amount of grant funding available by about 4 percent from \$97.5 million in fiscal year 2012 to \$93.2 million in fiscal year 2013.⁴⁸ In addition, the Intercity Passenger Rail (Amtrak) Grant program reduced the amount of grant funding available by about 5 percent from \$10 million in fiscal year 2012 to \$9.5 million in fiscal year 2013.⁴⁹ According to FEMA Grant Programs Directorate officials, sequestration cuts to its Homeland Security Grant Program were absorbed by offering fewer recipients grant funding through this program in fiscal year 2013.

Further, an official from CBP's Office of Training and Development stated that, in response to sequestration CBP canceled training classes in fiscal year 2013, including those related to detecting potential terrorists and high-risk air cargo, identifying weapons of mass effect in the land border environment, and managing critical incident response.⁵⁰ BWPMO officials noted that the effect of canceled training classes may not be felt for several years. For example, these officials expressed concerns about how effectively the workforce will be able to respond to future mission critical needs.

In addition, according to DHS budget officials, the department will have fewer options to mitigate future potential budget cuts than it had in fiscal year 2013. For example, more than one-third of the funds transferred in

⁴⁶In our communication with DHS, the department provided examples of the effects of sequestration. However, we recognize that other factors could also contribute to budget uncertainty and affect agency operations, performance, and services to the public.

⁴⁷See Pub. L. No. 113-6, 127 Stat. 198, 347. To maintain the mandated level of beds for detainees, ICE also transferred and reprogrammed funds in fiscal year 2013. The Consolidated Appropriations Act, 2014 extends the 34,000 detention bed requirement through September 30, 2014. Pub. L. No. 113-76, 128 Stat. 5, 251.

⁴⁸The Port Security Grant Program supports maritime transportation infrastructure and strengthens the nation's critical infrastructure against risks associated with potential terrorist attacks.

⁴⁹The Intercity Passenger Rail Grant Program is intended to create a sustainable, risk-based effort to protect critical surface transportation infrastructure and the traveling public from acts of terrorism, major disasters, and other emergencies within the Amtrak rail system.

⁵⁰According to the Acting Director of CBP's Office of Training and Development, CBP planned to conduct these training classes in fiscal year 2014.

fiscal year 2013 were unobligated carryover balances; however, according to DHS, available unobligated balances have been substantially depleted. Further, BWPMO officials cautioned that the personnel actions taken in fiscal year 2013 to address sequestration may not be possible solutions for a continued sequestered budget. For example, they said that DHS will not be able to further reduce employee awards or hiring because employee awards are canceled and a hiring freeze is already in place within many components. This leaves the department with limited options as it relates to personnel actions, such as furloughing employees or implementing a reduction in force. According to DHS documentation, the cumulative effect of multiple years of hiring freezes and increased overtime costs compromises front-line operations because, for example, mission personnel are pulled off the front line to conduct support functions. DHS also reported concerns about the long-term effects on morale of asking fewer staff to complete the same amount of work.

Agency Comments

DHS reviewed a draft of this report and provided technical comments, which we incorporated as appropriate.

GAO Contact

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Mission and Budget Overview

Mission

HUD administers various programs to assist families with access to affordable housing through grants, direct loans, loan guarantees, rental subsidies, and funding for public housing.

2013 Funding Prior to Sequestration

HUD received a total of \$106 billion in funding for fiscal year 2013, including \$60 billion in discretionary appropriations and \$46 billion in direct spending. After Hurricane Sandy, HUD was provided \$16 billion as supplemental funding for disaster assistance. The Mutual Mortgage Insurance Fund administered by the Federal Housing Administration and the Ginnie Mae mortgage-backed securities guarantee program are primarily funded by premiums or fees.

Sequestered Amount

The sequestered amount was \$3 billion, nearly all of which was discretionary appropriations. Nearly all of HUD's \$46 billion in direct spending was exempt from sequestration. This includes premiums and fees collected for the Federal Housing Administration's Mutual Mortgage Insurance Fund and Ginnie Mae's mortgage-backed securities guarantee program. However, the salaries and expenses accounts for these programs were subject to sequestration. In addition, \$253 million in discretionary funding used for the HUD-Veterans Affairs Supportive Housing rental assistance program was exempt from sequestration.

(Continued on following page.)

Department of Housing and Urban Development

The Department of Housing and Urban Development (HUD) reported taking personnel actions to implement sequestration that included freezing hiring, furloughing most employees for 5 days, and reducing overtime. Sequestration reduced the funding for housing, community development, and rental assistance programs that are administered by state and municipal agencies, including public housing agencies (PHA). The funding reduction resulted in fewer services and benefits provided. For example, HUD estimates that PHAs provided rental assistance benefits to about 42,000 fewer very low-income households in 2013. HUD's loan guarantee program administered by the Federal Housing Administration and the Government National Mortgage Association (Ginnie Mae) mortgage-backed securities guarantee program were mostly unaffected by sequestration because their credit financing program accounts were not sequestered.

Planning

While HUD took steps to restrict spending from the beginning of fiscal year 2013, including limiting hiring, HUD began specific planning for sequestration in January 2013 when a committee of senior officials was assembled to evaluate the effect of sequestration on programs and employees. HUD officials told us the committee focused their planning efforts on personnel actions because it had transfer and reprogramming options for its salaries and expenses accounts. HUD officials told us they had few available options for implementing sequestration for some of HUD's largest programs, such as housing vouchers and grants, because of reprogramming and transfer limitations or restrictions on these accounts and because much of the funding in these accounts is passed through to intermediaries or beneficiaries. HUD also developed an operating plan to execute its budget under sequestration. HUD officials told us that their goal in planning for personnel actions was to balance the needs of employees with the effects on HUD's operations.

HUD officials told us that delays in determining the final sequestration percentage that would apply to their budget made planning more challenging. The officials said that the late implementation of sequestration also limited their options for potential actions, noting that if sequestration had occurred earlier in the fiscal year, they might have been better able to mitigate its effects, such as reducing the number of furlough days for employees by beginning a hiring freeze earlier.

Implementation

HUD reported taking a variety of personnel actions to achieve the required reductions in its salaries and expenses accounts. These included a general hiring freeze, furloughs, reduced overtime, and cancellation of monetary awards. According to HUD officials, the hiring freeze, begun in March 2013, resulted in the greatest savings to the agency by reducing personnel costs by \$34 million. In addition, HUD officials told us the agency reduced employee training, travel, contracts, and other

Programs, Projects, and Activities (PPA)

Sequestration applied to 63 PPAs within 30 budget accounts. HUD has separate PPAs for program funding, such as housing vouchers and grants, and for personnel and other costs, including salaries, expenses, administration, operations, and management.

Transfer Authority

In fiscal year 2013, HUD had general statutory authorization to transfer appropriations among accounts for administration, operations, and management, and also among accounts for program office salaries and expenses, although HUD had certain restrictions if any account was increased or decreased by more than 5 percent or \$5 million, whichever is less. HUD could also transfer between these account groups, with certain restrictions. In addition, HUD had specific authority for several transfers, including transfers of certain amounts from its Mutual Mortgage Insurance Program account and salaries and expenses accounts to its Working Capital Fund and, subject to certain restrictions, transfers between multifamily housing projects.

Reprogramming Limitations

HUD may reprogram funds within an account; however, in fiscal year 2013, funds could not be reprogrammed for certain purposes, such as creating a new program, augmenting an existing PPA in excess of \$5 million or 10 percent, whichever was less, or reducing by \$5 million or 10 percent an existing PPA, among other things, unless HUD met certain requirements. HUD can also reprogram funds in its Lead Hazard Reduction account if a program funded by the account was undersubscribed.

Other Funding Flexibilities

In fiscal year 2013, subject to certain restrictions, HUD could carry over as much as 50 percent of unobligated balances from salaries and expenses accounts from the previous fiscal year. HUD also could use unobligated balances, including carryovers and recaptures (funds

nonpersonnel services, including spending on building services such as consolidation of parking contracts and reduction of mail room services.

HUD furloughed most of the agency's approximately 8,800 employees for 5 days, achieving a savings of \$19 million. Some employees were not furloughed, including, among others, employees within the Office of the Inspector General and employees of Ginnie Mae, a wholly-owned government corporation and unit of HUD that guarantees mortgage-backed securities. HUD officials said that Ginnie Mae did not need to furlough employees because it had enough open staffing positions that it could implement sequestration by not hiring to fill the positions and through other actions. HUD officials told us HUD does not have authority to transfer funds to or from Ginnie Mae's salaries and expenses account.

In implementing furloughs, HUD officials said they decided to treat employees equally by furloughing all employees for the same number of days. The agency also achieved some limited cost savings by furloughing all employees on the same days, so that it could close offices. HUD transferred funds between its Program Office Salaries and Expenses account and its Administration, Operations, and Management account to furlough all employees for the same number of days.

HUD notified the unions that represent its employees on February 26, 2013, of its intent to furlough employees for up to 7 days, and the first furlough day was May 24, 2013. In August 2013 HUD reduced the furlough days to 5 through an additional transfer of funds between its Program Office Salaries and Expenses account and its Administration, Operations, and Management account and by using funds it had planned to use to reorganize its Office of Multifamily Housing Programs and to close 16 of its 80 field offices. However, HUD officials said that they were later able to fund some of the field office closures in part by using \$1.7 million in unobligated fiscal year 2012 salaries and expenses funding.⁵¹ HUD did not begin the reorganization of its Office of Multifamily Housing Programs in fiscal year 2013.⁵² HUD's last furlough day was August 2, 2013. HUD officials told us they would have liked to have taken more strategic, long-term actions such as employee buyouts and changing field office leases that would lower their administration, operation, and personnel costs in the future. However, HUD officials generally chose not to take these actions because they would have entailed certain costs (such as buy-out payments to individual employees and penalties for early lease terminations) that likely would have necessitated additional furlough days.

For PPAs that fund HUD programs, HUD officials told us that generally the funding cuts were directly passed on to HUD partners that administer HUD programs or grantees. For example, HUD's Housing Choice Voucher Program provides funds to allow state, county, and municipal PHAs to make rental housing assistance payments to landlords on behalf of very low-income families, the elderly, and the disabled. Sequestration reduced funding for these payments from \$17.5 billion to \$16.6 billion and reduced funding available for PHAs to administer the program from \$1.37 billion to \$1.31 billion. PHAs also received lower operating subsidies and grants for

⁵¹HUD estimated these closures will lead to annual savings in future years of between \$9 million and \$10 million.

⁵²HUD estimated that the reorganization will save approximately \$60 million annually when completed and will help the office better serve its customers and stakeholders, operate more efficiently, and improve its risk management.

variety of reasons), subject to certain limitations, in its tenant-based rental assistance, project-based rental assistance, and Housing Certificate Fund PPAs.

For information on the objectives, scope, and methodology, see [appendix I](#). For a detailed glossary of budget terms, see [appendix V](#).

developing, financing, and modernizing public housing.⁵³ HUD officials told us that the PHAs had some flexibility in implementing the budget cuts, particularly for rental housing assistance, and some PHAs could draw on reserves accumulated in prior years to reduce the effect of the funding cuts. However, PHAs' reserves had been reduced by \$650 million for rental housing vouchers and by \$750 million for public housing operations in fiscal year 2012 due to reductions in funding in HUD's fiscal year 2012 appropriation.⁵⁴ Consequently, to the extent a PHA depleted its reserves in fiscal year 2013, the PHA will have to absorb any future funding cuts without the reserve funds. HUD provided extra funding from a \$103 million set-aside to PHAs whose reserves were not sufficient to enable them to avoid terminating rental housing vouchers for families already participating in the program.⁵⁵ HUD used \$83 million of the set-aside for this purpose, which was sufficient to prevent voucher terminations in 2013. HUD officials told us the remainder of the set-aside will be used for other purposes in 2014.

Sequestration reduced funding for HUD's project-based housing assistance program, through which HUD makes payments to owners of multifamily rental housing on behalf of about 1.2 million low- and very low-income households. Available funding to renew contracts for this program decreased from \$9 billion to \$8.6 billion. To reduce the effect of sequestration on this program, HUD "short-funded" about 8,000 contracts, representing about 49 percent of all housing units funded. That is, the agency shifted the cost of renewing contracts that span fiscal years to fiscal year 2014, allowing HUD to avoid having contracts expire. On average, HUD shifted the costs by about 3.5 months. According to HUD officials, without additional funding in future years, HUD may exhaust its capacity to short fund, and then would need to allow some contracts to expire, putting some occupants at risk of homelessness.

Sequestration also reduced funding for most other HUD programs, including

- Community Development Block Grants (CDBG) to states and localities to meet community development needs,
- Homeless Assistance Grants to address homelessness,
- HOME Investment Partnerships grants to states and localities to create affordable housing for low-income families, and
- Housing Counseling grants to organizations that provide foreclosure prevention, pre-purchase, rental, or homeless counseling.

⁵³A 2010 report commissioned by HUD estimated that the capital need to make HUD's public housing decent and economically sustainable, based on inspections of 548 properties in 140 housing authorities, was \$25.6 billion. Abt Associates, Inc., *Capital Needs in the Public Housing Program*, a report prepared for the Department of Housing and Urban Development, November 24, 2010.

⁵⁴PHA reserves for rental housing vouchers were generally reduced to about 1 month of expenses, and PHA reserves for public housing operations were generally reduced to 4 months of expenses for PHAs with 250 or more public housing units and to 6 months of expenses for PHAs with less than 250 units.

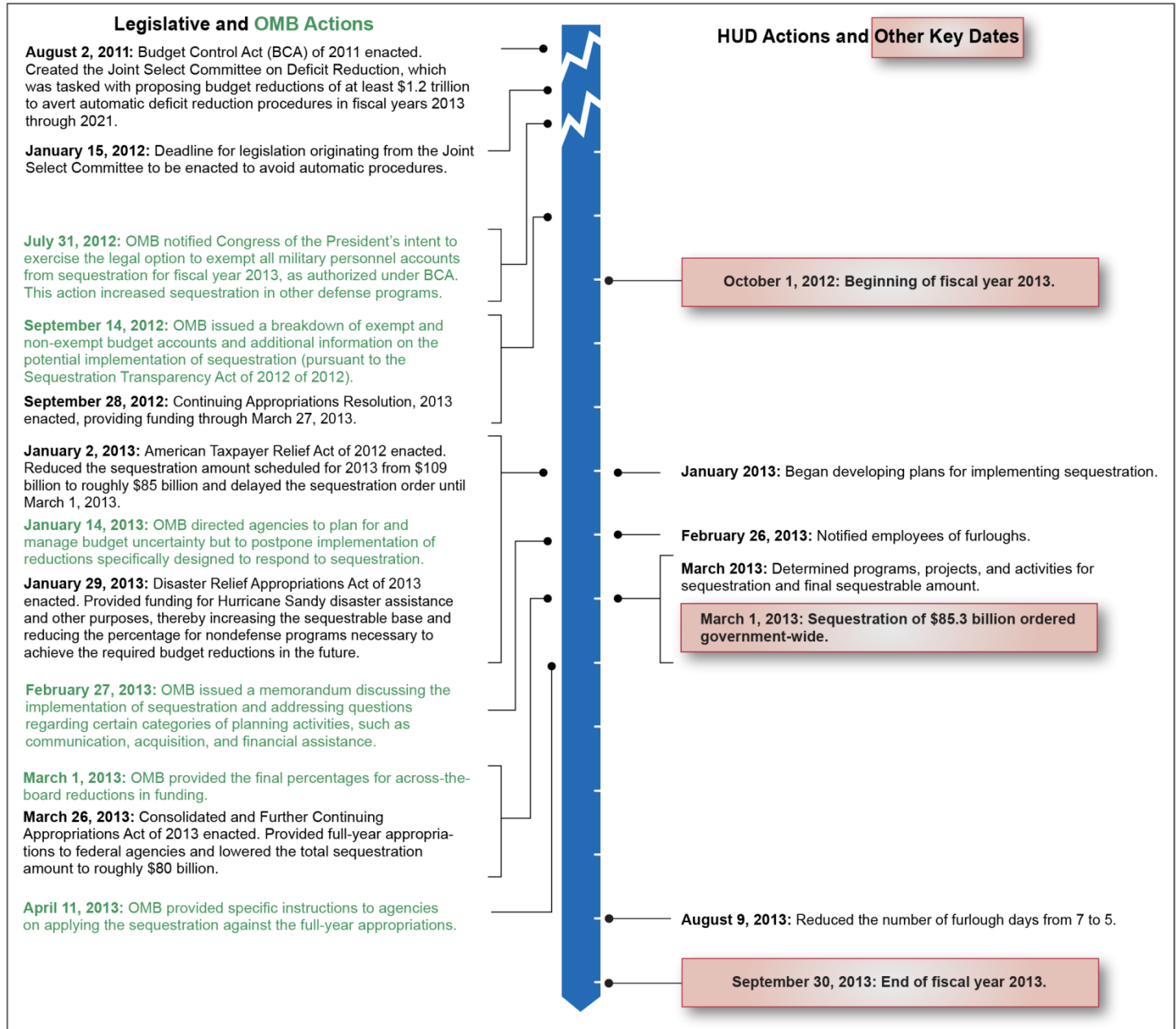
⁵⁵As part of HUD's fiscal year 2013 appropriation for the Housing Choice Voucher program, \$103 million was provided as a set-aside that HUD could allocate among four specified purposes. HUD chose to prioritize providing funding to PHAs that would otherwise be required to terminate participating families from the program due to insufficient funds, and HUD anticipates that nearly all of the set-aside will be used for this purpose.

The Mutual Mortgage Insurance Fund, administered by the Federal Housing Administration, and the Ginnie Mae mortgage-backed securities guarantee program were mostly unaffected because these programs are funded through federal credit program financing accounts, which were not sequestered.⁵⁶ However, the salaries and expenses accounts for these programs were subject to sequestration. As a result, Federal Housing Administration employees were furloughed for 5 days like most other HUD employees. As noted above, Ginnie Mae did not furlough its employees.

See figure 13 for a timeline of key events in HUD's planning for and implementation of sequestration.

⁵⁶Credit financing accounts are non-budgetary accounts, and therefore are not sequestrable accounts for purposes of BBEDCA.

Figure 13: Timeline of Fiscal Year 2013 Sequestration Planning and Implementation at the Department of Housing and Urban Development



Source: GAO analysis of legislation, OMB guidance, and documentation from HUD.

Effects on Operations, Performance, or Services to the Public

HUD's rental assistance programs had the largest dollar amount sequestered, and these cuts likely will cause the most difficulties for families, according to HUD officials. HUD estimates that the total number of very low-income households that received rental housing assistance through the Housing Choice Voucher program at the end of calendar year 2013 was about 42,000 (2.2 percent) lower than at the end of calendar year 2012, primarily due to sequestration.⁵⁷ HUD officials told us that PHAs generally used attrition to reduce the number of individuals and families who received assistance through the program, rather than terminating vouchers of current recipients.

HUD officials reported that reduced funding for PHAs to operate and make capital repairs to public housing could lead to long-term effects, including depleted PHA reserves as well as deteriorating living conditions and increased utility costs for the 1.1 million low-income households residing in public housing. HUD monitors the financial condition of PHAs as part of its oversight responsibilities and will continue to do so to determine sequestration's effect on PHAs' financial condition.

HUD estimates that sequestration's cuts to Homeless Assistance Grants will lead to states and localities removing 60,000 formerly homeless persons from housing and emergency shelter programs, putting them at risk of returning to the streets. HUD officials told us that this estimate was based on the amount of funding sequestered and the average cost per person served by these grants, because initial data on the number of persons served will not be available until after the grants from fiscal year 2013 funding are disbursed in 2014. HUD reduced its initial estimate of 100,000 persons to this level because HUD ultimately received about \$100 million more in appropriations for Homeless Assistance Grants.⁵⁸

HUD officials reported that cuts to CDBG reduced funding for public services, facilities, and infrastructure improvements in numerous communities. In addition, HUD anticipated that the reductions will also result in lower other governmental or private investment in these communities. However, even after sequestration CDBG grantees received more funding in fiscal year 2013 than they had a year earlier, when HUD used \$400 million of CDBG funding for disaster relief.

HUD's supplemental funding for disaster recovery assistance through its CDBG program was reduced from \$16 billion to \$15.2 billion by sequestration. As of September 30, 2013, HUD had allocated about \$6 billion of this amount, leaving about \$9.2 billion available to address long-term recovery needs for disasters in 2011 through 2013. HUD officials

⁵⁷This estimate is based on data reported by PHAs. This estimate excludes 35 PHAs (1.5 percent of PHAs that administer vouchers), accounting for 12 percent of vouchers, that have additional flexibility in how they spend their funding through the Moving to Work demonstration program because they can change the proportion of funding that they allocate to vouchers over time. Because the Housing Choice Voucher program operates on a calendar-year basis, the final number of individuals and families served by this program was not available from HUD in time for this report. HUD officials told us that because some of the funding for the program could only be used for new special-purpose vouchers, the decline in renewal vouchers was larger than 42,000.

⁵⁸HUD's final fiscal year 2013 appropriation in the Consolidated and Further Appropriations Act of, 2013 for homeless assistance grants was \$2.03 billion before accounting for sequestration, which is about \$100 million higher than it would have been had its appropriation been based on the fiscal year 2012 level.

said they have begun the process of determining additional allocations in response to Hurricane Sandy and other events.

Finally, HUD estimated that the reductions to Housing Counseling grants have resulted in 75,000 fewer households receiving counseling on their finances and housing choices and improving their housing conditions.

Agency Comments

We provided a draft of this report to HUD. HUD provided technical comments, which we incorporated as appropriate.

GAO Contact

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Mission and Budget Overview

Mission

Interior is the steward of the nation's land and natural resources, managing more than 500 million acres of federal lands, including 401 national park units, 561 wildlife refuges, and vast amounts of multiple use lands. Interior also provides access to onshore and offshore public lands for the development of natural resources, which generate significant federal revenues from royalties, rents, and bonuses from mineral, timber, and other natural resource development activities. Interior allocates billions in revenue payments to state, tribal, and county governments for Interior-related activities that occur within their borders and supports ongoing partnerships with states and other entities for sport fish restoration, migratory bird conservation, and other activities through grant programs.

2013 Funding Prior to Sequestration

Interior received a total of \$21.3 billion for fiscal year 2013, including \$12.7 billion in discretionary appropriations and \$8.6 billion in direct spending. Interior also received \$829.2 million in supplemental appropriations related to Hurricane Sandy.

Sequestered Amount

Approximately \$856.2 million was sequestered—\$626.8 million in discretionary appropriations and \$229.4 million in direct spending. These amounts excluded some funding used to support such activities as Indian water rights acquisitions and certain payments to U.S. territories in accordance with the Balanced Budget and

(Continued on following page)

U.S. Department of the Interior

Department of the Interior (Interior) officials reported sequestration affected Interior's ability to manage the nation's natural resources in fiscal year 2013. Interior officials said they faced challenges in planning for sequestration, such as limited flexibility and knowledge of how to apply the reductions. Interior took a number of actions to help mitigate the effect of sequestration, including utilizing carryover balances and reprogramming funds. Still, Interior found it necessary to institute a department-wide hiring freeze among other actions to implement sequestration. Interior officials stated that the hiring freeze adversely affected the department's ability to hire seasonal employees who are critical to conducting field work activities, such as monitoring and data collection, during the summer—the most active period for Interior's major land management bureaus and offices. Interior officials stated that the effects of sequestration on natural resources due to Interior's inability to perform field activities may take years to materialize. In addition, Interior officials said that sequestration led to reduced fiscal year 2013 revenues from fees paid for federal land use. For example, Interior postponed certain oil and natural gas lease sales because it did not have adequate staff to devote to processing new leases. Sequestration also delayed royalty payments to a number of states for mineral activities conducted on federal lands within their borders.

Planning

According to an Interior sequestration planning document, in December 2012, Interior instructed its bureaus and offices to identify program areas where funding reductions would pose the most significant challenges. The document further indicated that, in January 2013, Interior directed its bureaus and offices to conduct detailed planning to determine the immediate actions needed to preserve ongoing mission critical activities and to minimize significant effects of sequestration. Interior's bureaus and offices developed plans for absorbing any budget reductions as a result of sequestration using two scenarios. The Interior planning document indicated that the first scenario assumed an across-the-board cut with no flexibility to use carryover balances or reallocate funding to mitigate effects on programs or staff. Under the first scenario, approximately 20,561 permanent and 4,685 seasonal employees would be furloughed for between 6 and 62 days and 5 and 45 days, respectively. The second scenario gave bureaus and offices the flexibility to mitigate effects on critical mission programs and staff by taking all possible discretionary actions, such as using carryover balances and existing reprogramming authorities. Under the second scenario, the number of potential furloughs was reduced to 8,507 permanent and 556 seasonal employees for between 5 and 19 days and 12 and 19 days, respectively.

Emergency Deficit Control Act of 1985, as amended. In addition, nearly \$42.5 million in supplemental funding related to Hurricane Sandy was sequestered.

Programs, Projects, and Activities (PPA)

Sequestration applied to 546 PPAs within 84 accounts throughout the department's bureaus and offices. Interior's PPAs reflected the wide range of efforts the department conducts across the country. Interior's PPAs also encompassed grants made to states for conservation efforts as well as direct payments to state, tribal, and county governments for activities conducted on federal lands within their borders.

Transfer Authority

Interior is authorized to transfer no-year appropriations (i.e., appropriations that are available for obligations for an indefinite period of time) department-wide only for wildland fire response and other emergency purposes. Funding used under this emergency authority must be replenished by a supplemental appropriation and must be requested by Interior as promptly as possible. Interior also has limited transfer authority to move funding between appropriated accounts for the purposes of implementing the reorganization of the Minerals Management Service.

Reprogramming Limitations

Under applicable reprogramming guidelines, Interior may generally reprogram up to \$1 million, or 10 percent, without notifying the Appropriations Committees.

For information on the objectives, scope, and methodology, see [appendix I](#). For a detailed glossary of budget terms, see [appendix V](#).

Interior officials stated the department relied heavily on OMB guidance to provide the technical assumptions used in its planning process and conducted the process in a manner that was consistent with Interior's principles of preserving its most important responsibilities and providing for the protection of life, health, and safety. The department also sought to ensure that its actions in response to sequestration preserved critical mission activities as well as maintained long-term mission capabilities and effective operations.

Interior officials cited several challenges in planning for sequestration.

- **Limited expertise.** According to Interior officials, Interior had little institutional knowledge about how to implement sequestration. Consequently, initial planning efforts were iterative and required extensive coordination as program and budget officials interpreted and clarified sequestration requirements in applying reductions to PPAs that were subject to sequestration.
- **Limited flexibility.** Interior officials stated that, because sequestration reductions were to be applied as across-the-board reductions at the PPA level, they had limited flexibility to strategically reallocate or discontinue activities. Interior officials stated this limited flexibility presented greater challenges for some of Interior's PPAs that primarily fund salaries—for example, the U.S. Park Police and the Office of the Inspector General—and have virtually no funding flexibility. Interior officials said these PPAs were more likely to experience staffing reductions or furloughs. Interior officials further reported that while some program activities could be delayed in response to sequestration cuts, others could not be deferred, such as efforts pertaining to wildland fire suppression. The department executed emergency transfers to fully fund suppression needs in 2013 due to sequestration-reduced funding levels. However, Interior reported that it has no general transfer authority to move funds between appropriated accounts. The lack of such authority limited Interior's flexibility to execute the sequestration reductions. In addition, Interior officials said the department does not consistently have large carryover balances or other funding flexibilities, which are useful for managing budget reductions over the long term.
- **Complex budget and decentralized organizational structure.** According to Interior officials, efforts to predict and communicate the potential effects of sequestration proved to be challenging because of Interior's complex budget process as well as its decentralized organizational structure and dispersed decision-making processes. Consequently, estimates of potential effects and furloughs were being modified throughout the fiscal year. Interior officials said direct spending accounts were particularly challenging because the actual amounts subject to sequestration varied and would not be known until the end of the fiscal year.
- **Timing of sequestration.** Officials stated that because sequestration took place in the middle of the fiscal year, the department was unable to take advantage of opportunities to mitigate some of the effects of sequestration at the start of the year. For example, Interior officials said the department might not have entered into new contracts or might have postponed costly maintenance repairs if sequestration occurred earlier in the fiscal year. However, because sequestration

occurred when it did, the department lost some of its ability to make more strategic planning decisions.

- **Complex programs.** Interior officials stated the complex nature of many Interior programs made planning for sequestration challenging. For example, Interior had particular difficulty planning for those programs that involve revenue sharing or are based on fees because a formula is typically used to determine allocations, and each program's formula, which is generally dictated by statute, is different. For revenue-sharing programs, Interior had to identify the sequestered amount based on actual payments made each month. As a result, it was very labor intensive to collect the necessary information and interpret the sequestration requirements for these programs. Moreover, because the actual revenues associated with many of these programs are not known until the end of the fiscal year, the sequestered amounts determined during the planning phase of sequestration changed. Interior officials stated planning was further complicated by the fact that the department needed to undertake a legal review for each of these programs to ensure its actions were consistent with the programs' authorizing legislation

Implementation

According to information provided by Interior officials, to implement sequestration, Interior took a wide range of actions, including the following:

- **Personnel actions.** Interior furloughed staff, instituted a department-wide hiring freeze, reduced overtime, offered voluntary early retirements and separation incentive payments to staff, and significantly reduced monetary awards. Interior officials stated the hiring freeze—along with the limited use of unobligated carryover balances, cuts in discretionary contracts and financial assistance, and other cost-cutting measures—allowed the department to avoid furloughs on the magnitude it initially expected. For example, an early Interior planning document indicated that the department could possibly furlough approximately 8,507 permanent and 556 seasonal employees across its bureaus and offices. Interior ultimately furloughed only 766 employees from the U.S. Park Police for 3 days, an estimated savings of \$827,000 according to the department.
- **Contracting actions.** Interior rescoped or delayed contracts for environmental studies and facilities and building services as well as program management and support services. Interior also rescoped or eliminated some planned maintenance, including maintenance at national parks.
- **Other actions.** Interior reduced employee training and travel, renegotiated or delayed new grants and leases, and eliminated some financial agreements with states and nongovernmental organizations for partner projects, including youth programs—a priority goal for the department.

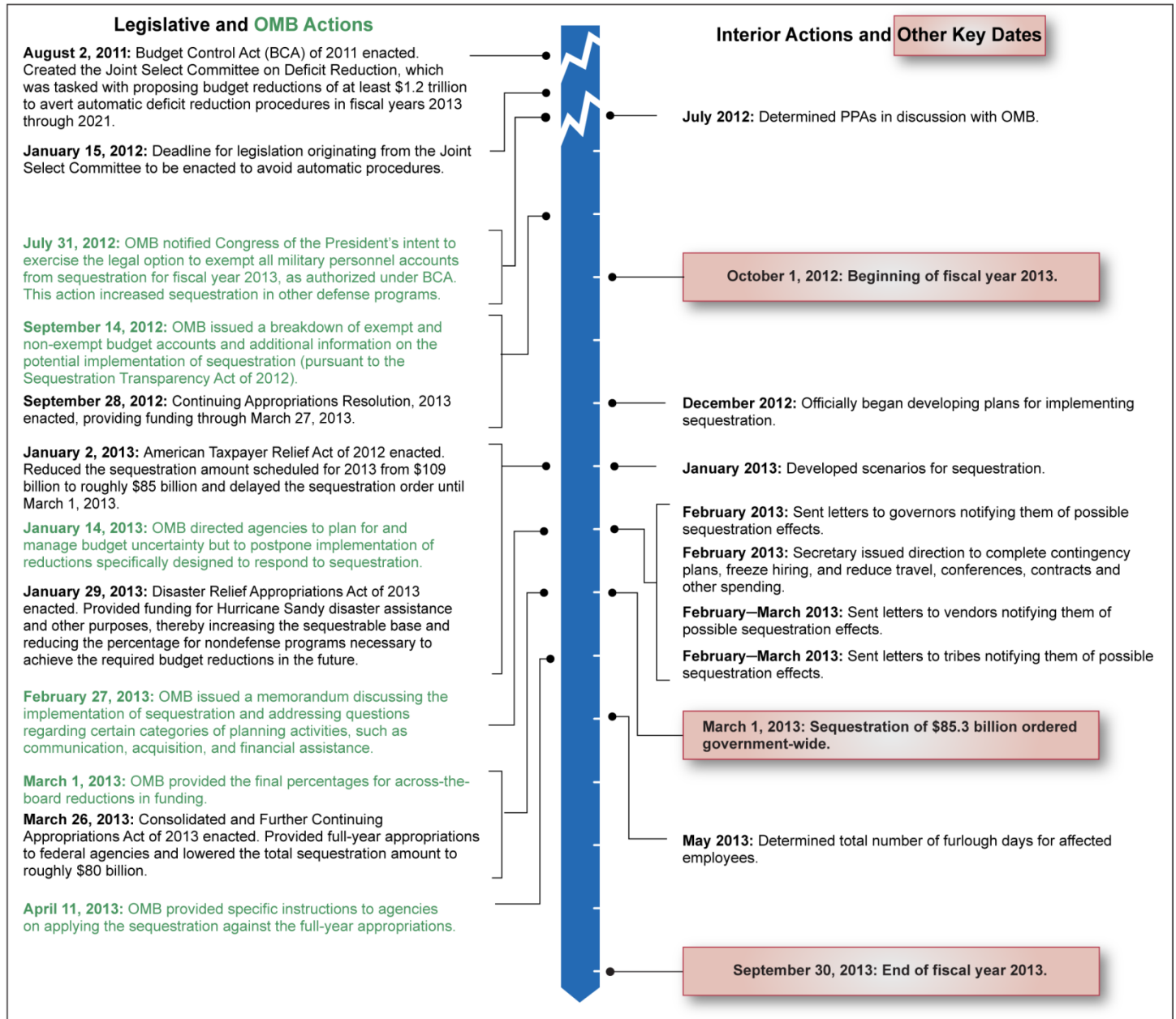
According to department officials, Interior reprogrammed funds on a very limited scale to avoid significant interruptions for certain programs. Interior officials stated funds were primarily reprogrammed from maintenance and operating accounts within the bureaus and offices to maintain critical mission capabilities (many of which require stable personnel levels). For example, the Fish and Wildlife Service reprogrammed funds from its

maintenance and operations account to support its national fish hatcheries program to prevent significant fish loss. Similarly, the National Park Service reprogrammed funds from its maintenance and operations account to maintain mission requirements for U.S. Park Police. Interior officials stated that in general the department views all of its programs as equally important in accomplishing its mission.

Interior officials also credited efforts to reduce costs and generate efficiencies, including those initiated under the Campaign to Cut Waste (an initiative by the Executive Office to make federal agencies more efficient by eliminating program waste and inefficiencies), in helping the department reduce adverse effects of sequestration. For example, Interior officials said the department had already begun efforts under the initiative to reduce travel costs. Officials also noted that Interior's bureaus and offices were being prudent while operating for the first half of fiscal year 2013 under a continuing resolution by taking action based on anticipated budget reductions to constrain spending. Thus, they said the department was already focused on strategies to achieve savings to mitigate the adverse effects of sequestration on its mission critical areas.

See figure 14 for a timeline of key events in Interior's planning for and implementation of sequestration.

Figure 14: Timeline of Fiscal Year 2013 Sequestration Planning and Implementation at the Department of the Interior



Source: GAO analysis of legislation, OMB guidance, and information from Interior officials.

Interior officials stated a critical lesson learned by the department in implementing sequestration was the need to plan early, thus allowing bureaus and offices the flexibility to prioritize core mission requirements while making strategic decisions about programs. The officials further noted that the department now has a better perspective on sequestration requirements and the potential effects on Interior's programs. They said the department does not plan to alter its current budget process as a result of sequestration, but that officials are more mindful of how to prepare for and respond to future reductions should they occur. Interior officials stated the department's essential activities would be at greater risk in the event of a subsequent sequestration because they have used all the available discretion to take actions that would have a lesser effect.

Effects on Operations, Performance, or Services to the Public

Interior officials stated sequestration affected the department's ability to manage the nation's public lands and resources in a variety of ways. The officials said that some effects of sequestration are more readily apparent, such as reduced visitor services at national parks or maintenance at wildlife refuges, reduced control of invasive species, and cuts in science and data collection. Other effects may not be known for years, such as the long-term effects on natural resources because Interior did not have the capacity to conduct necessary field work. Seasonal hiring, which is a significant component of Interior's workforce, was disrupted by sequestration as was the summer field work season when Interior bureaus and offices conduct most of their monitoring, research, and data collection. Interior officials also cited the long-term effects associated with eliminating training. According to the officials, the elimination of training in fiscal year 2013 will affect the ability of the department to maintain important skills and will jeopardize programs as current employees retire.

Interior officials stated the hiring freeze in response to sequestration affected Interior's efforts to meet its high-priority goal of hiring more youths. Officials said youth hires—individuals between the ages of 15 and 25—play an important role in supporting the department's mission of natural and cultural resource management. Among other things, youth hires assist career-level staff in managing, interpreting, monitoring, and maintaining cultural and natural resources, which provide training opportunities for those interested in future careers with the department. According to information on Interior's performance goals, the department had a goal of hiring 21,800 youths in fiscal year 2013—a 35 percent increase over fiscal year 2009. As of the third quarter of 2013, Interior had only been able to hire approximately 11,000 youths—about half of its goal. Although the actual numbers for youth employment over the full fiscal year were not yet available as of December 2013, Interior officials said it is unlikely that the department will achieve this 2013 priority goal.

According to Interior documentation, limited resources as a result of sequestration—particularly staffing—would severely affect the department's ability to conduct work associated with new onshore oil and gas leases. For example, Interior projected that approximately 300 fewer onshore oil and gas leases would be issued in western states including Wyoming, Utah, Colorado, and New Mexico in fiscal year 2013. Delayed leases result in a lost opportunity to collect additional revenues in fiscal year 2013, while also causing prospective production and revenues from these leases to be pushed further into the future. In addition, according to information describing Interior's progress toward meeting its fiscal year

2013 priority goals, it is doubtful that the department will meet its priority goal for reviewing high-risk oil and gas cases.⁵⁹ Interior's goal for fiscal year 2013 was to review 95 percent of high-risk oil and gas cases, but the department projected it would inspect 87 percent due to the effects of sequestration. We previously reported concerns with Interior's management of federal oil and gas resources, and identified this as a high-risk area for the department. The concerns we identified included problems in hiring, training, and retaining sufficient staff to provide oversight and management of oil and gas operations on federal lands and water, among others.⁶⁰

Interior reported that certain revenue-sharing and grant payments to state, tribal, and county governments will be reduced or delayed. For example, under the Mineral Leasing Act, states generally receive half of the royalties collected for oil and natural gas development and coal production on federal lands within their borders.⁶¹ These funds are used to support schools and road maintenance, among other things. According to an Interior document, the department withheld approximately \$105 million in mineral royalty payments from states and counties in fiscal year 2013 due to sequestration. However, according to Interior officials, after reviewing the Mineral Leasing Act payments, the agency determined that funds sequestered in 2013 would become available in 2014 as provided under the Balanced Budget Deficit Control Act of 1985. The sequestered payments were disbursed to affected states and counties at the beginning of fiscal year 2014.

Interior officials also reported they had to terminate some partnership agreements with states, local governments, and nongovernmental organizations, such as youth organizations, due to a lack of funding as a result of sequestration. These partnerships helped Interior carry out its mission. Interior officials stated that they do not yet have data on the number of partnership agreements affected by sequestration.

Agency Comments

We provided a draft of this report to Interior. Interior provided technical comments, which we incorporated as appropriate.

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⁵⁹Interior defines a case as a lease or other type of agreement that identifies a group of wells or facilities that are to be inspected together.

⁶⁰GAO, *High-Risk Series: An Update*, [GAO-13-283](#) (Washington, D.C.: February 2013).

⁶¹30 U.S.C. § 191(a) (2012).



Mission and Budget Overview

Mission

DOJ's wide-ranging mission encompasses enforcing the law and defending the interests of the United States, ensuring public safety, providing federal leadership in crime prevention and control, seeking punishment for those guilty of unlawful behavior, enforcing the nation's voting rights statutes, and ensuring the fair and impartial administration of justice for all Americans.

2013 Funding Prior to Sequestration

DOJ received \$30.8 billion in total funding for fiscal year 2013, including \$26.8 billion in discretionary appropriations and an estimated \$4 billion in direct spending. DOJ spends about half of its funding to support two components—the Federal Bureau of Investigation (FBI), which aims to protect the United States against crime, terrorism, and foreign intelligence threats, and the Federal Bureau of Prisons (BOP), which confines convicted federal offenders. DOJ's remaining funding supports nearly 40 other components with a broad array of national security, law enforcement, and criminal justice responsibilities.

Sequestered Amount

Of DOJ's total funding in fiscal year 2013, roughly \$1.6 billion was sequestered. This included \$1.5 billion in discretionary appropriations and \$117 million in direct spending, including funds DOJ receives through offsetting collections that were subject to sequestration. For instance, all of the funding in the Crime Victims Fund, which was

(Continued on following page.)

Department of Justice

The Department of Justice (DOJ) avoided some potential effects of sequestration on its mission in fiscal year 2013, including employee furloughs. In some cases, spending reductions affected DOJ's operations, performance, and services to the public, while in other cases projected effects on performance did not occur in fiscal year 2013. DOJ avoided furloughs in fiscal year 2013 by reprogramming funds and using its transfer authority, as well as taking other cost-saving actions. In addition, DOJ began a hiring freeze in January 2011, which continued during sequestration. DOJ reported that the loss of staff resulting from the continuation of the hiring freeze during sequestration and attrition, among other things, resulted in over 1,600 fewer criminal and civil cases filed by prosecutors in the U.S. Attorneys' Offices in fiscal year 2013, compared to fiscal year 2012. However, DOJ anticipated that the loss of staff resulting from its hiring freeze would also result in fewer assets seized from drug traffickers compared to fiscal year 2012, and this effect did not occur in fiscal year 2013.

Planning

Upon enactment of the Budget Control Act on August 2, 2011, DOJ reported that it began considering sequestration in its budget formulation and execution processes, and provided information to components within the department to help explain sequestration. According to DOJ's Chief Financial Officer (CFO), DOJ followed several guiding principles in planning for sequestration:

- Prepared in advance. For example, DOJ's Budget Director stated that, in the spring of 2012, DOJ analyzed the potential effects of sequestration on DOJ and identified questions and uncertainties about its implementation.
- Engaged leadership across its components. To do so, the CFO provided information regarding sequestration to the Attorney General during daily senior management meetings. In addition DOJ's budget staff met with the Attorney General, for example, in December 2012 and April 2013, to specifically discuss the effects that sequestration would have on DOJ and its employees. The budget staff provided information to component heads to alert them to the effects that sequestration could have on their components.
- Sought to limit furloughs and to ensure that, if furloughs were necessary, they were equitably assumed by components. Specifically, DOJ officials stated that the department considers its employees its most valuable asset in fulfilling its mission and, thus, wanted to avoid furloughs. However, according to DOJ's CFO and Budget Director, the structure of DOJ's PPAs affected components' abilities to limit furloughs, as components with PPAs largely composed of personnel had little flexibility to cut other types of spending to protect personnel, given that all PPAs had to be cut equally. As

established by the Victims of Crime Act of 1984 to provide funding for victim services, was subject to sequestration.

Programs, Projects, and Activities (PPA)

Sequestration applied to 127 PPAs within 40 DOJ accounts. The composition of funding among PPAs varied; some PPAs were composed almost entirely of funding for personnel, while others were primarily composed of nonpersonnel funding, such as grants.

Transfer Authority

For fiscal year 2013, DOJ was generally statutorily authorized to transfer up to 5 percent from one appropriation account to another, provided it did not increase the account's appropriation by more than 10 percent and that, among other things, DOJ notified the Appropriations Committees in advance.

Reprogramming Limitations

In general, for fiscal year 2013, DOJ could reprogram funds in an appropriation account; however, funds could not be reprogrammed for certain purposes, such as to create a new program, or to augment an existing program, project, or activity in excess of \$500,000 or 10 percent, whichever was less, or reduce by 10 percent an existing program, project, or activity, among other things, unless DOJ notified the Appropriations Committees in advance.

For information on the objectives, scope, and methodology, see [appendix I](#). For a detailed glossary of budget terms, see [appendix V](#).

a result, employees in components with personnel-heavy PPAs would have been disproportionately affected by sequestration, which ran counter to this guiding principle.

While planning for sequestration, DOJ reported that it did not encounter any challenges in determining its PPAs and identified the PPAs subject to sequestration before January 2, 2013—the date sequestration was originally scheduled to be ordered under the Budget Control Act. However, DOJ's CFO and budget staff reported that DOJ faced challenges resulting from uncertainty over sequestration's timing, amount, and how it would be applied to each of DOJ's accounts. For instance, the CFO stated that DOJ initially expected that sequestration would be ordered on January 2, 2013, but the American Taxpayer Relief Act of 2012, which passed on January 2, 2013, delayed sequestration until March of that year. Moreover, the officials reported that DOJ did not know its final amount subject to sequestration until May 2013, almost 3 months after sequestration was ordered. Though DOJ knew most of the final amounts subject to sequestration prior to May 2013, the delay was due to uncertainty over the applicability of sequestration to some of DOJ's accounts, including those accounts with offsetting collections, such as the Crime Victims Fund. In particular, according to DOJ officials, the Crime Victims Fund was the last account about which DOJ learned the final amount subject to sequestration on May 28, 2013. OMB officials reported that this was because OMB discovered a computational error related to the amount of the Crime Victims Fund subject to sequestration, which was corrected on May 20, 2013. However, DOJ's Budget Director reported that the delay in learning the final amount of the Crime Victims Fund subject to sequestration did not negatively affect DOJ's ability to carry on its operations, although the Budget Director suggested that, if sequestrations occur in the future, it would be helpful to receive guidance and engage in a dialogue with OMB earlier in the process.

To address these challenges, the CFO reported that DOJ's budget staff developed multiple options for actions, including the use of furloughs as a last resort, for DOJ to consider for absorbing the sequestration cuts under different circumstances. Developing these options was time and resource intensive. In addition, DOJ budget staff reported that they contacted OMB for clarification on technical issues related to how sequestration would apply to DOJ's accounts, including participating in OMB conference calls. However, the Budget Director stated that planning for the implementation of the fiscal year 2013 sequestration was not a unique experience. Rather, according to the Budget Director, DOJ has carried out similar planning efforts during uncertain budgetary climates in prior years, although the budget staff may have developed additional options more frequently during sequestration planning. Further, the CFO and Budget Director reported that the range of options DOJ considered to absorb the cuts under sequestration was generally the same as in prior years, except that the consideration of furloughs was a new option when planning for sequestration.

Implementation

When sequestration was ordered on March 1, 2013, DOJ reported that over 97,000 DOJ employees faced potential furloughs due to sequestration. According to the CFO, furloughs would have hindered DOJ's ability to achieve its mission and created potential life and safety issues. For instance, correctional officers at the Federal Bureau of Prisons (BOP), who supervise offenders, were among those facing potential

furloughs. Given this, the Attorney General sought to minimize the use of furloughs. Further, on March 5, 2013, the Deputy Attorney General directed components to protect mission critical operations by continuing a hiring freeze that had begun in January 2011 due to budget uncertainty at that time, delaying or canceling contracts, restricting nonmission critical travel, canceling or postponing nonmandatory training, postponing or scaling back conferences, limiting employee overtime, and eliminating the use of discretionary monetary awards.

In addition, DOJ used its funding flexibilities, including the ability to transfer and reprogram funds, to avoid the need for furloughs in fiscal year 2013. Specifically, DOJ carried out two actions to help it avoid furloughs in fiscal year 2013.

- First, on March 15, 2013, DOJ notified the Appropriations Committees of its intent to transfer funds to BOP. According to DOJ, the transfers were necessary to avoid furloughs of a total of 3,570 staff each day from all 119 of its federal prisons, thereby avoiding serious life and safety concerns for staff, inmates, and the public. DOJ transferred a total of \$150 million to BOP from several accounts—the Drug Enforcement Administration’s (DEA) Salaries and Expenses account; the Federal Bureau of Investigation’s (FBI) Construction and Salaries and Expenses accounts; DOJ’s Fees and Expenses of Witnesses account; and the U.S. Marshals Service’s (USMS) Construction account. To almost fully replace the \$131.55 million that the FBI transferred to BOP, DOJ transferred \$116 million in unobligated balances from its Working Capital Fund to the FBI for its information technology and capital equipment requirements.⁶² The CFO and Budget Director reported that, with the support of the Appropriations Committees, they took this transfer action quickly after the sequestration was ordered because they were aware that the transfer and reprogramming flexibilities they had, including the amount of certain unobligated balances they were authorized to transfer, would be changed after the passage of the Consolidated and Further Continuing Appropriations Act, 2013 on March 26, 2013. For example, the Consolidated and Further Continuing Appropriations Act, 2013 caps the amount of unobligated balances DOJ is authorized to transfer from its Working Capital Fund at \$30 million, over \$85 million less than the amount DOJ transferred to the FBI.
- Second, on April 17, 2013, DOJ informed the Appropriations Committees of its intent to reprogram, transfer, and use unobligated balances, for a total of \$313 million, to avoid furloughs. DOJ reported in its notification that these furloughs would have affected almost 60,000 staff in nine components—the FBI; Bureau of Alcohol, Tobacco, Firearms, and Explosives (ATF); USMS; Civil Rights Division; U.S. Attorneys’ Offices; Executive Office for Immigration Review; Office of the Inspector General; U.S. Parole Commission; and the U.S. Trustee Program—for up to 14 days. According to DOJ, such furloughs would have posed serious national security and life and safety concerns, and impeded its efforts to prosecute financial fraud,

⁶²With notifications to the Senate and House Committees on Appropriations, funds in the Working Capital Fund, Unobligated Balance Transfers account, may be used for the department-wide acquisition of capital equipment, development and implementation of law enforcement or litigation-related automated data processing systems, and improvement and implementation of DOJ’s financial management and payroll/personnel systems. Pub. L. No. 102-140, 105 Stat. 728, 784-85 (1991) (28 U.S.C. § 527 note).

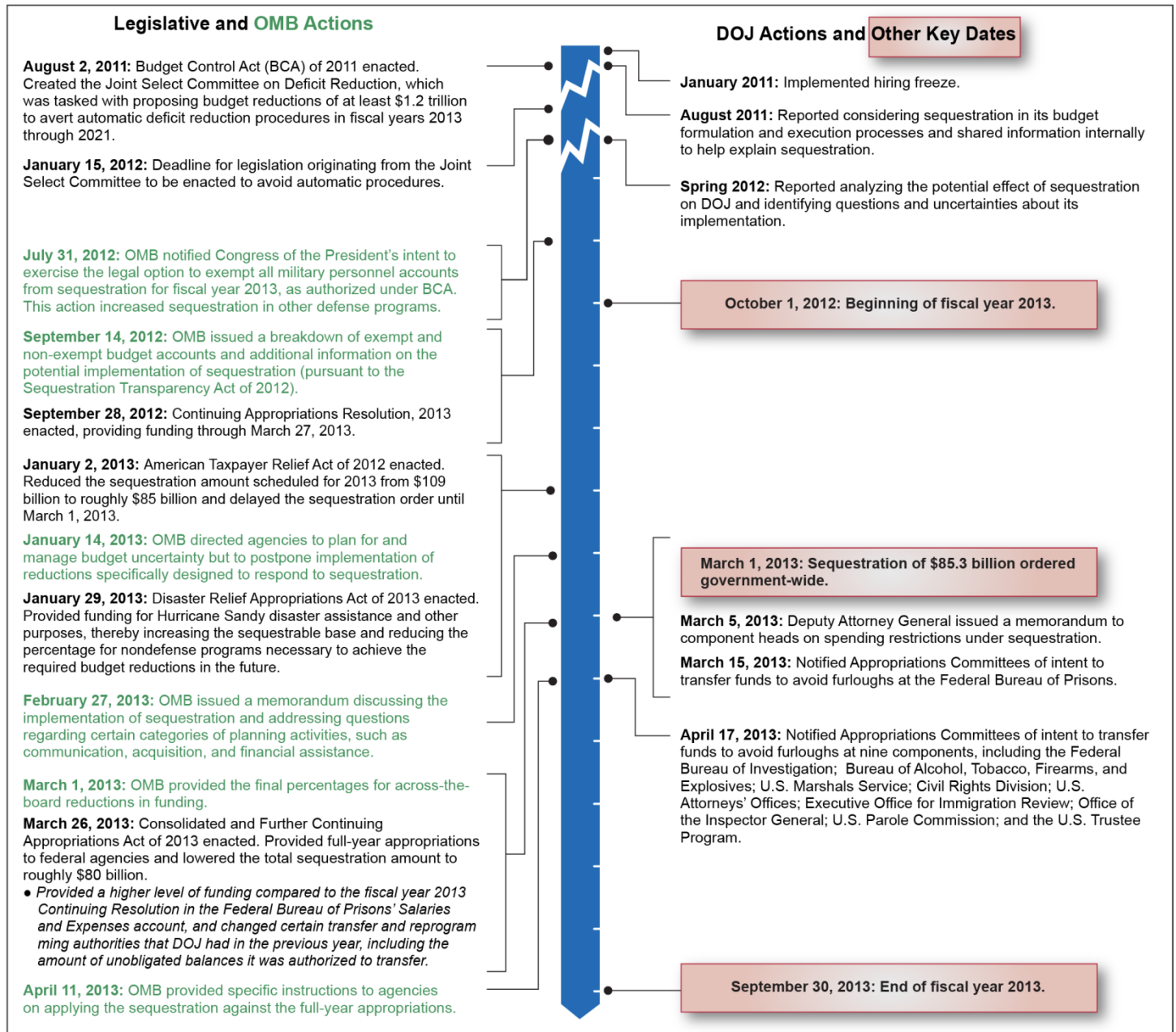
protect the nation's most vulnerable citizens, ensure the timely administration of justice, and prevent fraud and waste of public monies.

Further, DOJ received additional funding in the Consolidated and Further Continuing Appropriations Act, 2013, which helped it avoid furloughs. Specifically, BOP received approximately \$87 million in additional funding in its Salaries and Expenses account compared to the fiscal year 2013 continuing resolution. Additionally, DOJ officials reported that one DOJ component—the U.S. Parole Commission—implemented a reduction in force of one employee to achieve partial savings required by sequestration in fiscal year 2013.

According to DOJ's CFO and budget staff, these actions, particularly the use of DOJ's transfer authority and the reprogramming of funds, allowed DOJ to avoid furloughing employees in fiscal year 2013, which other agencies may not have been able to avoid as successfully because they lacked the same flexibilities as DOJ. However, the CFO and DOJ budget officials reported that DOJ will face challenges in taking similar actions to avoid future furloughs because over 90 percent of the specific funding they used for the transfer and reprogramming actions in fiscal year 2013 is not available for future years, including \$344 million in balances that were available at the time of the transfer and reprogramming actions. DOJ's budget staff reported that DOJ will continue to have some expired balances, although they stated that these balances have decreased over time. According to DOJ budget officials, if a sequestration occurs in the future, components could need to continue the hiring freeze and further reduce spending on operations and infrastructure. In addition, they stated that furloughs could be a possibility.

See figure 15 for a timeline of key events in DOJ's planning for and implementation of sequestration.

Figure 15: Timeline of Fiscal Year 2013 Sequestration Planning and Implementation at the Department of Justice



Source: GAO analysis of legislation, OMB guidance, and documentation from DOJ.

Effects on Operations, Performance, or Services to the Public

According to DOJ, the biggest effect of sequestration has been a continuing loss of staff due to attrition and its hiring freeze. The hiring freeze began in January 2011 due to budget uncertainty at that time and continued during sequestration. When implemented in January 2011, the hiring freeze allowed components to hire personnel to replace those leaving—or to backfill—key positions, such as correctional officers or Deputy U.S. Marshals; however, as of March 2013, the hiring freeze no longer allowed for the automatic backfilling of such personnel. DOJ reported that it lost over 3,500 employees between January 2011, when the hiring freeze was implemented, and September 21, 2013, the last pay period in fiscal year 2013. This loss equals almost 3 percent of DOJ's workforce, including almost 400 agents, almost 200 intelligence analysts, and over 400 attorneys. DOJ stated that the largest losses—of over 2,000 employees—were among support staff, such as paralegals, chemists, accountants, and contract specialists.

According to DOJ, this loss of personnel affected its operations, performance, and services to the public. For instance, given the continuing hiring freeze, the U.S. Attorneys' Offices had 45 fewer attorneys in fiscal year 2013 compared to fiscal year 2012, and filed over 1,600 fewer criminal and civil cases—about a 1 percent reduction—which DOJ states will reduce the monies collected by the U.S. Attorneys' Offices. However, other effects DOJ anticipated did not occur in fiscal year 2013. For example, DOJ stated that DEA lost 179 special agents as a result of the hiring freeze in fiscal year 2013. Using data from fiscal year 2012 on the disruption and dismantlement of priority target organizations and the assets seized per agent full-time equivalent, DOJ estimated that the lost work hours from these agents would result in the disruption or dismantlement of 111 fewer priority target organizations, and \$79 million less in cash and assets seized from drug traffickers. However, according to DOJ data, these measures increased in fiscal year 2013 compared to 2012, with 214 more disruptions and dismantlements of priority target organizations, and almost \$748 million more in assets seized in fiscal year 2013, compared to fiscal year 2012. According to DOJ officials, over 70 percent of the investigations that resulted in a disruption or dismantlement in fiscal year 2013 were initiated prior to the beginning of fiscal year 2013, before the more significant hiring restrictions were implemented under sequestration. A DEA official explained that, while the agents remaining in fiscal year 2013 after attrition may have been able to resolve the existing investigations in fiscal year 2013, disruptions and dismantlements may decrease in the future because fewer agents are now available to undertake investigations. Further, DOJ officials reported that it is too early to tell the full and long-term effects of sequestration, as performance statistics are lagging indicators. Moreover, DOJ officials stated that, while DOJ can demonstrate that its components, such as DEA, have been forced to curtail hiring, it cannot directly link changes in performance to sequestration.

DOJ also reported that reductions in training may affect its operations in the longer term. Specifically, DOJ reported that the U.S. Attorneys' Office of Legal Education reduced the total number of its sponsored courses from 183 in fiscal year 2012 to 114 in fiscal year 2013, a decrease of 37 percent. DOJ stated that these reductions may result in fewer opportunities to train attorneys in new and emerging areas of law.

Agency Comments

We provided a draft of this report to DOJ. DOJ provided technical comments, which we incorporated as appropriate.

GAO Contact

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Department of Labor

Mission and Budget Overview

Mission

DOL provides grants for employment and training services, administers worker protection and compensation programs, administers unemployment insurance at the federal level, and produces employment-related statistics through the Bureau of Labor Statistics, among other activities.

2013 Funding Prior to Sequestration

DOL received total funding of \$102.5 billion for fiscal year 2013, including \$12.5 billion in discretionary appropriations and about \$90 billion in direct spending.

Sequestered Amount

An estimated \$3.1 billion was sequestered from the DOL budget — over \$600 million in discretionary appropriations and \$2.5 billion in direct spending.

Programs, Projects, and Activities (PPA)

Sequestration applied to 115 PPAs within 27 appropriation accounts at DOL. Various DOL components administer these accounts, such as the Employment and Training Administration, Office of Workers' Compensation Programs, the Occupational Safety and Health Administration, and the Mine Safety and Health Administration, among others. The PPAs in these accounts include, for example, benefits paid to individuals, grants, or administrative expenses for the individual offices in DOL.

(Continued on Following Page)

Department of Labor (DOL) officials told us the agency took steps to minimize the effect of sequestration on its mission. Officials said while actions such as some reductions in unemployment benefits have already occurred, it is too early to fully assess the effects on operations or services to the public. For example, DOL officials noted some effects of sequestration may not be known until after the end of the fiscal year when reports come in from state grantees. DOL provided guidance to states that administered unemployment insurance reductions and implemented grant reductions in several employment and training programs. It also reprogrammed some funding to preserve priority activities, cut back on training and hiring and other activities, and furloughed a quarter of its employees for 0.5 to 7 days. Officials also expressed concern about long-term effects of sequestration and the inability to conduct long-term planning due to the unstable budget situation.

Planning

DOL officials told us they developed initial agency-wide plans for sequestration in early December 2012 in accordance with OMB guidance. They completed an updated plan in February 2013. The 2013 plan included estimates of the reductions for each account and PPA due to sequestration, a brief description of the agency's response to the reductions, and an estimate of the effects of the actions the plan described. According to DOL officials, the guiding principle was to minimize the effect of sequestration on DOL's ability to meet the goals stated in its strategic plan—which includes preparing workers for jobs, ensuring workplace safety, providing income security, and producing data on economic conditions.

During planning, each component defined its key services and identified programs or activities that were lower priorities. In some cases, particularly concerning the Pension Benefit Guaranty Corporation (PBGC), DOL consulted OMB to clarify which accounts were subject to the sequestration and which were not.

DOL officials said that the uncertainty about the timing and size of sequestration presented a challenge for them as they developed an implementation plan for the agency. Additionally, DOL officials said that a large number of their accounts had special rules or exemptions that made it difficult to determine how to apply sequestration. For example, PBGC receives its funding primarily from the insurance premiums it collects, but OMB determined that its administrative expenses were subject to sequestration under BBEDCA. Similarly, DOL reported that fees which are received in exchange for a required government service, such as inspections of mining equipment by the Mine Safety and Health Administration (MSHA), were subject to sequestration. However, fees DOL receives from voluntary sources, such as orders for data or publications from the Bureau of Labor Statistics (BLS), were exempt from

The following PPAs were exempt from sequestration: certain unemployment benefits, Federal Employees' Compensation Act benefits, Special Benefits for Disabled Coal Miners, and benefits paid by the Energy Employees Occupational Illness Compensation Fund, the Black Lung Disability Trust Fund, Panama Canal Commission Compensation Fund, Special Workers Compensation Expenses Fund, the Working Capital Fund, payments and advancements to the Unemployment Trust Fund and other funds, and gifts and bequests. Additionally, the Pension Benefit Guaranty Corporation's two PPAs that fund its pension insurance and pension plan termination activities were exempt, although its third one for operational support was not.

Transfer Authority

For fiscal year 2013, DOL was authorized to transfer up to 1 percent of its discretionary funds between PPAs, provided that DOL notified the Appropriations Committees at least 15 days in advance, but no PPA could be increased by more than 3 percent by any such transfer. This transfer authority was available only to meet emergency needs and could not be used to create any new program or fund any project or activity not funded by the appropriations act.

Reprogramming Limitations

DOL may reprogram funds, although for fiscal year 2013 it was required to notify the Appropriations Committees 15 days in advance of certain reprogramming; for example, any reprogramming that created new programs, or any reprogramming in excess of \$500,000 or 10 percent, whichever was less, that augmented existing PPAs, among others.

For information on the objectives, scope, and methodology, see [appendix I](#). For a detailed glossary of budget terms, see [appendix V](#).

sequestration in accordance with BBEDCA. Further, DOL officials told us that they were uncertain about the final amount of sequestered funds because the actual amount of fees collected in a fiscal year is unknown until the end of the fiscal year. As a result, DOL had to base its reductions on estimates of the sequestrable base for certain accounts.

Implementation

DOL reported that it implemented a number of actions in response to sequestration, including (1) reducing certain benefit and grant payments; (2) reducing spending for travel, training, and contract administration, as well as accelerating the cancellation of some activities; (3) implementing employee furloughs; and (4) reprogramming funds within the agency.

According to the goals in its strategic plan, DOL provides services for the unemployed, which include administering unemployment insurance programs. Unemployment insurance provides temporary support for people available to work, but unable to find employment. Some of the funding for unemployment insurance was sequestered, while other related funding was exempt, as shown in table 7.

Table 7: Sequestration Status of Selected Unemployment Insurance Funding

Type of unemployment insurance funding	Subject to sequestration
Unemployment benefits paid by a state from its account in the Unemployment Trust Fund (includes regular unemployment benefits, generally for up to 26 weeks paid by employer taxes) ^a	No
Federal advances to states for payment of unemployment benefits	No
Federal share of Unemployment Insurance Extended Benefits generally beyond the usual 26 weeks ^b	Yes
Emergency Unemployment Compensation benefits ^c	Yes
Unemployment Insurance state administrative grants	Yes

Source: Congressional Research Service and DOL documents.

^aUnemployment insurance benefits vary by state. Typically, eligible unemployed workers can receive unemployment insurance benefits for up to 26 weeks in most states, though individuals may be eligible for fewer weeks.

^bDuring periods of high unemployment, states may provide up to 13 or 20 additional weeks of benefits through the Extended Benefits program, funded jointly by states and the federal government.

^cTitle IV of the Supplemental Appropriations Act, 2008, created the Emergency Unemployment Compensation Program, which provides 100 percent federal funding to certain unemployed workers for additional weeks of unemployment benefits. The expiration date for this program was extended to January 1, 2014.

In implementing reductions for Emergency Unemployment Compensation benefits, which were reduced overall by 5.1 percent, DOL provided guidance to states on March 8, 2013, to allow them some time to begin benefit reductions on or after March 31, 2013. Some benefits had already been paid, so the actual reductions required during the remainder of fiscal year 2013 were higher than 5.1 percent, according to documents provided by the agency.

DOL reported that it also reduced grants provided to states and local workforce agencies for employment and training services by 5.1 percent. Several of these grant programs, such as the Adult, Dislocated Workers, and Youth programs of the Workforce Investment Act, help provide services to individuals at about 2,500 American Job Centers nationwide. According to DOL, it also reduced funding for other grant programs, such as the Homeless Veterans Reintegration Program, which provides services to help veterans reintegrate into the labor force.

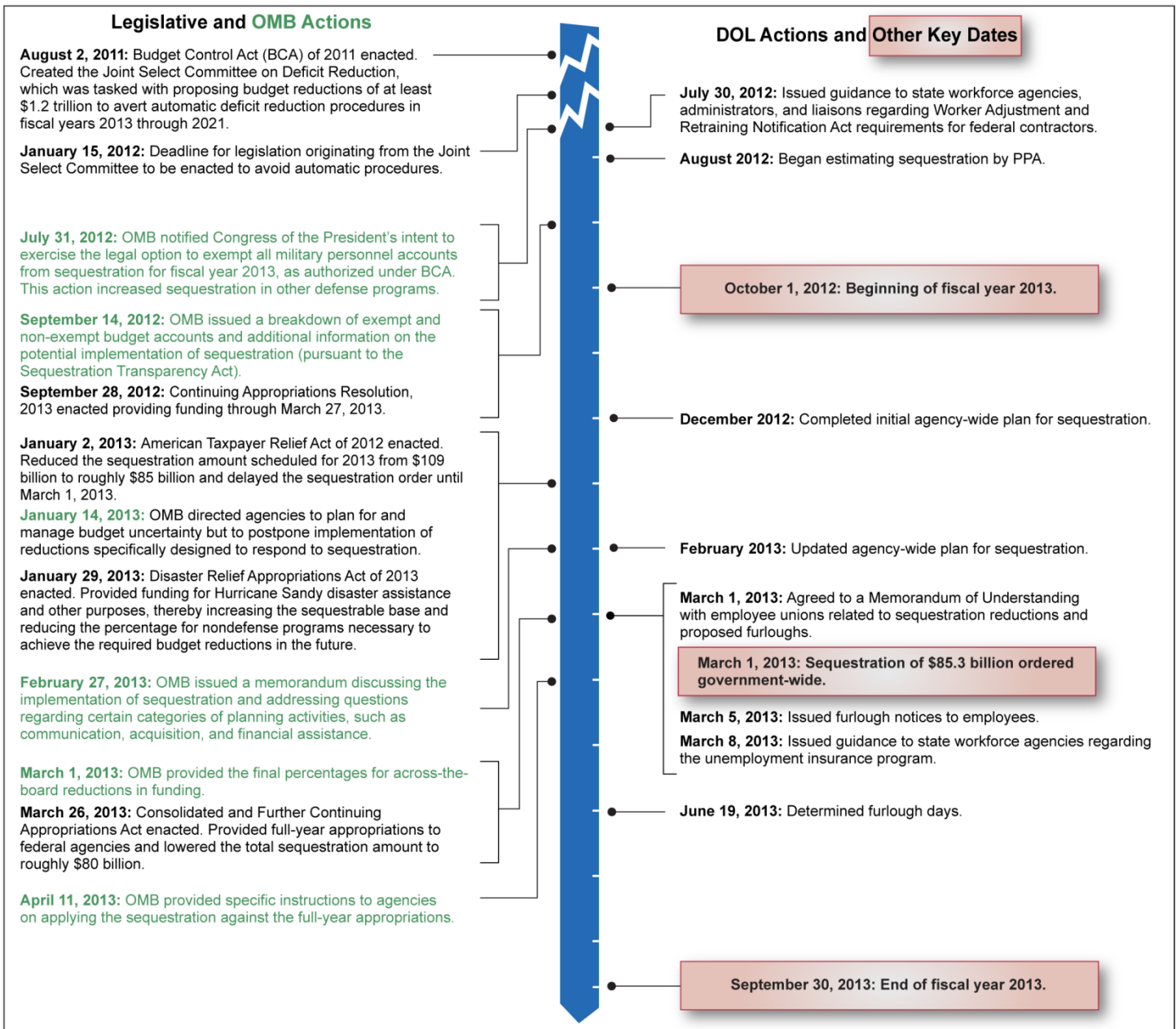
DOL officials reported reducing operational or administrative costs in areas such as contract support services, travel, training, facilities, and supplies. Officials also said they planned to cancel some activities to achieve cost savings during fiscal year 2013. For example, the agency reported that BLS eliminated a number of surveys and measures earlier than planned, including the Mass Layoff Statistics, the International Labor Comparisons, and the Measuring Green Jobs Initiative.

In addition, DOL furloughed about a quarter of its workforce, or over 4,000 on board staff. DOL reported that the furloughs helped the agency save approximately \$3.7 million. The number of furlough days varied by component. Officials said that components that had a higher proportion of administrative costs saw larger numbers of furlough days. Employees saw anywhere from 0.5 days per employee to a high of 7 days, depending on the component. To support furloughed employees, DOL issued a frequently asked questions document to its employees as well as guidance regarding obtaining employment outside the agency. Officials also noted that they were implementing these furlough days in ways that would be least disruptive to the operations for the respective components. Additionally, DOL officials told us that the extensive planning and coordination required by sequestration improved their communication channels within the agency and with the agency's unions.

To mitigate the effects of sequestration, DOL reprogrammed funds based on the priorities of the individual components as determined by the agency's examination of its output measures and in keeping with the agency's core mission. For example, the Occupational Safety and Health Administration (OSHA) reprogrammed \$11 million from educational, outreach, and assistance activities funded through its assistance program to its enforcement program. Likewise, MSHA reprogrammed \$4.4 million from educational and outreach activities to enforcement activities in order to ensure the component maintained its inspection program. DOL officials said that while outreach and education are important in ensuring that workers and employers know their rights and responsibilities, they thought a reduction in these activities would have less of an immediate effect on worker safety. Officials also said they chose not to pursue any funding transfers because they did not want transfers to one component to come at the expense of another component, which would then have funding problems.

For further information regarding the timeline of DOL's sequestration planning and implementation, see figure 16.

Figure 16: Timeline of Fiscal Year 2013 Sequestration Planning and Implementation at the Department of Labor



Source: GAO analysis of legislation, OMB guidance, and documentation from DOL.

Effects on Operations, Performance, or Services to the Public

DOL officials reported that in some cases they may not know the full effect of the sequestration until after the end of the fiscal year. Officials said that data to measure the extent to which some services were reduced are often dependent on state reporting that would not be complete until after the end of the fiscal year, with officials telling us they might not have the results analyzed until months later. Additionally, DOL officials informed us that some programs operate on a program year basis, which generally runs from July to June. This means that the agency will not be able to report on the final fiscal year 2013 results for these programs until after states provide their data at the end of the program year after June 30, 2014.

DOL officials estimated some effects on certain programs. For example, DOL reported estimates that the \$1.9 million reduction in the Homeless Veterans Reintegration Program would result in six fewer grants serving 600 fewer veterans. In addition, DOL reported estimates that the sequestered funding from the Emergency Unemployment Compensation program would reduce weekly benefits paid to 2.6 million long-term unemployed workers by nearly 11 percent.

In addition, DOL officials told us that some of the effects may not be clear until the following years. For example, officials expressed concern regarding the reprogramming of funds in OSHA from education and outreach to enforcement. They said the lack of education and outreach regarding workplace safety and health regulations could result in increases in safety and health violations in later years.

DOL officials also expressed concern that the unstable budget situation makes it difficult to conduct long-term planning. They also said sequestration could have an effect on maintaining the functions of the various components in DOL as they are not replacing departing staff and it can take more than a year to train new staff once funding becomes available. Additionally, DOL officials informed us about one-time actions, such as delaying computer system upgrades, but said these types of purchases could not be delayed indefinitely.

Agency Comments

We provided a draft of this report to DOL. DOL provided technical comments, which we incorporated as appropriate.

GAO Contact

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Department of State and U.S. Agency for International Development Operations and Foreign Assistance

Mission and Budget Overview

Mission

The joint mission of State and USAID is to advance freedom for the benefit of the American people and the international community by helping to build and sustain a more democratic, secure, and prosperous world composed of well-governed states that respond to the needs of their people, reduce widespread poverty, and act responsibly within the international system.

State and USAID have a consolidated planning and budget process for foreign assistance accounts, with joint request and justification submissions to Congress. The agencies have maintained that joint approach while proceeding with sequestration planning and implementation for foreign assistance.

2013 Funding Prior to Sequestration

State and USAID had operational and foreign assistance funding of \$54.3 billion for 2013, made up of \$54.2 billion in discretionary spending and \$35 million in direct funding.

Sequestered Amount

The estimated amount of sequestration was about \$2 billion—\$1.97 billion in discretionary appropriations and \$1.79 million in direct spending.

Programs, Projects, and Activities (PPA)

State Operations' appropriations are provided in 25 accounts. Within these accounts, funding is divided among approximately 52 PPAs. State/USAID foreign assistance appropriations are

(Continued on following page.)

The Department of State (State) and the U.S. Agency for International Development (USAID) began informal planning efforts prior to fiscal year 2013. Officials noted that it was challenging to plan budgets for sequestration without knowing how much would ultimately be cut. Both agencies used personnel and contracting actions to mitigate the effects of sequestration, but neither agency was required to furlough employees. Foreign assistance was cut equally across PPAs, so that U.S. missions abroad would not be viewed as giving certain countries or regions preferential treatment. The nature of State and USAID's core activities can make it difficult to quantify specific immediate effects, but officials said that there could be longer-term political and diplomatic effects if funding continues to be reduced.

Planning

State officials said they began discussing the potential effects of sequestration internally and planning for various scenarios as early as the summer of 2012. Officials reported that during the planning period they were looking for ways to mitigate effects on high-priority issues, such as planned security improvements to diplomatic facilities. USAID's guiding principle was to protect its ability to perform its core mission. To this end, USAID officials reported that they considered a variety of ways to mitigate the disruption to operations, programs, and personnel. USAID officials noted that they sought to closely follow OMB guidance and they conducted their planning with long-term needs in mind.

According to officials, by October 2012 State's Office of U.S. Foreign Assistance Resources (State/F) and USAID developed initial plans to address a potential sequestration of foreign assistance. State/F and USAID officials said they began taking cost containment steps that same month, releasing funds only for the purpose of ensuring that continuing programs were not suspended or terminated until officials ascertained the full effects of sequestration. State/F and USAID could reprogram foreign assistance funds to protect a particular country or activity, subject to regular notification procedures. That would mean, however, that the funding for PPAs for other countries or activities within those accounts would be further reduced. In consultation with their appropriators, State/F and USAID budget officials decided not to protect any foreign assistance PPAs in this manner. Officials said it would be easier to explain to foreign partners that these cuts to programs and commitments were mandated by U.S. law and that they were being applied equally. This would allow the U.S. missions abroad to more easily defend the reductions and mitigate diplomatic tensions, as opposed to prioritizing certain countries, regions, or programs over others.

By February 2013, State and USAID prepared draft operating plans which, according to officials, considered implementation actions that accounted for the unique labor laws and statutes governing local staff at overseas missions.

provided in 20 budget accounts. Within these accounts, funding is divided among approximately 462 PPAs. Foreign assistance PPAs are defined by law and generally include the country, regional, and central program level funding. State and USAID identified all their PPAs prior to January 2, 2013.

Transfer Authority

For State Operations, the Consolidated and Further Continuing Appropriations Act, 2013 extends authority provided by section 7009 of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2012 (SFOAA) allowing transfers between accounts not to exceed 5 percent of the total amount of the sending appropriation or 10 percent of the receiving appropriation subject to the regular notification procedures. The Consolidated and Further Continuing Appropriations Act, 2013 provides additional transfer authority between amounts appropriated as Overseas Contingency Operations (OCO) in fiscal year 2013 for specified accounts, including Diplomatic & Consular Programs; Embassy Security, Construction, and Maintenance; and Educational and Cultural Exchange Programs, subject to the regular notification procedures.

With respect to foreign assistance, the Consolidated and Further Continuing Appropriations Act, 2013 extends authority provided by section 8003 of SFOAA, granting transfer authority between amounts appropriated as OCO in fiscal year 2013 for certain foreign assistance accounts such as International Disaster Assistance; Transition Initiatives; Complex Crises Fund; Economic Support Fund; and the Foreign Military Financing Program. The Foreign Assistance Act provides additional transfer authorities including section 610, which provides for transfers not to exceed 10 percent of the total amount of the sending appropriation or 20 percent of the receiving appropriation should the President deem the transfer necessary.

(Continued on following page)

Officials reported that it was challenging to develop plans over time without knowing what the final sequestered amount would be. Officials did not know that amount until April 2013. In addition, officials noted that they had to consider the different country labor laws and statutes governing local engaged staff at overseas missions. From April through June of 2013, State and USAID revised and developed full-year operating plans with the more complete sequestration figures.

Implementation

According to officials, State and USAID took a range of actions to implement sequestration cuts, which included the following:

Personnel actions: In March 2013, State began a slowdown of its U.S. direct hires. The slowdown started with a smaller A-100 Foreign Service orientation class than State originally planned. In April, State instituted a 50 percent attrition replacement plan (selected programs may have been exempted), hiring one person for every two new vacancies. This attrition plan was instituted both domestically and with locally employed staff in country, including personal service contractors and Foreign Service nationals. Further, both State and USAID suspended all discretionary monetary awards and meritorious/quality step increases.

Contracting actions: State reported a \$34 million reduction of its Embassy Security, Construction, and Maintenance, Worldwide Security Upgrades funding. State's program to secure contracts to increase security at high-threat diplomatic facilities is funded from this account. In addition, sequestration cuts affected several contract-funded IT initiatives including global modernization, Share Point services, and the Enterprise Server Operations Centers. In March 2013, USAID issued letters to contractors and grantees to notify them that sequestration cuts might affect the workforce, revenues, or planning processes of those organizations. USAID noted in these letters that it might take general actions such as rescoping or delaying contracts.

Foreign Assistance programs: Sequestration cuts were made equally at the PPA level because agency officials chose not to prioritize one country or region over another. Approximately 80 percent of the reduction to foreign assistance was borne by the Economic Support Fund, Development Assistance, Foreign Military Financing, Global Health Programs and Humanitarian Assistance accounts. According to State and USAID these programs support some of the agencies' most critical security partnerships, development programs, and humanitarian interventions.

Although State and USAID originally planned to use furloughs to help meet the sequestration cuts, they avoided this through a number of factors. First, State was able to offset reductions by using unobligated balances from multiyear appropriations. For example in its operation plan, State reported that it planned to use \$18.8 million of carryover balances from its Worldwide Security Protection–Overseas Contingency Operations account to offset required sequestration reductions and preserve its ability to support extraordinary security costs in Afghanistan and Pakistan and invest in security enhancements in high-threat, high-risk posts. State officials said the agency also implemented other personnel and contract actions, and reviewed administrative expenses such as travel to avoid furloughs. USAID officials also said they reviewed all of USAID's available

Reprogramming Limitations

For State Operations accounts, congressional notification requirements for certain reprogrammings, including those that augment existing PPAs in excess of \$1 million or 10 percent, are found in section 34 of the Department of State Basic Authorities Act (22 U.S.C. 2706) and section 7015(a-b) of SFOAA.

For foreign assistance, congressional notification requirements for obligations for activities, programs, projects, types of material assistance, countries, or other operations not justified or in excess of the amount justified by 10 percent or more of the previous justification are found in section 7015(c) of the fiscal year 2012 SFOAA. A similar requirement is found at section 634A of the Foreign Assistance Act.

For information on the objectives, scope, and methodology, see [appendix I](#). For a detailed glossary of budget terms, see [appendix V](#).

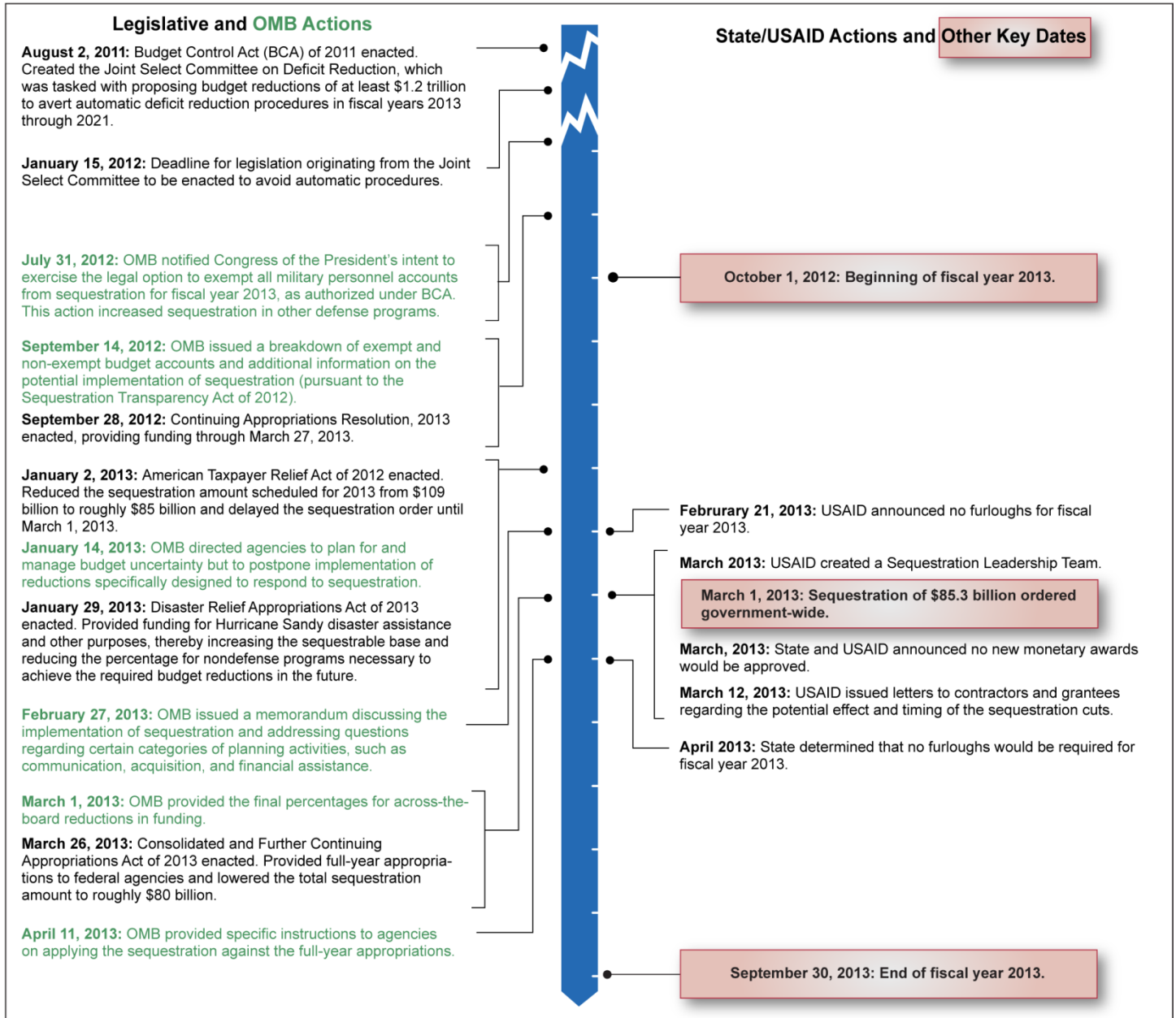
authorities and the agency was able to exercise about \$32.5 million of recoveries—using deobligated funds—in fiscal year 2013 to help offset the need for furloughs.

In addition, in June 2013 State notified Congress of plans to reprogram at least \$64 million from fiscal year 2013 Diplomatic and Consular Programs Iraq Operations Enduring funds to offset the effects of sequestration. State's operating plan also said it planned to reprogram about \$180 million to preserve high-priority activities, such as the Bureau of Administration's real property acquisition for a permanent location of the Diplomatic Security Worldwide Command Center.

According to State and USAID officials, they generally did not use reprogramming to mitigate sequestration cuts for foreign assistance. Rather, they used reprogramming to address a host of unanticipated issues or crises that arose during the year. For example, State reprogrammed funds to provide unanticipated assistance to address the ongoing crisis in Syria. No funds had been budgeted for this purpose.

See figure 17 for a timeline of State and USAID sequestration planning and implementation.

Figure 17: Timeline of Fiscal Year 2013 Sequestration Planning and Implementation at the Department of the State and U.S. Agency for International Development



Source: GAO analysis of legislation, OMB guidance, and documentation from State/USAID.

Effects on Operations, Performance, or Services to the Public

The objectives of U.S. foreign assistance are to promote U.S. economic and national security interests and reflect American values. State and USAID reported that the \$1.5 billion sequestration to foreign assistance could hinder these objectives. Officials expect program effects will be intensified as time passes, especially for multiyear accounts, given the normal lag between when the funds are appropriated and when they are obligated. However, for one-year accounts, more short term effects are visible. For example, a reduction in Foreign Military Financing funds means that U.S. allies, such as Israel, will not be able to purchase as much equipment in fiscal year 2013. Other effects that State and USAID officials said can be seen or expected include some of the examples below.

- According to State, the continuation of a hiring slowdown and a 50 percent attrition replacement plan will damage the progress made over the last 4 years to close gaps in hiring and training to meet mission requirements of State.
- The fees generated through visa and passport applications were subject to sequestration; however, enough revenue was generated so that Consular Affairs services were not expected to be affected in fiscal year 2013.
- State noted that to mitigate the effects of the sequestration on increased security efforts for overseas facilities, the Bureau of Overseas Building Operations will have to reprioritize its projects which may result in the deferral of other projects to provide safe, secure facilities. They also reprioritized planned contracts for new diplomatic facilities.
- State also reported that it will have to postpone a data-sharing platform supporting its classified communications. It will have to defer work on the OMB-directed Data Center consolidation initiative.

State and USAID officials said that the reductions in funding for operational and foreign assistance programs, while not always immediately quantifiable, may likely lead to political and diplomatic challenges over time.

Agency Comments

We provided a draft of this report to State and USAID. State indicated it had no comments. USAID also indicated it had no comments.

GAO Contact

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Mission and Budget Overview

Mission

DOT's mission is to serve the United States by ensuring a fast, safe, efficient, accessible, and convenient transportation system that meets vital national interests and enhances the quality of life of the American people.

2013 Funding Prior to Sequestration

DOT received a total of \$91 billion in funding for fiscal year 2013, including \$71.6 billion in annual discretionary appropriations, \$13 billion in supplemental discretionary appropriations, and \$6.4 billion in direct spending authority. DOT's funding supports investments in highway, aviation, transit, rail, and other activities and promotes safety across all modes of transportation.

Sequestered Amount

The estimated amount sequestered was \$1.9 billion—\$1 billion in annual discretionary appropriations, \$600 million in supplemental discretionary appropriations, and \$326 million in direct spending. Overall, 75 percent of DOT's total funding was exempt from sequestration, including grant programs for airport improvements, highways, motor carrier safety, and public transit.

Programs, Projects, and Activities (PPA)

Sequestration applied to 100 of DOT's 167 PPAs within 38 of its 46 accounts. About \$1.7 billion, or 90 percent of the sequestered funds, came from 14 accounts related to 3 DOT administrations—FAA, the Federal Highway Administration, and the Federal Transit Administration. Within these organizations, funding for operations and maintenance of the air traffic control system, general revenue contributions to the Highway Trust

(Continued on following page.)

Department of Transportation

Much of the Department of Transportation's (DOT) planning went into how to adjust Federal Aviation Administration (FAA) operations under the potential reduced spending levels of sequestration. Planning included determining the number of furlough days for FAA air traffic controllers and other employees and identifying federal contract air traffic control towers for closure. DOT halted these actions when it was provided with authority to make a one-time transfer of \$253 million from the Airport Improvement Program account to address these issues. Spending reductions affected the available amount of DOT support for Hurricane Sandy rebuilding efforts as well as other infrastructure investments and, according to DOT officials, could create long-term delays in these investments. DOT also reduced some grants, research funding, and maintenance activities, although the extent to which these reductions might prolong or delay projects supported by these investments varies by program, according to DOT.

Planning

According to DOT officials, the department began planning for sequestration in the summer of 2012. Its guiding principle was to minimize the effects on its mission of ensuring a fast, safe, efficient, accessible, and convenient transportation system, with a particular focus on ensuring the safety of the traveling public.

As part of the planning effort, budget, legal, procurement, and human resources staff from each of DOT's operating administrations met to discuss and review their efforts to address past funding reductions. While the largest DOT grant programs were exempt from sequestration, DOT reported that 11 of its 13 operating administrations were affected in some way by sequestration. According to DOT budget officials, the department's initial planning involved identifying areas that, if cut, would have the least effect on component operations and activities. For example, DOT budget officials reported that 6 of its operating administrations continued restrictions on hiring and non-essential spending implemented earlier in the fiscal year when a continuing resolution was in place.

DOT identified additional cost-savings measures to address the reduction at FAA, which was the largest reduction among DOT's administrations (\$637 million), after excluding DOT's disaster relief appropriation. According to DOT officials, these measures included a hiring freeze, termination of certain temporary employees and rehired annuitants, about \$253.5 million in contract reductions, and about \$46.9 million in travel reductions.

FAA reviewed its operational activities to determine the number of furlough days needed to absorb the sequestered amounts. According to DOT budget officials, FAA determined that furloughs, if necessary, would be applied to staff across the country without targeting any specific airport or geographic area. They indicated that targeting specific airports could disproportionately affect airlines serving targeted airports and cause system-wide disruptions given the interconnectedness of the national airspace system.

Fund, and emergency response and relief funding for transit operators following Hurricane Sandy accounted for \$1.3 billion of the sequestered funds.

Transfer Authority

For fiscal year 2013, DOT was limited to a total of 2 percent that could be transferred from one FAA budget activity to another, except for aviation safety. Any transfer in excess of 2 percent would require that DOT notify the Appropriations Committees.

Reprogramming Limitations

For fiscal year 2013, DOT was prohibited from reprogramming funds that, among other things, augmented or reduced funds for existing PPAs by 10 percent or \$5 million, whichever was less.

Other Funding Flexibilities

On May 1, 2013, the Reducing Flight Delays Act of 2013 was enacted, which authorized DOT to make a one-time transfer of \$253 million from the Airport Improvement Program account to fund air traffic control and other activities.

For information on the objectives, scope, and methodology, see [appendix I](#). For a detailed glossary of budget terms, see [appendix V](#).

At the same time, DOT assessed options for closing air traffic control towers that are operated under contracts (referred to as federal contract towers) or eliminate overnight air traffic control service at certain airports. On March 22, 2013, the department announced it had identified 149 federal contract towers for closure, which would begin on April 7, 2013. However, on April 5, 2013, the start date was postponed until June 15, 2013, pending legal challenges to the proposed closure decisions. Eventually, the closures were canceled pending the enactment of the Reducing Flight Delays Act of 2013.

According to DOT budget officials, planning was challenging because of the timing of the sequestration and the agency's PPA structure. Officials noted that the delay of sequestration implementation until March resulted in a shorter period of time in which to absorb the reductions. In addition, DOT officials stated that the PPA structure and limitations on FAA's transfer authority created a challenge. Specifically, according to DOT and FAA officials, about 70 percent of FAA's Air Traffic Organization PPA covers employee salaries and benefits, including all of FAA's air traffic controllers. According to DOT officials, even if DOT maximized its existing transfer authority, it would not have been able to provide for employee costs, as cuts were to be made uniformly across all PPAs in FAA's Operations account. Consequently, DOT could only make the required reductions through an employee furlough.

Implementation

DOT's most significant action in response to sequestration was the furlough of FAA personnel in April 2013. DOT officials noted that furloughs were used as the last option to achieve sequestration levels. The department announced that the vast majority of the 47,000 FAA employees, including air traffic controllers, aviation safety inspectors, maintenance technicians, and engineers would take one furlough day per pay period beginning April 21 through the remainder of the fiscal year. After the furloughs began, FAA reported delays occurring in major metropolitan areas, including New York, Chicago, and Southern California, because fewer controllers were available to manage air traffic. On April 27, 2013, the furlough was suspended pending the enactment of the Reducing Flight Delays Act of 2013 which provided DOT the authority to make a one-time transfer from the Airport Improvement Program—a grant program that makes funds available to airports for capital improvements—to other FAA accounts. Subsequently, the department used this additional authority to terminate all planned furloughs and fund air traffic control services and other activities. DOT budget officials reported that in all, 21,141 FAA employees were furloughed for an average of approximately 8 hours per employee, resulting in an estimated savings of \$8.7 million.

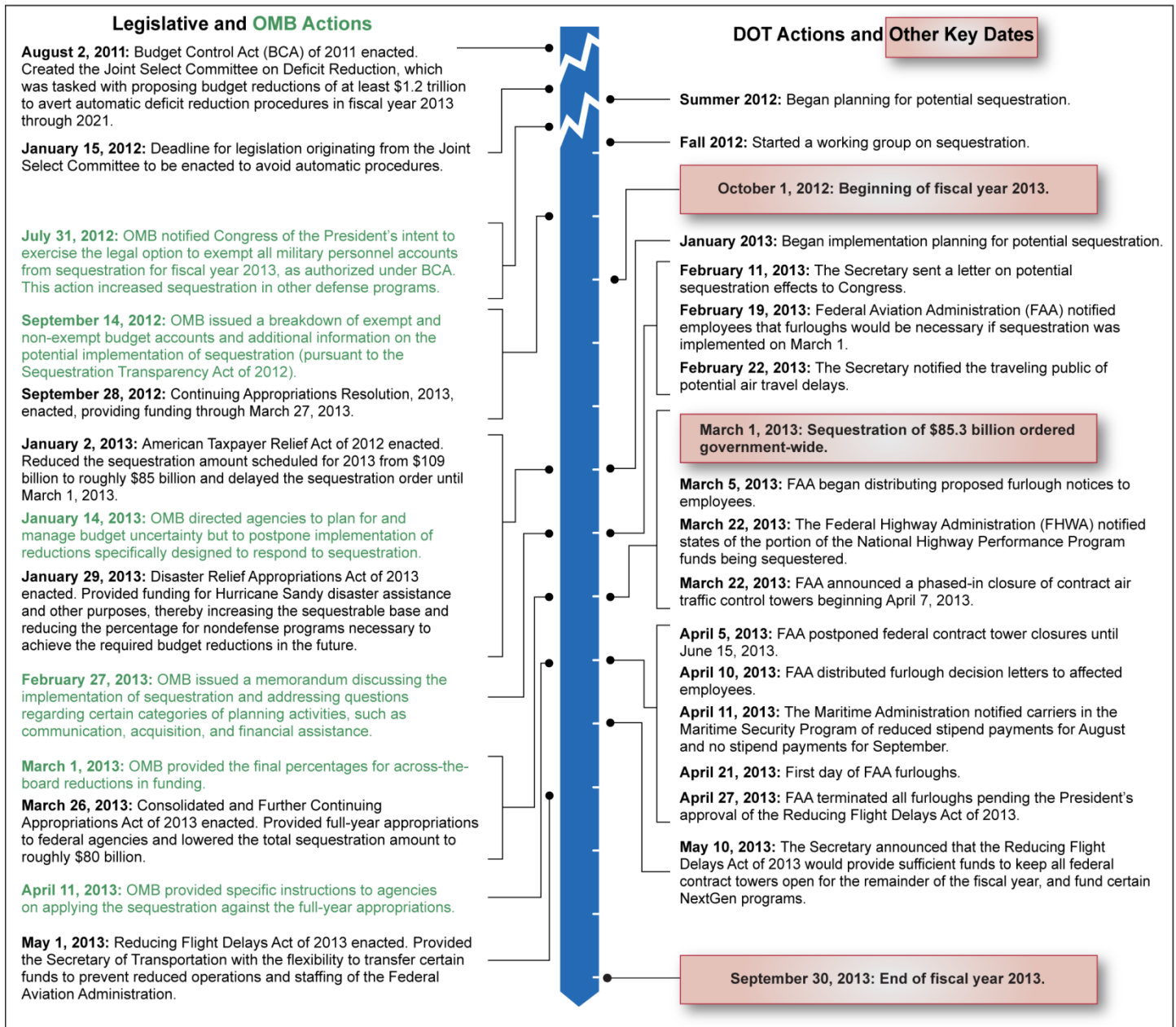
DOT also reduced funding for grants and research projects that were subject to sequestration. For example, DOT reduced funding available for Transportation Investment Generating Economic Recovery discretionary grants by \$25.2 million,⁶³ for pipeline safety grants and emergency preparedness grants to states by \$3.5 million, and for research by \$20.9 million. In addition, DOT reduced payments under the Maritime Security Program—a program that provides financial assistance to operators of U.S. flag vessels that, in turn, make their fleet available upon request of

⁶³Transportation Investment Generating Economic Recovery grants are awarded on a competitive basis for road, rail, transit, and port projects that will have a significant effect on the nation, a metropolitan area, or a region.

the Secretary of Defense during times of war or national emergency—by \$13.7 million. In implementing the \$32.6 million reduction to the National Highway Performance Program, DOT reduced funding to each state by 5.1 percent, the sequestration rate for the program, and notified the states of this reduction.

See figure 18 for a timeline of sequestration planning and implementation at DOT.

Figure 18: Timeline of Fiscal Year 2013 Sequestration Planning and Implementation at the Department of Transportation



Source: GAO analysis of legislation, OMB guidance, and documentation from DOT.

Effects on Operations, Performance, or Services to the Public

DOT was able to mitigate the effects of the furlough at FAA and restore air traffic control and other aviation services through the transfer of funds between accounts allowed by Congress. However, the transfer of \$253 million from the Airport Improvement Program will mean that FAA must curtail funding for eligible airport projects, including funding for airport planning, equipment, construction, and noise mitigation. FAA estimates about 170 projects—most of them associated with runway and taxiway construction—will be delayed. Some of these projects were scheduled to start in fiscal year 2013 and were deferred, while other phased projects may take longer to complete.

DOT reported sequestration effects in other program areas, including the following:

- Delays in Next Generation Air Transportation System (NextGen) projects: FAA's undertaking to transform and update the air traffic control system relies, in part, on participation by subject matter experts, such as air traffic controllers, to develop and test NextGen systems. Anticipating furloughs, FAA pulled its air traffic controllers from NextGen projects and put them back online to support air traffic control operations. Following the furlough, FAA was unable to schedule air traffic controllers back to NextGen work until June 2013. Consequently, FAA indicated that projects to improve the airspace efficiency around major metropolitan airports will be delayed by 60 days to 5 months, because of the time that it took to reinstate these projects following the transfer of funds. According to DOT, the hiatus in air traffic controller involvement also extended the timelines for FAA's En Route Automation Modernization program—a key modernization system that will provide the foundation for NextGen—by 7 months and resulted in delays for some programs dependent on this system's capabilities.⁶⁴ In addition, despite the transfer of funds, FAA reduced funding for contracts that support NextGen development, including improvements in data communications and global position system technology in the cockpit.
- Increased transit project costs: In fiscal year 2013, DOT reduced funding for existing grant agreements under the New Starts and Smart Starts program, its primary grant program for funding major transit capital investments. According to DOT, these reductions could lead to increased costs for transit projects supported by these grants or delays in other projects. DOT officials explained that project sponsors have contractual arrangements with design and construction firms that include schedule and payment requirements. Sponsors can incur delay claims if these requirements are not met. Therefore, the sponsors must figure out how to keep a project moving forward, even if federal funds fall short. According to DOT, some sponsors may borrow additional funds, which could increase overall project costs, while other sponsors may choose to reprioritize where they put their limited funds, which could delay projects.

⁶⁴DOT officials expect overhead costs to increase for this program as a result of the delays, but did not provide any estimates. We have previously reported on how past delays with the En Route Automation Modernization program increased overall acquisition costs as well as affected time frames for other related NextGen programs. See: GAO, *Air Traffic Control Modernization: Management Challenges Associated with Program Costs and Schedules Could Hinder NextGen Implementation*, [GAO-12-223](#) (Washington, D.C. Feb. 16, 2012).

- Fewer pipeline safety personnel: The State Pipeline Safety grant program was reduced by \$1.9 million, affecting more than 60 state agencies, according to DOT. Consequently, these agencies deferred the hiring of inspection and enforcement personnel responsible for pipeline safety oversight activities.
- Reduced first responder training: Funding for Emergency Preparedness Grants administered by the Pipeline and Hazardous Materials Safety Administration was reduced by \$1.4 million, including \$1.1 million in grants for planning and training at the state and local level. According to DOT, with these reductions, grantees will provide less training to first responders such as volunteer and professional firefighters or to the trainers of first responders.
- Decreased participation in the Maritime Security Program: DOT officials indicated that a \$13.7 million reduction in funding for this program resulted in smaller payments in August 2013 to the 13 vessel operators that participate in this program, and no payments in September 2013. According to DOT, an operator of one vessel withdrew its ship from the program as a result of the reduced payments. DOT officials noted that participation of all operators is needed to ensure that the Department of Defense has sufficient access to commercial vessels during times of national emergency.

Although department officials were able to point to some short-term effects of sequestration, officials noted that it is too soon to tell what the long-term effects of these reductions might be, such as how a prolonged hiring freeze will affect critical backfills. According to DOT officials, they have been collecting information on the effects of the fiscal year 2013 sequestration to help understand the potential effect of any future sequestration.

Agency Comments

We provided DOT with a draft of this report for review and comment. DOT provided technical comments, which we incorporated as appropriate.

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Mission and Budget Overview

Mission

Treasury's mission is to maintain a strong economy and job opportunities by promoting the conditions that enable economic growth and stability at home and abroad, to strengthen national security by combating threats and protecting the integrity of the financial system, and to manage the U.S. government's finances and resources effectively, including collecting revenues and enforcing federal tax laws.

2013 Funding Prior to Sequestration

Treasury received a total of \$619.3 billion for fiscal year 2013 prior to sequestration, including roughly \$20 billion in discretionary appropriations and \$599.3 billion in direct spending.

Sequestered Amount

Almost \$1.335 billion was sequestered—\$845 million in discretionary appropriations and \$490 million in direct spending. Roughly 70 percent of the sequestered amount came from IRS, whose budget supports taxpayer services, the enforcement of tax laws, and operations support. Certain refundable income tax credits, such as the Earned Income Tax Credit and the refundable portion of the Child Tax Credit, along with interest payments on the federal debt (a large share of Treasury's overall funding), were exempt from sequestration.

Programs, Projects, and Activities (PPA)

Sequestration applied to 96 PPAs at Treasury within 51 accounts. The PPA structure for different Treasury components

(Continued on following page)

Department of the Treasury

The Department of the Treasury (Treasury) reported that sequestration negatively affected many program areas such as Internal Revenue Service (IRS) customer service, tax enforcement, and municipal bond payments. In the years leading up to sequestration, Treasury officials said the agency implemented cost savings initiatives, which, along with the use of transfers and other funding flexibilities, helped it mitigate some of the effects on services to the public in fiscal year 2013. However, IRS reported that sequestration had an overall adverse effect on core taxpayer services. IRS's level of customer service, for example, dropped in fiscal year 2013 due in part to resource constraints caused by sequestration. In addition, according to Treasury, sequestration cuts to the IRS enforcement budget account, along with transfers from this account to other IRS programs, will likely result in lost revenue due in part to fewer tax return reviews and diminished fraud detection. Treasury was also required to decrease direct payments to state and municipal bond issuers and others assisting low-income and disadvantaged communities.

Planning

Treasury began informal planning for sequestration prior to October 2012—the start of fiscal year 2013—and intensified its efforts beginning in November 2012. According to Treasury officials, throughout the planning process, the department's guiding principle was to protect its ability to perform its mission on behalf of the American people. Treasury officials said that the department also sought to treat employees who could be subject to furloughs or other personnel actions as equitably as possible.

In August 2012, Treasury instructed its components to begin considering how they would adjust their operations should sequestration occur. By November 2012, as the prospect of sequestration increased, the components developed statements on the potential effects of sequestration. Following the enactment of the American Taxpayer Relief Act of 2012, which delayed the effects of sequestration until March 2013, and the issuance of additional OMB guidance regarding sequestration implementation, Treasury required its components to reevaluate planning considerations, including reassessing the need for furloughs.

According to Treasury officials, the uncertainty regarding if and when sequestration would occur presented the biggest planning challenge. Sequestration occurred 5 months into the fiscal year, which limited options available to achieve the required reductions. Most of the planning necessarily focused on actions that could be implemented quickly rather than those that would result in long-term efficiencies. According to Treasury officials, restructuring the workforce, for example, would have required substantial prior planning and possible upfront costs that were not feasible given the short window to implement the reductions. Treasury officials also reported that the department did not know its final funding levels until April 2013—at least one month after sequestration was ordered—because of the late passage of the full year continuing resolution, affecting the department's ability to plan. Treasury reported

provided different levels of flexibility for absorbing the cuts. For example, IRS operations are funded through 9 separate PPAs, and Treasury had the ability to move funding from one PPA to another using its existing transfer authorities and reprogramming. In contrast, funding for many Community Development Financial Institutions Fund programs is set in statute. For example, funding for the Bank Enterprise Awards program was set at \$18 million in fiscal year 2012. This program was funded through a single PPA that was reduced in fiscal year 2013 by sequestration and the across-the-board rescission to \$17.058 million. Treasury had no flexibility to change this funding level.

Transfer Authority

Subject to certain limitations, IRS was authorized in fiscal year 2013 to transfer up to 5 percent of funds across accounts, limited to 3 percent from the Enforcement account. Treasury may, with certain restrictions, transfer up to 2 percent between certain accounts such as Departmental Offices—Salaries and Expenses, Financial Management Service, Alcohol and Tobacco Tax and Trade Bureau, Financial Crimes Enforcement Network, and Bureau of the Public Debt—or to the Treasury Inspector General for Tax Administration. No transfer may increase or decrease any appropriation by more than 2 percent.

Reprogramming Limitations

Treasury may reprogram funds within an account; however, in fiscal year 2013, certain limitations applied. Treasury could not reprogram funds to augment or reduce an existing program, project, or activity by more than 10 percent or \$5 million, whichever was less, unless the department notified the Appropriations Committees in advance.

(Continued on following page)

encountering no significant challenges in defining its PPAs for the purposes of sequestration.

Implementation

Cost saving initiatives begun in prior years helped to mitigate some but not all of the challenges in implementing sequestration. For example, in previous fiscal years Treasury began the process of consolidating the functions of the Bureau of Public Debt and Financial Management Services into the Bureau of the Fiscal Service. According to Treasury officials, this consolidation resulted in efficiencies and cost savings that better positioned the bureau to absorb the \$19.6 million in budget reductions required by sequestration while minimizing effects on the bureau's mission.

Treasury determined that IRS would be the only component that would require employee furloughs to manage to the reduced sequestration levels. After accounting for \$135 million in new savings achieved from continuing its "by-exception-only" hiring freeze (which was in effect since December 2010) and after controlling other spending into fiscal year 2013, IRS initially estimated that it would have to furlough employees for 5 to 7 days to reduce spending by as much as \$189 million. IRS officials estimated that each furlough day would have saved roughly \$27 million. IRS officials said the agency was able to limit the number of furlough days for employees to 3 days using available funding flexibilities and by identifying other cost savings, such as cuts in funding for travel, training, overtime, and monetary awards.⁶⁵ The number of IRS employees furloughed by Treasury on each day ranged from roughly 84,000 to 90,000. IRS calculated that the estimated savings from the 3 furlough days through August 2013 totaled just over \$89 million—\$88.5 million saved in salary and benefits and \$750,000 saved from reduced infrastructure costs, including utilities and security.

IRS officials said the agency decided to furlough all employees on the same days in part because of the interdependencies of many operations. Initial implementation plans would have required furloughing IRS employees differently depending on the account from which they were funded. PPAs composed largely of salaries and benefits offer few alternatives to furloughs. According to IRS estimates, salaries and benefits make up 72 percent of total IRS funding (93 percent of which is in the Taxpayer Services and Enforcement accounts). IRS officials said they transferred \$73 million from the Enforcement account to the Taxpayer Services and Operations Support accounts, so that IRS could implement its sequestration plan to furlough employees equitably and minimize the number of furlough days.

IRS also exercised its authority to carry over roughly \$52 million in unobligated funds from fiscal year 2012 appropriations that would otherwise expire to help minimize the number of furlough days and apply them evenly across appropriations accounts. While this carryover authority is not new, Treasury officials said that absent sequestration, these funds would have been used for other purposes. Officials also noted that there

⁶⁵On March 21, 2013, IRS stopped paying Performance and Special Act Awards and stopped making quality step increases to 19,280 non-bargaining unit employees. According to Treasury, these actions saved \$8.3 million in fiscal year 2013. On March 25, IRS also stopped paying bargaining unit performance awards, affecting approximately 77,760 employees and saving an estimated \$76 million in fiscal year 2013.

Other Funding Flexibilities

Subject to certain limitations, Treasury has additional authority to carry over, for an additional fiscal year, up to 50 percent of unobligated balances from appropriations made available for salaries and expenses that would otherwise expire.

For information on the objectives, scope, and methodology, see [appendix I](#). For a detailed glossary of budget terms, see [appendix V](#).

may be fewer unobligated balances available in the future because of ongoing resource constraints.

In addition, Treasury officials said that while there was a large pool of contracts across the department that they considered rescoping, approximately 10 were actually targeted for specific cuts. For example, the Alcohol and Tobacco Tax and Trade Bureau (TTB) absorbed \$5 million in spending reductions in part through cuts to its contracts and operating costs, delaying updates to information technology hardware.

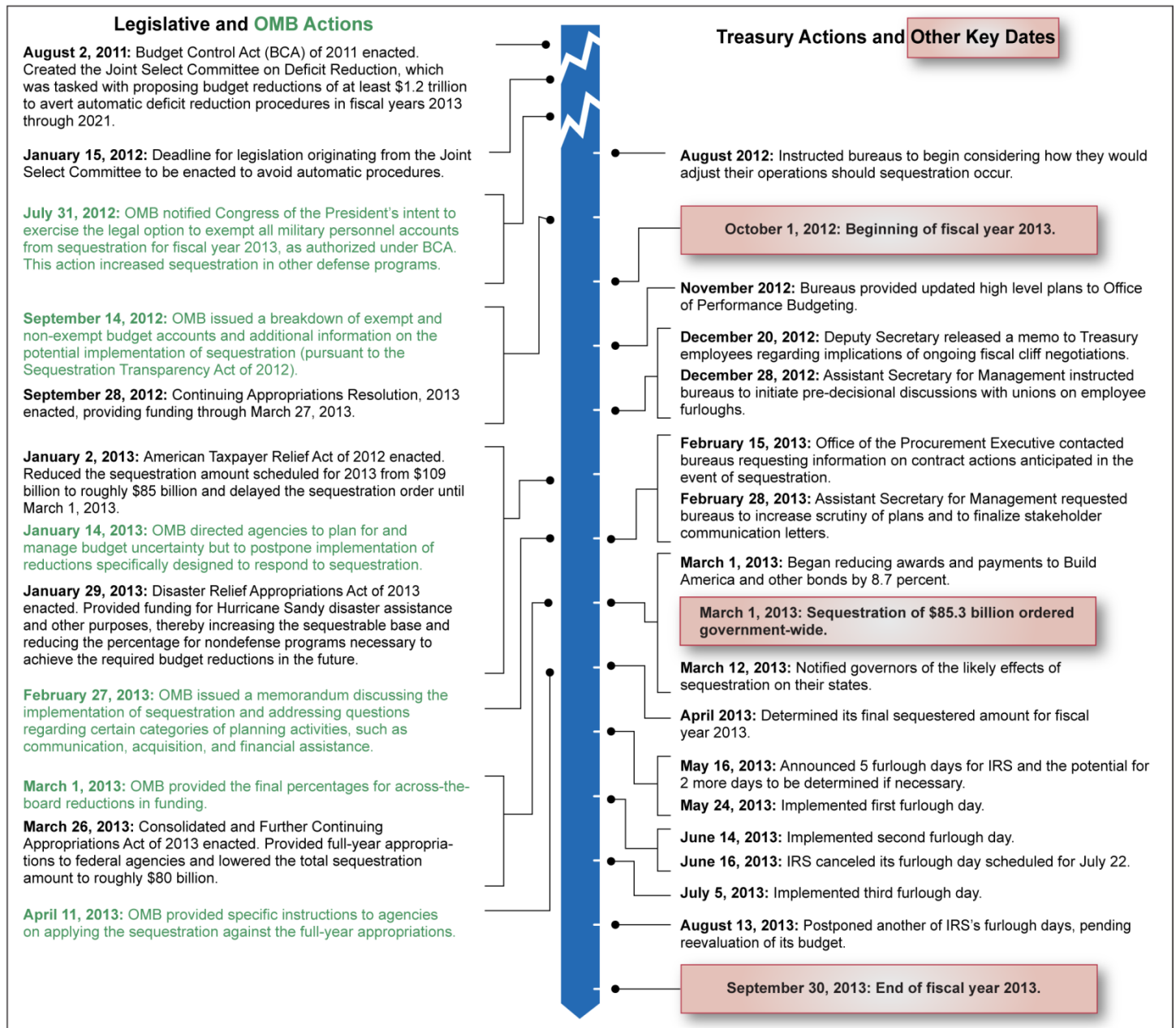
Treasury reported that sequestration also reduced funding for the Community Development Financial Institutions Fund (CDFI) by \$11.1 million. CDFI provides financial assistance, technical assistance, tax credit allocations, and training to support community and economic development activities and to expand access to credit to finance projects such as affordable housing, small businesses, community facilities, and financial services, among other projects. CDFI cannot reallocate reductions across these programs in most cases because the funding levels are fixed in the appropriations language.

Furthermore, due to sequestration, Treasury reported that it had to reduce its payments to states and municipalities from Build America Bonds, Qualified Zone Academy and other bonds, grants, and payments for specified energy property. Build America Bonds, for example, are taxable bonds for which Treasury pays a subsidy covering 35 percent of the interest costs to the issuers, which include states and municipalities. These bonds are used to help state and local governments create jobs and finance capital projects (such as schools, government hospitals, and roads and transportation infrastructure projects) at lower borrowing costs. Because sequestration began in the middle of fiscal year 2013, Treasury reported that it had to achieve the 5.1 percent annual savings in the remaining months of the fiscal year, requiring it to uniformly reduce each payment by 8.7 percent in order to achieve the required funding reductions for the year.

Treasury officials said that some of the changes they implemented in response to sequestration and other funding reductions may be useful in the future. First, the Departmental Offices instituted a centralized travel review process which required additional scrutiny and approval for travel requests. According to Treasury, while not wholly in response to sequestration, this initiative allowed for greater coordination across offices and cost savings opportunities. Similarly, although initiated prior to sequestration, IRS officials continued their shift to virtual training, stating that it helped them to save money and make better use of technology. In the future, Treasury officials said that voluntary early retirement and voluntary separation incentive pay (i.e., buyouts) could be a useful tool to help managers reshape their workforce in times of budget reductions. However, these actions require extensive upfront planning and, in the case of buyouts, large one-time payments to departing staff. Treasury did not offer employees voluntary early retirement and voluntary separation incentive pay in fiscal year 2013.

See figure 19 for a timeline of sequestration planning and implementation at Treasury.

Figure 19: Timeline of Fiscal Year 2013 Sequestration Planning and Implementation at the Department of the Treasury



Source: GAO analysis of legislation, OMB guidance, and documentation from Treasury.

Effects on Operations, Performance, or Services to the Public

Overall, the combination of actions unrelated to sequestration taken in previous years and Treasury's use of funding flexibilities helped to mitigate some of the effects of sequestration on operations, performance, and services to the public in fiscal year 2013. However, sequestration still forced reductions across nearly all Treasury programs with resulting performance losses. For example, Treasury stated that sequestration had an overall adverse effect on core taxpayer services. In Treasury's 2013 agency financial report, the department reported that IRS's customer service representative (CSR) level of service—one of IRS's key performance measures—was 60.5 percent for fiscal year 2013, down from 67.6 percent in fiscal year 2012 and lower than the fiscal year 2013 target of 70 percent set prior to sequestration. CSR level of service represents the number of toll-free callers that either speak to a CSR or receive informational messages divided by the total number of attempted calls. However, there is considerable weekly variation in this and other CSR performance levels throughout the fiscal year. For example, as part of our review of IRS's 2013 filing season, in December 2013, we reported that from January 1 to June 30, the CSR level of service for taxpayers with account inquiries (which excludes some calls such as compliance) was higher at 68 percent.⁶⁶

According to Treasury officials, the number of times taxpayers received assistance at IRS taxpayer assistance centers (i.e., its walk-in sites) through July 2013 also dropped to just over 5.4 million from almost 5.7 million in fiscal year 2012. While a number of factors affected IRS taxpayer services, according to a Treasury official, the primary driver of the decline was sequestration. Treasury officials also said some services to taxpayers were also temporarily unavailable because of IRS office closures for 3 days.

Treasury officials said they anticipate that reductions to IRS's Enforcement account will likely result in lost revenue in current and future years due to fewer tax return reviews and diminished fraud detection. Since 1990, enforcement of the tax laws has been on our High Risk List of programs that are vulnerable to fraud, waste, abuse, and mismanagement or in need of fundamental transformation.⁶⁷ IRS estimates the tax gap—the difference between taxes owed and taxes paid—to be in the hundreds of billions of dollars. Based on their calculations, which assume a \$4 return to each dollar spent on IRS, Treasury officials said they anticipate that sequestration would likely result in billions of dollars in lost revenue due to fewer tax return reviews and diminished fraud detection.⁶⁸ Treasury also noted that enforcement-related revenue is typically generated through

⁶⁶GAO, *2013 Tax Filing Season: IRS Needs to Do More to Address the Growing Imbalance between the Demand for Services and Resources*, [GAO-14-133](#) (Washington, D.C.: Dec. 18, 2013).

⁶⁷See [GAO-13-283](#).

⁶⁸According to Treasury's 2014 budget justification, enforcement revenue was \$50.2 billion in fiscal year 2012 for a total IRS-wide return of \$4.2 to \$1. This estimate does not include the revenue effect of the deterrence value of these investments and other IRS enforcement programs. In addition, an estimate such as this that assumes a constant rate of return across all spending does not take into account the potential for the marginal return on investment to decline as spending on enforcement increases. These and other factors make estimating the return on spending difficult. We have not evaluated Treasury's estimate.

processes that can take years, therefore the complete effects of sequestration may not be known until subsequent years.

Treasury officials projected that sequestration could also affect their ability to achieve their priority goal of increasing voluntary tax compliance. Specifically, Treasury officials stated that due to IRS furloughs and decreased enforcement actions, it is reasonable to project that voluntary tax compliance would decrease.

Treasury also said that reductions to TTB accounts could slow permit processing and export certifications, among other activities, which could affect trade, revenue collection, and public health and safety. For example, according to Treasury's 2013 agency financial report, TTB's average turnaround time for the processing of original permit applications jumped from 67 days in fiscal year 2012 to 81 days in fiscal year 2013. According to Treasury officials, while awaiting TTB approval, new breweries, bonded wineries, importers, and wholesalers of alcohol are unable to begin producing and distributing their products and, subsequently, making tax payments.

Treasury officials said the reduced payments to states and municipalities from the Build America Bonds and other bond programs for states and municipalities created by the American Recovery and Reinvestment Act of 2009 will negatively affect their capacity to create jobs and finance capital investments. However, they were not yet able to provide detailed support for these projected effects. For CDFI-related projects, Treasury said that fewer resources would be available to assist low income and disadvantaged communities, although exact quantifiable estimates of the effects of the \$11.1 million reduction are difficult to forecast because of the mix of the products and services provided by awardees and the communities that they serve. According to the Treasury operating plan, the effects of CDFI reductions on job reduction forecasts are sensitive to the size and industrial sector in which the loans are made, among other factors.

Agency Comments

We provided a draft of this report to Treasury. Treasury provided written comments which are presented in appendix III of this report. In its written comments, Treasury further described some of the effects of sequestration on agency operations and services to the public. Treasury also provided technical comments, which we incorporated as appropriate.

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Mission and Budget Overview

Mission

EPA's mission is to protect human health and the environment. To accomplish its mission EPA develops and enforces environmental regulations, among other things. Often EPA sets national standards that states generally implement through their own regulations. In addition, EPA uses nearly half of its budget to provide grants to state environmental programs, educational institutions, and others. These funds are used for a wide variety of projects from scientific studies to community environmental cleanups.

2013 Funding Prior to Sequestration

EPA received a total of \$8.95 billion for fiscal year 2013, including \$8.34 billion in discretionary appropriations and almost \$608 million in discretionary supplemental appropriations related to Hurricane Sandy. EPA did not receive any funding for direct spending in fiscal year 2013.

Sequestered Amount

The estimated total amount of sequestered EPA funding was over \$455.4 million. This amount included nearly \$425.1 million in discretionary appropriations, as well as other sources of dedicated revenue that were directly subject to sequestration. In addition, nearly \$30.4 million in supplemental funding related to Hurricane Sandy was sequestered.

Programs, Projects, and Activities (PPA)

Sequestration applied to 91 PPAs within 8 appropriation accounts at

(Continued on following page.)

U.S. Environmental Protection Agency

Environmental Protection Agency (EPA) officials reported challenges in planning for and minimizing the effects of sequestration on agency staff and programs. For example, EPA officials reported that the structure of the agency's PPAs created planning challenges because certain PPAs were made up almost entirely of salaries while others largely represented funding provided to state and tribal governments to implement environmental programs. In addition, EPA had reduced appropriations for fiscal year 2013 that resulted in a funding level below the fiscal year 2012 enacted level for almost all of EPA's accounts. Consequently, although EPA limited hiring and travel, among other actions, it furloughed nearly all of its employees for 47 hours and reduced funding for its state and tribal partners by over \$200 million. EPA officials stated that, as a result of sequestration in fiscal year 2013, EPA generally did less of what it planned to do. For example, it eliminated over 100 water quality protection and restoration projects and conducted 2,600 fewer underground storage tank inspections. EPA took these actions rather than canceling significant aspects of its work. Officials said over the long term it will be difficult to determine sequestration's effects on the agency's programs and goals because it is challenging to separate those effects from other budget constraints.

Planning

EPA began planning for sequestration in January 2013 when OMB issued specific guidance. Specifically, EPA officials reported that they worked with their contract offices to consider contracting options. In addition, EPA human resources officials and union officials had pre-decisional meetings to discuss the number of furlough hours that would be needed, and the grants office discussed reducing funding levels to EPA's grantees. However, EPA officials did not provide further details on what options they evaluated in their planning efforts. EPA's guiding principles in planning for sequestration consisted of implementing OMB guidance with equity and fairness for EPA employees and major stakeholders while safeguarding EPA's mission.

EPA officials indicated that, beyond the challenge of planning for sequestration specifically, EPA had reduced appropriations for fiscal year 2013 that resulted in a funding level below the fiscal year 2012 enacted level for almost all of EPA's accounts.⁶⁹ According to information provided in EPA's operating plan for fiscal year 2013, key efforts to implement these reductions prior to applying sequestration included using carryover balances from fiscal year 2012 to reduce current costs without affecting planned work and reducing the level of funding available for certain grant programs by 11 percent, among other steps. EPA also had to plan to implement a \$50 million funding rescission in addition to sequestration.

⁶⁹The Consolidated and Further Continuing Appropriations Act, 2013 included the following rescinded amounts: (1) Hazardous Substance Superfund, \$15 million, and (2) State and Tribal Assistance Grants, \$35 million.

EPA. These PPAs were generally at the program area level which reflected the structure of how EPA executes its budget. However, for State and Tribal Assistance Grants and geographic programs PPAs were defined at a more detailed project level. In some instances, EPA's sequestered PPAs represented PPAs with a large proportion of EPA staff costs, while in other instances they represented PPAs consisting primarily of grants or assistance provided to others.

Transfer Authority

The annual appropriations acts for 2012 and 2013 provided EPA with limited transfer authorities for specific activities. For example, EPA was authorized to transfer up to \$10 million to conduct removal activities related to oil spills.

Reprogramming Limitations

Subject to certain limitations, EPA may generally reprogram not more than \$1 million annually or 10 percent of an affected program without notifying the Appropriations Committees.

For information on the objectives, scope, and methodology, see [appendix I](#). For a detailed glossary of budget terms, see [appendix V](#).

EPA officials reported that the structure of EPA's PPAs presented a challenge to planning for sequestration in a way that upheld EPA's guiding principles. Sequestration was applied as an across-the-board reduction to every PPA, which EPA officials said was constraining given the agency's PPA structure because certain PPAs were made up almost entirely of staff salaries. For example, according to an EPA budget document, there were 10 program areas for which personnel costs exceeded 70 percent of the total, and 4 for which no funding remained available for program costs other than personnel due to sequestration and 2013 salary increases. Moreover, EPA officials said the agency does not have the flexibility to absorb sequestration by reducing expenses for overtime and seasonal employees because these costs represent a limited part of EPA's budget. Further, EPA officials said the agency did not generally have the authority to transfer funds between appropriation accounts. As a result of these constraints, EPA officials said that it was difficult to plan for sequestration in such a way that minimized significant effects on its employees (i.e., implementing furloughs) and that did not disproportionately affect programs that supported EPA's state and tribal partners.

Implementation

EPA officials reported that cost savings measures taken by the agency prior to sequestration, such as a hiring freeze, helped to mitigate the effects of the reductions; however, EPA found it necessary to take a range of personnel, contracting, and other actions to implement sequestration. EPA officials stated that, in fiscal year 2012, EPA limited hiring to one new employee for every two employees that left the agency. EPA officials also stated that, given constrained budgets, in recent years EPA consolidated its facility space and reduced mission-related travel. While these steps helped constrain the growth in EPA's costs and position the agency to implement the reductions required by sequestration, EPA took a range of additional or enhanced actions to implement sequestration. Ultimately, about 20 percent of the overall agency-level reduction in EPA's fiscal year 2013 operating plan was taken against payroll costs and about 80 percent from other costs such as inspections, hazardous waste site clean-up activities, and grant awards to state and tribal governments.

One of the more significant personnel actions EPA took was to furlough each employee, excluding Office of Inspector General employees, for 47 hours, including two agency-wide furlough days.⁷⁰ These furloughs of approximately 16,000 employees resulted in a savings of close to \$48 million (\$8 million per day). EPA required nearly all employees to take the same number of furlough hours to ensure equitable treatment of employees, to minimize disruptions to EPA operations, and to ensure consistency in applying sequestration to all program areas. Initial agency estimates of the required number of furlough hours were much higher (104 hours or 13 days). These initial estimates were based on a direct calculation of a 5 percent sequestration reduction to EPA's fiscal year 2013 salary appropriations, but were reduced several times during the spring and summer of 2013 when better estimates could be calculated. According to an EPA document detailing aspects of the furlough process for employees, the estimated need for employee furloughs was reduced because of cost savings EPA realized from spending controls put in place

⁷⁰EPA reported the Office of Inspector General was able to avoid the need to furlough employees by applying carryover balances from prior fiscal years.

earlier in the fiscal year, including reduced hiring and limited travel, as well as employee separations and voluntary leave without pay.

Other significant actions EPA took to implement sequestration included the following:

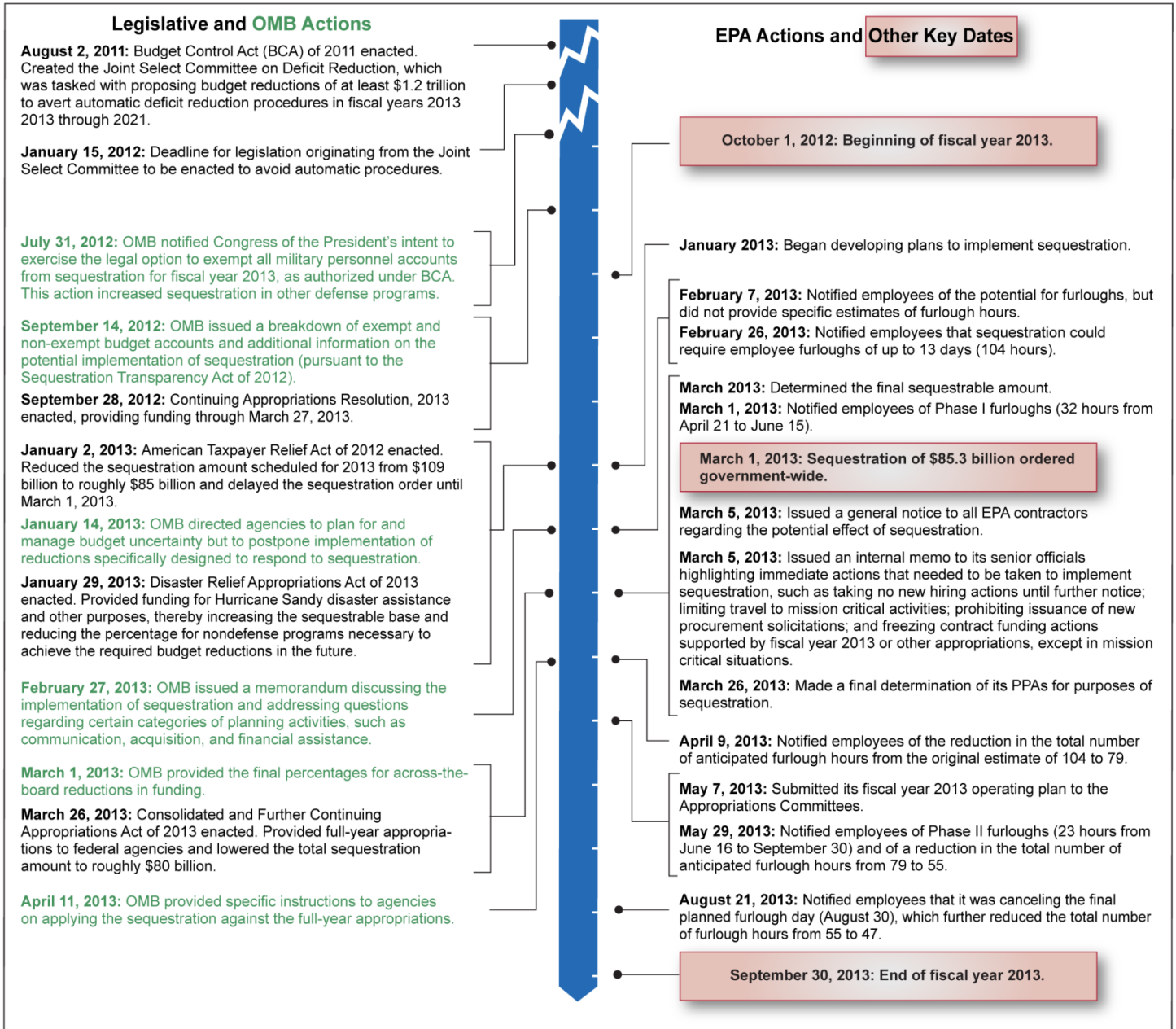
- **Actions affecting personnel:** Reducing overtime and freezing and further reducing hiring. Beginning in March 2013, EPA froze all new hiring. While EPA later allowed some new hiring to take place, in April EPA enhanced the policy it implemented prior to fiscal year 2013 by requiring three departures for each new hire.
- **Contracting actions:** Reducing contracts and operating and administrative costs. EPA reduced available contract resources by an estimated \$50 million.
- **Other actions:** Limiting travel and training to essential, mission critical activities and reducing grants and interagency agreements. EPA projected that State and Tribal Assistance Grants, which are for programs such as air quality management and pollution control, would be reduced by about \$209.5 million and other grant or interagency agreement funding would be reduced by \$51.9 million, resulting in cancellations or reductions to some new or existing awards and competitions.

EPA officials reported that EPA generally did not use reprogramming as a tool to mitigate the effects of sequestration. The officials said the agency has generally not pursued reprogramming actions exceeding the parameters identified by Appropriations Committees, except in instances where the agency experiences a change in its fixed costs (e.g., rent). In addition, the officials said that if EPA had reprogrammed funds to mitigate reductions to one program at the expense of another, it would have gone against its principle of applying sequestration equitably across the agency's activities. However, EPA submitted one reprogramming request to cover increased rent costs charged to EPA by the General Services Administration for fiscal year 2013.⁷¹ EPA sought to move a total of about \$18.9 million from PPAs in several different accounts to facilities, infrastructure, and operations PPAs in these accounts. Late in fiscal year 2013 EPA finalized its rent payments through reprogramming.

Figure 20 shows EPA's key actions to plan for and implement sequestration.

⁷¹The General Services Administration is generally required to charge agencies renting space in its buildings at rates that approximate commercial charges for comparable space and services.

Figure 20: Timeline of Fiscal Year 2013 Sequestration Planning and Implementation at the Environmental Protection Agency



Source: GAO analysis of legislation, OMB guidance, and EPA documentation and other information provided by agency officials.

EPA officials identified several lessons learned from their experience implementing sequestration. Specifically, they thought that EPA was transparent in its communication of the potential effects on employees and worked well with the employees' union representation.⁷² They noted that, in the future, to minimize disruption and concerns among employees, they would continue to engage the union early and often and be sure to communicate considerations and constraints to employees. For example, EPA would more clearly communicate why estimates of furlough hours tend to be high and tend to decline throughout the fiscal year (the officials said initial estimates tend to be high to ensure sufficient funds are available). Also, EPA found that it did not have adequate guidance prescribing the terms and conditions for on-site service contracts that could be disrupted because of a furlough-related facility closure. EPA took steps to develop new guidance prior to its first agency-wide furlough day on May 24.

Should sequestration occur again in a future fiscal year EPA officials stated that actions taken in fiscal year 2013 could be replicated. However, these actions would depend on the levels of and conditions on any future funding. EPA officials stated that they would, to the extent possible, try to reduce or eliminate any furloughs in future fiscal years.

Effects on Operations, Performance, or Services to the Public

EPA generally did less of what it planned to do. Since EPA did not have flexibility to move funding between accounts, EPA took reductions across many programs in many categories rather than canceling any specific programs. EPA implemented two agency-wide mandatory furlough days and scheduled them near federal holidays, when many staff were likely to be on leave, to minimize disruption to operations. Despite the consideration EPA gave to scheduling the mandatory furlough days as well as the flexibility the agency provided employees in choosing when to take other required furlough hours, EPA officials stated that employee morale has suffered and is a major concern.

In terms of effects on specific programs and performance goals, EPA officials identified challenges to providing information on what effects, if any, there will be from sequestration. For example, EPA officials stated that many of the goals of EPA's major environmental programs are long-term goals (e.g., improving the quality of air, water, and land). Also, according to an agency official, EPA programs to protect air, water, and land depend on many interconnected activities, such as scientific research, risk assessment, environmental monitoring, regulatory development, enforcement, and other activities, which make it challenging to link specific activities with overall results. As a result, EPA officials stated it is difficult to identify the effects of specific sequestration reductions and, in particular, to isolate the effects of these reductions from other fiscal constraints. However, they provided specific estimates of the effects on some of EPA's programs including:

- Reducing fellowships, by about 118, which support science, technology, engineering, and math and which help to educate the next

⁷²Some EPA employees (represented by their union) have filed grievances contending that the way EPA implemented required sequestration cuts was arbitrary and capricious, and violated collective bargaining agreements. They are seeking lost pay due to furloughs and transparency about how furlough days are designated. As of December 2013 arbitration hearings had not been scheduled.

generation of environmental scientists. EPA planned to award 151 fellowships but awarded only 33.

- Eliminating over 100 water quality protection and restoration projects. EPA does not have final data on the number of projects funded because states are still in the process of making awards. Water quality projects assist small and disadvantaged public drinking water systems and protect public health. EPA officials stated that reduced funding will affect states' ability to reduce the nitrogen and phosphorus pollution that contaminates drinking water supplies, causes toxic algae blooms, and deprives waters of oxygen that fish need to survive.⁷³
- Reducing state grants for underground storage tank inspections and contaminated site cleanups, resulting in an estimated 2,600 fewer inspections and 290 fewer cleanups. In fiscal year 2012, when the most recent baseline data were available, states conducted 98,869 inspections and 10,927 cleanups. Concerning reduced state grants for underground storage tank inspections in particular, EPA officials stated that some states struggle to inspect a third of their facilities every year and the reduction in funding limits their ability to maintain the 3-year inspection requirement, which may increase the risk of storage tank releases that contaminate soil, groundwater, surface water, or indoor air.
- Reducing hiring and furloughing staff resulting in 1,000 fewer annual inspections (out of about 20,000) being conducted by EPA's compliance enforcement staff. EPA officials stated that fewer inspections reduce the deterrence effect on noncompliance from the possibility of an inspection. However, the officials stated the reduced deterrence effect is difficult to quantify.

According to EPA officials, EPA has not completed fourth quarter data collection, analysis, and reporting for its priority performance goals. However, EPA met its prior quarterly milestones with one exception: improve, restore, or maintain water quality by enhancing nonpoint source program accountability, incentives, and effectiveness. EPA officials said it is unclear whether sequestration directly contributed to that milestone's delay because priority performance goals are long-term goals which rely on work by many interconnected programs.

Agency Comments and Our Evaluation

We requested comments on a draft of this product from EPA. On February 12, 2014, a senior policy advisor in EPA's Office of the Chief Financial Officer provided us with the following comments via e-mail on the draft.

The EPA official provided suggestions to further explain the context surrounding the agency's actions to plan for and implement sequestration. Specifically, the official recommended putting the actions EPA took to prepare for sequestration in chronological order with actions the agency took to prepare for other reductions to its funding. We acknowledge in the report that EPA faced other funding reductions, which created challenges in its efforts to plan for sequestration. However, we did not revise the

⁷³A harmful algal bloom, also known as a red tide, is the proliferation of toxic nuisance algae that negatively affect natural resources or humans. Effects of these phenomena include human illness (or death) from contaminated seafood, marine mammal and seabird deaths, and extensive fish kills.

report to reflect EPA's efforts to plan for different funding reductions in chronological order because EPA's efforts to plan for sequestration were the focus of our work. The official also noted that EPA had to plan for a possible government-wide shutdown. As the government-wide shutdown did not occur until fiscal year 2014, we did not include its effects as part of our efforts to examine agencies' planning for sequestration in fiscal year 2013.

The EPA official also commented on information discussing why the agency did not begin more detailed sequestration planning prior to January 2013. Specifically, the official said that EPA began more detailed planning in January 2013 because that was when OMB issued specific guidance. Previously, EPA officials had indicated that uncertainty in agency personnel costs prior to January 2013 contributed to delays in planning for sequestration. However, in commenting on the draft, the EPA official noted that the agency carefully estimates future personnel costs. We adjusted the draft based on the EPA official's comments but did not assess the accuracy of EPA's personnel cost estimation procedures as part of the scope of our work to examine agency efforts to plan for and implement sequestration.

Additionally, the EPA official commented on the information presented in the report discussing the challenges associated with identifying specific effects of sequestration on agency programs. In particular, the official stated that many EPA programs depend on interconnected activities to protect air, water, and land, such as scientific research, risk assessment, environmental monitoring, regulatory development, enforcement, and other activities, which make it challenging to link specific activities with overall results. We adjusted the draft based on the EPA official's comments.

EPA also provided technical comments, which we incorporated as appropriate.

GAO Contact

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Mission and Budget Overview

Mission

GSA supports the missions of all federal agencies by providing them with workspace, acquisition services, administrative policies, and citizen engagement tools so that they can focus on achieving their respective missions.

2103 Funding Prior to Sequestration

GSA received a total of \$22.2 billion for fiscal year 2013 including roughly \$8.3 billion in discretionary appropriations and \$13.9 billion in direct spending.

Sequestered Amount

While a significant portion (98 percent) of the agency's funding was exempt from sequestration, \$13.4 million was sequestered—\$12.3 million in discretionary appropriations and \$1.1 million in direct funds.

Programs, Projects, and Activities (PPA)

Sequestration applied to nine PPAs within nine accounts at GSA. For eight of these accounts, the agency's PPAs are synonymous with its account for the purposes of sequestration. According to GSA officials, this structure gave them flexibility to determine where cuts could be made. The ninth account included multiple PPAs, but only one was subject to sequestration.

Transfer Authority

GSA has some specific transfer authority for the Federal Buildings Fund, but only to the extent that is necessary to meet program requirements which must be approved in advance by the

(Continued on following page.)

General Services Administration

Less than 1 percent of the total funding for the General Services Administration (GSA) was sequestered in fiscal year 2013. GSA's two largest funds, the Federal Buildings Fund, which collects rent from tenant federal agencies at GSA properties, and the Acquisition Services Fund, which finances the purchase of products and services for federal agencies, represent over 98 percent of GSA's total funding for fiscal year 2013. The Acquisition Services fund was exempt from sequestration, while the Federal Buildings Fund was largely exempt. In light of sequestration, GSA officials said GSA cut its operations, postponed some planned activities, and took advantage of an effort to consolidate support services. Even though the portion of the budget sequestered was very small, and steps taken to mitigate the effects of sequestration were sufficient for fiscal year 2013, GSA officials indicated that they may not be able to address a future sequestration in a similar manner.

Planning

GSA officials reported they began planning for sequestration in July 2012, when initial guidance was provided by OMB. Officials said GSA's guiding principles were to protect its ability to perform its core operations and meet its mission of supporting the federal community while limiting the effect on other agencies and the public. GSA officials were anticipating funding cuts for future fiscal years, and much of the planning consisted of accelerating some actions to reduce spending that it anticipated making in future fiscal years.

Implementation

GSA officials reported they curtailed operational and administrative costs in areas such as training, travel, facilities, and supplies. GSA also addressed sequestration by reducing or canceling contracts, which covered administrative services as well as information services and technology support for the agency's USA.gov website and citizen information services. GSA did not consider any employee furloughs as part of its sequestration efforts.

GSA officials said they also moved forward with a planned consolidation of selected administrative functions. GSA officials said they designed this effort to address the duplication of several support services throughout the agency, such as human resources, information technology, and finance. By consolidating duplicative support services, GSA officials indicated that the agency will achieve cost savings, including full-time equivalent reductions. In addition, GSA officials said consolidating these resources brings the agency's overhead and indirect activities under the oversight of a single, accountable individual.

To minimize the effects of sequestration, GSA reported several offices within GSA implemented hiring freezes, left staff vacancies unfilled, or

Appropriations Committees. GSA also has other authority under 40 U.S.C. § 3173(d) to transfer unobligated balances for payroll and operating expenses into the major equipment acquisition and development activity of the Working Capital Fund.

Reprogramming Limitations

For fiscal year 2013, GSA could reprogram funds subject to certain limitations within an account. Funds could not be reprogrammed for certain purposes, such as creating or reorganizing offices, programs, or activities, unless GSA notified the Appropriations Committees in advance.

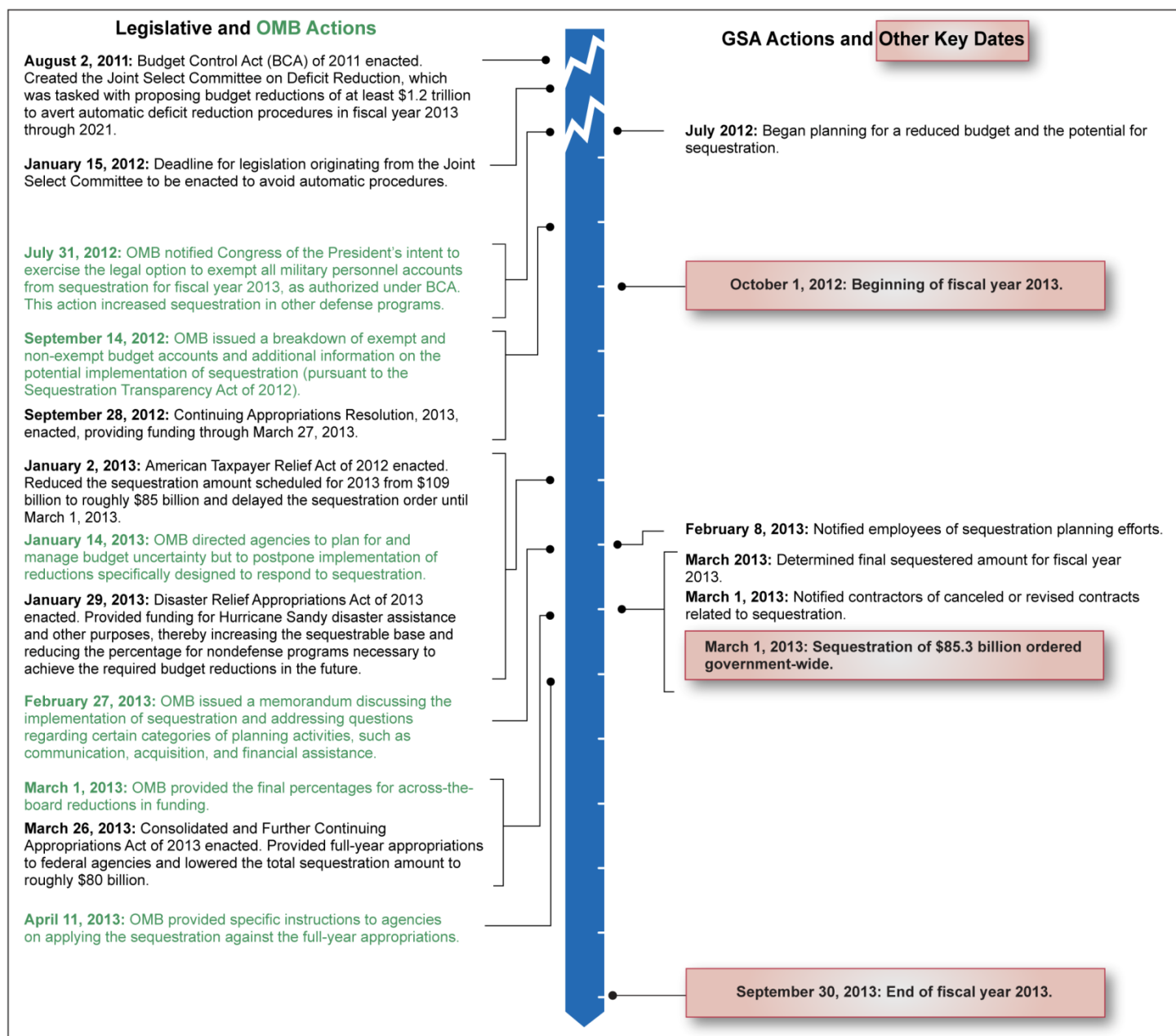
For information on the objectives, scope, and methodology, see [appendix I](#). For a detailed glossary of budget terms, see [appendix V](#).

relied on attrition to achieve cost savings. In addition, GSA reported that it drew on carryover balances from the Federal Citizen Services Fund, which provides citizens with information about an array of government services via the Internet, phone, e-mail and print; and the Electronic Government Fund, which finances innovative technologies and solutions to provide services through these funds.

GSA officials stated they did not take any transfer actions or reprogram funds in response to sequestration.

See figure 21 for a timeline of sequestration planning and implementation events at GSA.

Figure 21: Timeline of Fiscal Year 2013 Sequestration Planning and Implementation at the General Services Administration



Source: GAO analysis of legislation, OMB guidance, and documentation from GSA.

Effects on Operations, Performance, or Services to the Public

Since most of its funding was exempt from sequestration, GSA officials reported they do not anticipate substantial effects from the actions taken as a result of sequestration. Accordingly, agency officials indicated that they expect to be able to meet the agency's strategic goals and performance measures despite sequestration. However, some planned upgrades and outreach activities were affected. For example, GSA curtailed plans to modernize technology in the Transportation Audits Division in response to recent inspector general recommendations related to GSA's oversight of government-wide transportation expenses. In addition, according to GSA officials, GSA plans to reduce its support of certain citizen outreach programs through its external website (<http://www.USA.gov>), which is the single central source for the public to obtain information on an array of government programs.

Agency Comments

We provided GSA with a draft of this report for review and comment. GSA provided technical comments, which we incorporated as appropriate.

GAO Contact

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Mission and Budget Overview

Mission

NASA's mission is to drive advances in science, technology, and exploration to enhance knowledge, education, innovation, economic vitality, and stewardship of the Earth. Projects range from space satellites with advanced sensors, to a spacecraft for returning samples from an asteroid, to telescopes for exploring the universe, to spacecraft to transport humans and cargo beyond low-Earth orbit.

2013 Funding Prior to Sequestration

NASA received a total of \$17.5 billion for fiscal year 2013, including \$1.3 million in direct spending.

Sequestered Amount

The sequestered amount was \$626.6 million—\$626.5 million in discretionary appropriations and \$66,300 in direct spending.

Programs, Projects, and Activities (PPA)

NASA's PPAs are synonymous with its 10 appropriation accounts. Nine of the PPAs were subject to sequestration. The structure of the PPAs corresponds to the general areas of research that NASA handles in its programs and includes all of the costs associated with the specific programs under each PPA.

Transfer Authority

In general, for fiscal year 2013 funds, the Consolidated and Further Continuing Appropriations Act, 2013, Pub. L. No. 113-6, 127 Stat. 198, 264, authorized NASA to transfer up to 5 percent of an appropriation

(Continued on following page)

National Aeronautics and Space Administration

The National Aeronautics and Space Administration (NASA) absorbed most of its sequestration reductions by slowing its intended development of the Commercial Crew and Space Technology programs, according to NASA officials. This allowed NASA to maintain funding for commitments in programs that are fully under way. However, if sequestration continues, NASA may not be able to use this approach for future years without facing consequences in delaying projects with committed baselines. Specifically, NASA currently has only five major projects that have not established baselines and several of these are planned to be baselined this year, which would limit NASA's ability to avoid affecting projects with established commitments. Delaying milestones and testing for projects that have established cost and schedule baselines would likely lead to longer and more costly projects. In addition, according to NASA officials, additional funding cuts may result in NASA missing certain deadlines, such as the first launch for the Space Launch System program scheduled for December 2017. Furthermore, NASA would miss milestone payments in the Commercial Crew program and the resulting delays could prolong the nation's reliance on Russia to transport crew to and from the International Space Station (ISS).

Planning

NASA began planning for sequestration in December 2012. According to agency officials, NASA's guiding principles were to continue with business as usual. These officials said that NASA was already operating at a lower spending level than the budget level it requested with the funding provided under the continuing resolution, which only permitted the agency to continue ongoing efforts and prohibited the start of new activities, such as research and development projects. During fiscal year 2013, NASA was ramping down from two large efforts—the Space Shuttle program and the Mars Curiosity Rover project—which combined accounted for over \$773 million of NASA's fiscal year 2012 budget. NASA expected to shift its focus and ramp up its funding in the Commercial Crew and Space Technology programs in fiscal year 2013. NASA's role as a research and development agency allowed it to maintain funding for commitments in projects that were fully under way and absorb most of its sequestration funding decreases by slowing activities in these and other development areas. As a result, NASA did not consider furloughs or terminating contracts.

According to agency officials, no major challenges were encountered in planning for or implementing fiscal year 2013 sequestration, particularly because NASA's PPA structure had been used in budget execution and operations for several years. NASA provided guidance to its employees as it planned and implemented sequestration. Specifically, this guidance

account to another account. The transferred amount cannot result in an increase of more than 10 percent in the receiving account. Transfers must also comply with certain reprogramming procedures.

Reprogramming Limitations

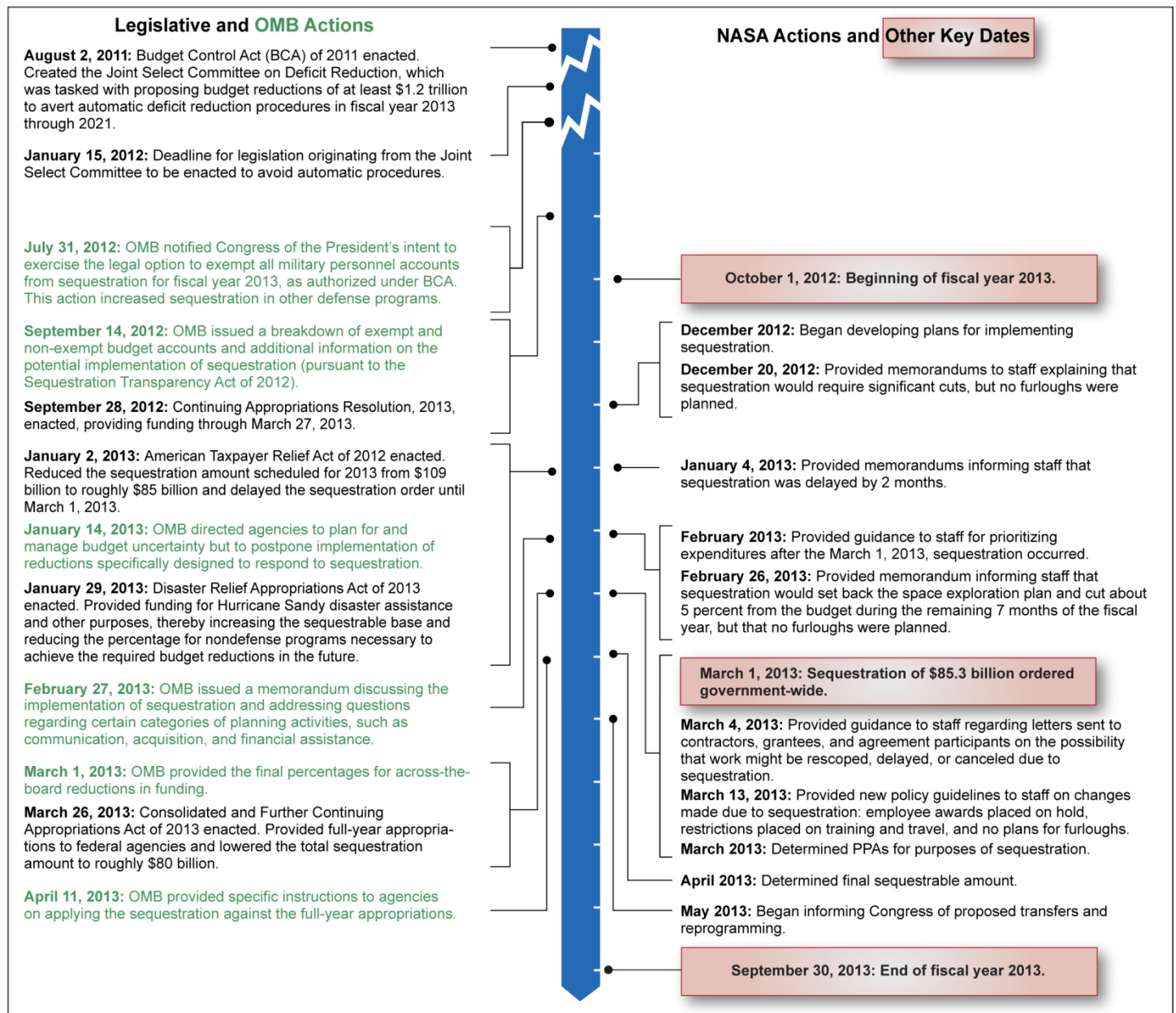
NASA's reprogramming procedures provide certain limitations. For example, NASA cannot reprogram funds if the increase augments an existing program by more than 10 percent or \$500,000 (whichever is less). (Pub. L. No. 113-6, § 505.)

For information on the objectives, scope, and methodology, see [appendix I](#). For a detailed glossary of budget terms, see [appendix V](#).

directed projects to prioritize fiscal year 2013 spending on salaries for civil servants, fixed costs and safety activities of ongoing operations, and projects that were further along in development and had committed to established cost and schedule baselines.

See figure 22 for a timeline of planning and implementation events at NASA.

Figure 22: Timeline of Fiscal Year 2013 Sequestration Planning and Implementation at the National Aeronautics and Space Administration



Source: GAO analysis of legislation, OMB guidance, and documentation from NASA.

Implementation

NASA canceled or strictly limited employee monetary awards, travel, and conference attendance. NASA also transferred and reprogrammed funding to ensure the agency continued to focus on its key priorities—establishing a space launch system to support travel beyond Earth’s orbit, exploring Mars, supporting commercial crew transportation to the ISS, and providing technologies and instruments for further space research. Specifically, according to the operating plans submitted to Congress, NASA transferred \$100.2 million from its Space Operations and \$6.1 million from its Education accounts to its Space Technology (\$14.7 million) and Exploration (\$91.6 million) accounts. The transfer helped to restore funding cut by sequestration to continue to develop and test space technologies, to support the operation of the ISS and its research, and to continue to develop the Orion crew vehicle for beyond low-Earth orbit exploration.

Within the Science account, NASA reprogrammed \$48.7 million from the Planetary Science and Astrophysics programs to two other programs. The funding was reprogrammed to the Heliophysics program (\$4.9 million) to sustain missions in development. The funding was also reprogrammed to the James Webb Space Telescope program (\$43.8 million) to ensure that the telescope program, which is intended to advance understanding of the origin of the universe, remains on schedule to launch in 2018. The reprogrammed funds included \$41 million in costs savings realized on the Mars Atmosphere and Volatile Evolution program—NASA’s mission to explore the Martian atmosphere that launched in November 2013. In addition, NASA reprogrammed funds within the Space Operations account from the ISS program to the Space and Flight Support program. This reprogramming restored some of the sequestered funding needed to support the Space Communications and Navigation program—NASA’s program office that coordinates all of the agency’s space communications activities. As a result, NASA is delaying Commercial Resupply Services and reducing the number of flights to the ISS.

According to NASA officials, without reprogramming the additional funding to the Space Communications and Navigation program, one of its projects—the Space Network Ground Segment Sustainment, which provides essential communications and tracking services for space missions—would have been delayed from entering the integration and testing phase. This delay would subsequently have delayed the final delivery of the system and affected the availability of necessary communications for NASA’s spacecraft.

Effects on Operations, Performance, or Services to the Public

Because the agency was able to transfer or reprogram funding to key priorities, the agency expected to meet its performance goals for fiscal year 2013. However, NASA may not be able to accommodate further funding reductions in future years without facing consequences in delaying projects already under way. NASA expected that fiscal year 2014 would be challenging if funding levels were reduced below fiscal year 2013 levels. In particular, NASA officials said that the agency would miss milestone payments in the Commercial Crew program. Delays in the program could result in prolonging the nation’s reliance on Russia to transport crew to and from the ISS. In addition, officials in some project offices expressed concerns that the full effect of sequestration is still uncertain. The officials anticipated a more significant effect if

sequestration was to occur again. For example, the James Webb Space Telescope program reported that a cut in its fiscal year 2014 budget could adversely affect the execution of the current project plan and potentially jeopardize the October 2018 launch date.

In addition, officials from the Space Network Ground Segment Sustainment project, which recently experienced performance issues, stated that the project no longer has reserve funds and they are considering descoping some of the planned work. Space Launch System program officials also were concerned about their ability to stay on track for the first launch scheduled to occur in December 2017 if funding is reduced in future years.

Agency Comments

We provided a draft of this report to NASA. NASA indicated it had no comments.

GAO Contact

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Mission and Budget Overview

Mission

NSF's mission is to promote the progress of science; to advance the national health, prosperity, and welfare; and to secure the national defense. In support of that mission, NSF's 2013 budget request projected that over 80 percent of the agency's funding would be used for research in broad areas, such as mathematics and physical sciences, with about 12 percent provided for education and human resources efforts. Almost 90 percent of the support NSF provides for these core activities goes to academic institutions and, to a lesser extent, the private sector.

2013 Funding Prior to Sequestration

NSF received a total of over \$7.36 billion for fiscal year 2013 including almost \$7.24 billion in discretionary appropriations and \$125 million in direct spending.

Sequestered Amount

Of these amounts \$360.8 million was sequestered—\$355.7 million in discretionary appropriations and \$5.1 million in direct spending. Also, \$25 million of NSF's total funding was exempt from sequestration because these funds came from private donations.

Programs, Projects, and Activities (PPA)

NSF's appropriations are provided in seven accounts with the Research and Related Activities account separated into defense and non-defense activities, which resulted in NSF having eight PPAs for purposes of sequestration.

(Continued on following page.)

National Science Foundation

National Science Foundation (NSF) officials reported that several circumstances helped the agency mitigate the effects of sequestration in fiscal year 2013. In particular, NSF officials indicated that NSF received a higher appropriation than it anticipated for the year, which helped limit the reduction in the number of new grant awards the agency provided—NSF's primary action to implement sequestration. In addition, the flexibility NSF received by having its eight PPAs defined at a relatively high level combined with its use of its transfer authority helped it to avoid significant effects on agency staff and other priorities, such as maintaining support for ongoing facilities construction projects. NSF officials awarded 690 fewer new grants in fiscal year 2013 as an effect of sequestration. Although they could not determine the effects of fewer NSF grant awards, NSF officials said effects would likely include less innovation and advancement in science and engineering research and education in areas such as emerging technologies and cybersecurity.

Planning

According to NSF officials, in October 2012 NSF began informal planning for sequestration and in mid-December 2012 began to more specifically examine the potential effects of sequestration. During this period and through February 2013, NSF senior officials developed pre-decisional scenarios to examine how NSF's operational capabilities would be affected by the use of its transfer authority. In particular, these officials analyzed ways in which the estimated sequestration reductions could be accommodated in two of NSF's accounts: (1) Major Research Equipment and Facilities Construction and (2) Agency Operations and Award Management. The officials determined that NSF would likely have to use its transfer authority to supplement available funding in the Equipment and Facilities Construction account to keep ongoing major facilities construction projects on track, and to avoid layoffs of scientific and technical staff supporting these projects. NSF officials also determined that reductions in support for these projects in fiscal year 2013 could lead to increased costs in future years. In addition, NSF officials analyzed how the agency might accommodate sequestration reductions in the Agency Operations account, and considered the potential savings and mission effects associated with actions such as hiring freezes, employee furloughs (between 1 and 10 days), and reducing general operating expenses, among others.

From October through December 2012, NSF began developing guiding principles for sequestration planning. NSF finalized the principles after receiving OMB guidance in January 2013. NSF's three guiding principles for sequestration planning were to protect:

1. commitments to NSF's core mission by maintaining existing awards;
2. the NSF workforce; and
3. science, technology, engineering, and mathematics human capital development programs, especially graduate research fellowships.

Transfer Authority

In its past two annual appropriations, NSF has been given authority to transfer up to 5 percent of any appropriation account as long as no appropriation is increased by more than 15 percent by such transfers, subject to certain restrictions.

Reprogramming Limitations

NSF may generally reprogram funds within an appropriation account. In its past two annual appropriations, however, NSF has been required to notify the Appropriations Committees when it reprograms funds in certain scenarios, including when reprogramming would augment a PPA by \$500,000 or 10 percent, whichever is less.

For information on the objectives, scope, and methodology, see [appendix I](#). For a detailed glossary of budget terms, see [appendix V](#).

NSF officials stated that while NSF developed guiding principles prior to receiving the January 2013 OMB guidance—which encouraged agencies to protect their ability to meet their core mission and avoid decisions that may be beneficial in the short term but harmful in the long term—this guidance helped reassure NSF that its principles were a sound approach to planning for sequestration.

NSF officials said a key planning challenge was the uncertainty of whether sequestration would actually occur and, if so, when. They also said they found OMB’s guidance on planning for sequestration to be restrictive on the timing and content of formal communication, particularly when and how NSF could communicate (1) potential furlough decisions to reassure its staff that it did not plan to implement furloughs, and (2) the effect of sequestration to other stakeholders (i.e., entities who might be interested in applying for research funding from NSF). In addition, NSF officials said OMB’s February 2013 guidance on implementing sequestration required agencies to place increased scrutiny on issuing discretionary monetary awards to employees. However, the officials said this guidance was unclear because they were uncertain whether NSF could still provide discretionary awards or only those awards that were legally required. In addition, according to an NSF official there was uncertainty around the meaning of the term “legally required.” Although OMB provided additional clarifying guidance in April 2013, the final decision on providing monetary awards was left for each agency counsel to determine.

Implementation

NSF’s primary action to implement sequestration was to reduce new grants in fiscal year 2013. Each year NSF receives 50,000 to 55,000 proposals and, in recent years, has typically funded about 22 percent of them. Under sequestration, NSF received about 400 more proposals than it received in fiscal year 2012 and the number of awards decreased by 6 percent—from 11,534 to 10,844—or 690 fewer awards in fiscal year 2013.

NSF also canceled staff monetary awards pursuant to OMB direction that federal agencies take such steps. NSF officials said the agency had already slowed or reduced hiring and employee travel prior to sequestration. In addition, NSF determined that furloughs would not be necessary to implement sequestration.

NSF officials identified several circumstances that helped the agency mitigate the effects of sequestration. First, according to NSF officials, NSF’s appropriation for fiscal year 2013 was \$300 million more than anticipated—resulting in a 2 percent reduction from its fiscal year 2012 funding level rather than a 5 percent reduction from the level established pursuant to the continuing resolution. NSF officials credited this development with helping to reduce the estimated number of awards it would not be able to provide in fiscal year 2013 from 1,000 to the actual final amount of 690.

Second, NSF transferred funds between accounts that are used primarily to support new grant awards to accounts that support key construction projects and agency operations. Specifically, the transfers were made as follows:

- NSF transferred \$12.47 million from the Research and Related Activities account to the Major Research Equipment and Facilities Construction account. According to NSF documentation, this funding ensured that all ongoing projects would continue in fiscal year 2013,

and protected long-term facility investments, such as upgrading major research equipment and facilities.

- NSF transferred \$13.44 million from the Research and Related Activities account and \$2.03 million from the Education and Human Resources account to the Agency Operations and Award Management account. This funding helped the agency avoid staff furloughs and hiring freezes and helped fund the grant proposal review process and post-award oversight and monitoring activities. While NSF transferred funds from its Education and Human Resources account, NSF maintained the level of funding within this account for its Graduate Fellowship Research program at the full fiscal year 2013 request level.

In developing this strategy, NSF officials noted they benefited from the flexibility afforded to the agency by having its PPAs defined generally at the level of its appropriation accounts for purposes of sequestration. Specifically, since NSF has only eight PPAs across seven accounts, NSF officials said they were able to weigh potential effects of sequestration cuts more broadly than at the level of a particular area of focus within an account.

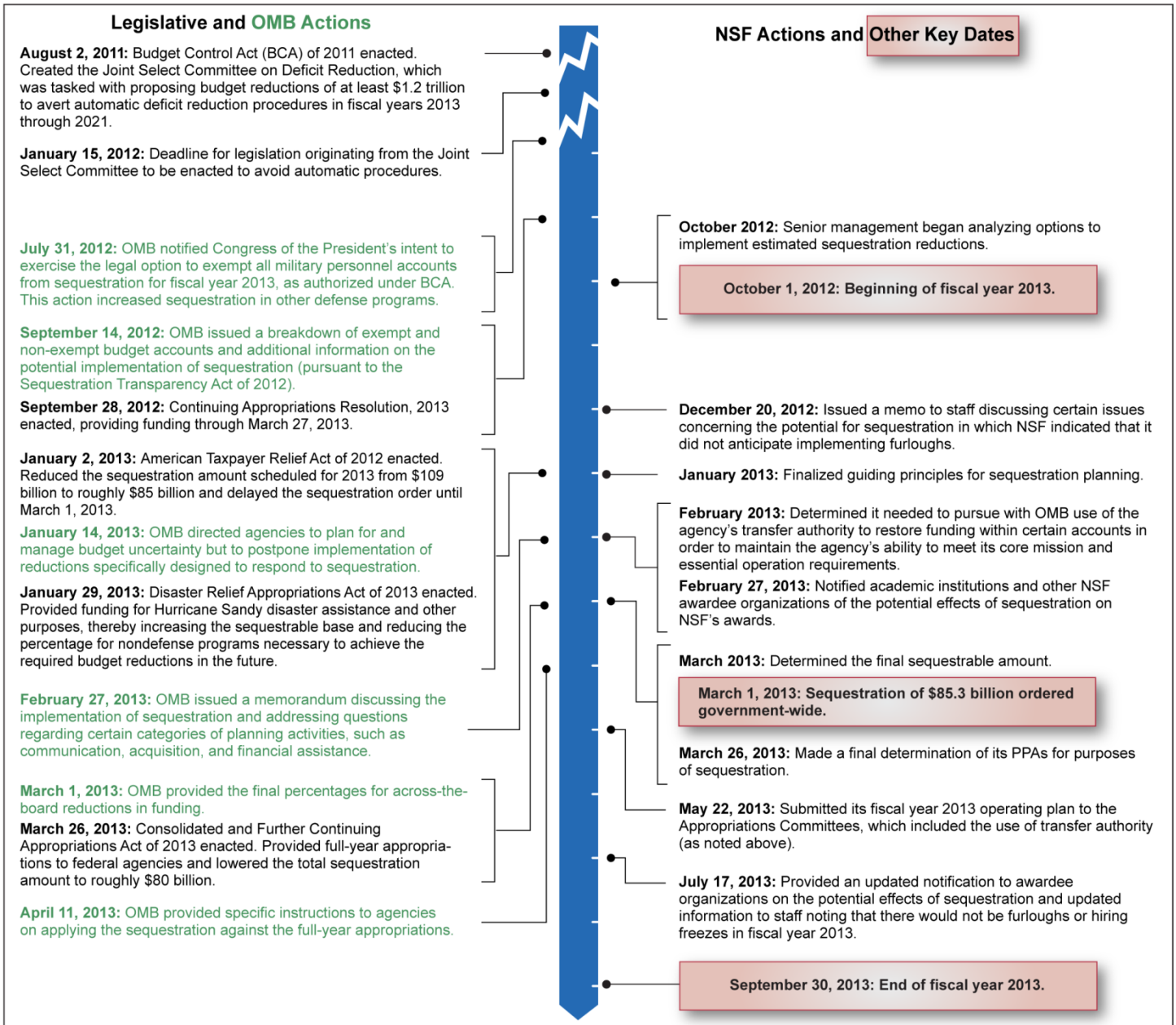
Third, NSF officials stated that the agency's normal business process and its approach to ongoing budget uncertainty helped to mitigate the effects of sequestration. NSF officials said the agency's program budget is about 95 percent research grant awards and cooperative agreements, and most of this spending occurs in the third (26 percent) and fourth (46 percent) quarters of the fiscal year. As a result, NSF was able to implement sequestration largely by reducing future awards. In addition, NSF planned to allocate a smaller percentage of its budget at the start of fiscal year 2013 than normal. NSF officials stated that the agency typically plans to allocate 90 percent of its funding under a continuing resolution, thereby allowing for a 10 percent change in the level of funding actually received during the fiscal year. However, for fiscal year 2013, NSF officials planned for an 80 percent allocation of funding because of the significant budget uncertainties regarding a continuing resolution and potential sequestration.

Fourth, NSF officials said that, in certain instances, they chose to provide a continuing grant award as opposed to a grant award that was fully funded up front.⁷⁴ The officials said that providing a greater percentage of continuing awards allows more awards to be made in a particular year because not all of the funding is obligated in the initial award year. However, doing so reduces the agency's flexibility in the future because of the intent to obligate funding to past awardees. As a result, NSF officials said the agency limited the extent to which it increased the percentage of continuing awards.

Figure 23 shows NSF's key actions to plan for and implement sequestration.

⁷⁴NSF standard grants provide a specific level of support for a specified period of time (i.e., they are fully funded up front), while continuing grants provide a specific level of support for an initial period of time, usually a year, with a statement of intent to provide additional support for later periods, provided funds are available and the results achieved warrant further support.

Figure 23: Timeline of Fiscal Year 2013 Sequestration Planning and Implementation at the National Science Foundation



Source: GAO analysis of legislation, OMB guidance, and NSF documentation and information provided by agency officials.

NSF identified several lessons learned from implementing sequestration in fiscal year 2013. Specifically, an NSF official reported that, should sequestration occur again, it would be important to communicate more frequently and with greater timeliness with NSF staff and stakeholders. The official noted that it would be important for OMB guidance and procedures related to these communications to be clarified and streamlined. The official also stated that the recent transfer authority provided to NSF afforded the agency flexibility to minimize adverse effects on agency personnel. Lastly, the NSF official noted the value of allocating a smaller percentage of NSF's budget at the start of the fiscal year, which preserved flexibility for the agency while its budget was uncertain.

Should sequestration reoccur, an NSF official indicated that, in general, the agency could repeat the actions it took to implement or mitigate the effects of sequestration in fiscal year 2013. For example, the official noted the agency could again reduce the number of new grant awards—alone or as part of a strategy to protect existing continuing grant awards.⁷⁵ Also, the official reported that NSF could again transfer funds between its appropriations accounts—provided NSF maintains its current transfer authority in years when sequestration is applied. The official also indicated NSF could again increase the share of continuing grant awards but only for a limited number of years, as it would reduce the agency's future flexibility.

Effects on Operations, Performance, or Services to the Public

NSF officials did not identify specific sequestration effects on agency operations and did not identify any specific effects stemming from NSF's cancellation of staff monetary awards. NSF officials also noted that the agency's hiring and travel reductions were occurring prior to sequestration due to budget uncertainty. They said that sequestration was unlikely to have long-term effects on NSF's human capital planning because many of NSF's staff are scientists who rotate through the agency for 1- to 3-year periods from other organizations. NSF officials also said that the agency still plans to be able to meet its priority and other performance goals (e.g., develop a diverse and highly qualified science and technology workforce).

The primary effect of sequestration on NSF's services to the public was fewer new grant awards funded in fiscal year 2013. According to NSF's operating plan for sequestration, an estimated 8,000 fewer researchers, students, technicians, and teachers benefited from these awards. NSF officials could not determine what proposals would have been funded in the absence of sequestration because the agency does not rank proposals in a specific order of funding priority. Also, some proposals might receive funding from other sources and could proceed with their work. However, because the number of awards was reduced across the entire organization, NSF officials said that the likely effect would be a reduction in the types of benefits that generally accrue from the activities it supports. This would include less innovation and advancement in science

⁷⁵An NSF official also noted that, should sequestration reoccur at the beginning of a fiscal year, the option of reducing funding increments for existing awards would be a more viable option for NSF to consider. The official indicated that, in fiscal year 2013, NSF's first guiding principle—maintaining existing awards—was largely driven by the timing of sequestration. As sequestration was ordered in March—nearly halfway through the fiscal year—a large fraction of the funding increments for existing awards were already provided. Therefore, actions to implement sequestration reductions involving existing awards would have raised concerns regarding equitable application.

and engineering research and education in areas such as emerging technologies and cybersecurity.

NSF plans to present its annual report on the merit review process to the National Science Board. The report is expected to be completed by May 2014.⁷⁶ NSF officials noted that this report should include information on the effects of sequestration including the final grant tally, program and grant restructuring, and other analyses such as which researchers were funded compared to previous years.

Agency Comments and Our Evaluation

We requested comments on a draft of this product from NSF. On February 12, 2014, a senior advisor with NSF's Office of International and Integrative Activities provided us with the following comment via e-mail on the draft.

The NSF official noted that, should sequestration reoccur at the beginning of a fiscal year, the option of reducing funding increments for existing awards would be a more viable option for NSF to consider. The official indicated that, in fiscal year 2013, NSF's first guiding principle—maintaining existing awards—was largely driven by the timing of sequestration. As sequestration was ordered in March—nearly halfway through the fiscal year—a large fraction of the funding increments for existing awards were already provided. Therefore, actions to implement sequestration reductions involving existing awards would have raised concerns regarding equitable application. We adjusted the draft based on the NSF official's comment.

NSF also provided technical comments, which we incorporated as appropriate.

GAO Contact

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⁷⁶Through its merit review process, NSF ensures that science and engineering research proposals are reviewed in a fair, competitive, transparent, and in-depth manner.



Mission and Budget Overview

Mission

NRC protects public health, safety, and the environment by licensing, regulating, and overseeing (1) civilian nuclear power, research, and test reactors (about 77 percent of the agency's budget); and (2) nuclear materials and waste (about 22 percent of the agency's budget).

2013 Funding Prior to Sequestration

NRC received a total of \$1.049 billion in discretionary appropriations in fiscal year 2013. NRC is required by law to recover approximately 90 percent of its budget authority through fees charged to licensees and applicants, and in 2013 NRC expected to collect and return to the Treasury approximately \$864 million in fees.

Sequestered Amount

The sequestered amount was approximately \$52.4 million, which consisted primarily of discretionary appropriations. Some sources of offsetting collections were sequestered, while others were exempt.

Programs, Projects, and Activities (PPA)

Sequestration applied to four PPAs within two appropriations accounts at NRC: (1) salaries and expenses, which has three PPAs and (2) Office of Inspector General, which has one PPA.

Transfer Authority

Under 42 U.S.C. 5852(a)(8), NRC is authorized to transfer to the Office of Inspector General an additional amount equal to 5 percent of the amount appropriated to the office for the fiscal year.

(Continued on following page.)

Nuclear Regulatory Commission

Nuclear Regulatory Commission (NRC) officials cited some challenges in planning for sequestration, including uncertainty about how much of NRC's budget would be subject to sequestration. Planning was also complicated by the need to address certain priority activities for which NRC officials said no additional funding was provided, such as those stemming from the Fukushima disaster in Japan.⁷⁷ The officials said that the agency was able to partially mitigate the sequestration reductions by reprogramming funds. NRC officials noted that the funding available for reprogramming would not mitigate sequestration to the same extent if it should reoccur. NRC officials did not identify significant effects of sequestration on the agency's mission or performance goals. However, they stated that NRC collected \$45.5 million less in licensing fees than it would have absent sequestration, and that this money would have been returned to the Treasury.

Planning

NRC officials said that the agency began preparing for sequestration by identifying its PPAs in August 2012. They noted that NRC began more formal planning in October 2012 by contacting the agency's program offices to seek their input on what reductions could be made. In December 2012, NRC revised its PPAs, according to agency officials, and NRC staff developed a list of proposed reductions and presented them to NRC's Commission, a body of five commissioners that heads the agency. NRC officials said that in January 2013, the Commission requested that NRC staff draft a contingency plan for operating under sequestration. The draft contingency plan provided to the Commission in February 2013 outlined the overall effect of sequestration on NRC's mission, funding flexibilities, staffing, contracting, grants, and fees. In February 2013, the Commission approved the draft plan, according to NRC officials, and NRC provided an updated plan to the Commission on March 7, 2013. NRC officials said that they determined the final amount of sequestered funding by April of 2013.

NRC officials stated that the agency sought to minimize the effects of sequestration on staff and on critical safety and security mission activities, particularly oversight of existing licensees. NRC officials also said that OMB's guidance on sequestration and NRC's guiding principles were in alignment. According to NRC officials, the agency's initial plans were largely based on a worst-case scenario that would reduce NRC's funding by approximately \$86 million—an estimated level that decreased after passage of the American Taxpayer Relief Act of 2012, which reduced the sequestration amount scheduled for fiscal year 2013. Agency officials told us that NRC's initial planning identified essentially the same actions to take as those outlined in the agency's final contingency plan; however, the

⁷⁷On March 11, 2011, a tsunami severely damaged the Fukushima Daiichi nuclear power plant in Japan and led to the largest release of radiation since the 1986 Chernobyl disaster. Following the Fukushima Daiichi accident, the NRC established a task force that identified near-term actions the agency should consider to enhance safety. NRC is working to address the task force's recommendations.

Reprogramming Limitations

NRC can reprogram within an appropriation account, subject to certain limitations. For example, since fiscal year 2013 through the present, NRC has been prohibited by statute from reprogramming certain funds, unless they are needed to address national security or imminent risks to public safety.

Other Funding Flexibilities

NRC receives mostly no-year funding (i.e., appropriations available for obligation without fiscal year limitation). As a result, NRC may carry over unobligated funds from one fiscal year to another, indefinitely.

For information on the objectives, scope, and methodology, see [appendix I](#). For a detailed glossary of budget terms, see [appendix V](#).

initial list identified more areas for reductions and involved larger reductions for those areas.

NRC officials identified several challenges in planning for sequestration, including uncertainty about the agency's overall budget, as well as difficulties in determining its PPAs and the final sequestered amount. For instance, NRC officials described initial uncertainty over whether to begin planning for sequestration. They also said that they were uncertain about what constituted a PPA based on OMB guidance. Additionally, according to NRC officials, the agency was uncertain how much of its budget would be subject to sequestration. NRC received fiscal year 2013 appropriations of over \$1 billion and was required by law to recover about 90 percent of this through fees. NRC officials said that the agency's initial position was that the sequestered amount should be based only on the other 10 percent of its appropriation, which is drawn directly from the Treasury, rather than its total appropriation for fiscal year 2013. Ultimately, OMB directed NRC to base its sequestered amount on its total appropriation, according to NRC officials.⁷⁸

NRC officials also said that planning was complicated by the need to address priority activities for which no additional funding was provided. These included activities stemming from the 2011 Fukushima disaster in Japan and a 2012 court decision on an NRC rule related to storage of spent nuclear fuel,⁷⁹ as well as the need to implement the Integrated University Research Program, a congressionally-mandated grant program. Because of these activities, a key aspect of NRC's sequestration planning efforts was to develop an integrated list of sequestration reductions and priority activities for which no additional funding was provided. NRC used this list to balance sequestration reductions and efforts to mitigate these reductions with the need to fund its priority activities for which no additional funding was provided.

According to NRC officials, the lesson the agency learned regarding planning for sequestration was the value of early planning, even without guidance from OMB. In addition, based on the agency's experience implementing sequestration in fiscal year 2013, NRC officials said that they will change the agency's budget practices by over-estimating proposed reductions in their planning efforts. They noted that this is more efficient and effective for NRC's budget planning because it enables them to avoid repeated requests for information from program offices.

Implementation

To implement sequestration, NRC officials said the agency made a range of reductions. For example, the officials told us that NRC reduced funding for licensing of new reactors and approval of designs for advanced reactors by an estimated \$12.7 million.⁸⁰ They said that these licensing

⁷⁸In commenting on a draft of this report, OMB indicated this was consistent with legal requirements that were applied the same way government-wide.

⁷⁹New York v. NRC, 681 F.3d 471 (D.C. Cir. 2012). As a result of this decision, NRC needs to consider additional information on the effects of failing to secure permanent disposal for spent nuclear fuel, and on the effects of other fuel storage hazards.

⁸⁰According to NRC officials, this estimate does not account for the use of reprogrammed funds to partially offset the reduction. They indicated that, because the agency reprogrammed funds based on an integrated approach that balanced mitigating sequestration reductions with supporting priority activities for which no additional funding was provided, they could not determine the amount that was reprogrammed to specifically mitigate sequestration reductions to individual NRC activities.

and approval activities are core functions of the agency. According to NRC officials, other actions to implement sequestration included:

- reducing funding for some research intended to: (1) improve the analytical tools and information used by the agency to confirm the safety and security of authorized uses of nuclear material and facilities, and (2) enhance the efficiency of certain agency activities;
- eliminating the educational grants it awards under its Grants to Universities Program, as well as renegotiating grants awarded under its Integrated University Program;
- rescoping or delaying contracts for information technology, facilities and building services, and program management and support services; and
- reducing employee training and travel.

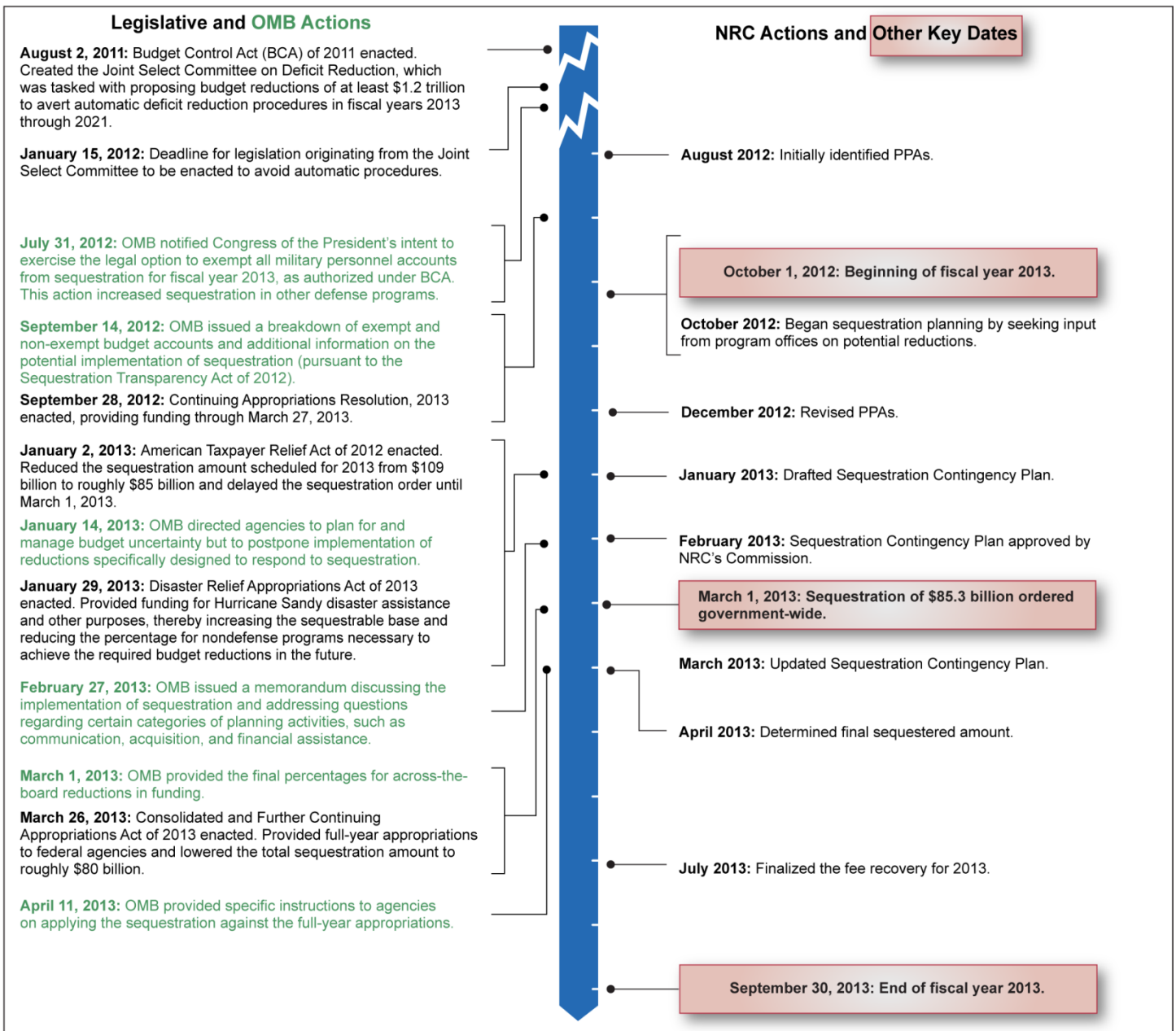
NRC officials told us that the agency did not furlough any of its employees in 2013 as a result of sequestration, but it did cancel or limit monetary awards to personnel.

NRC also reprogrammed funds to mitigate the effects of sequestration. Specifically, NRC reprogrammed \$38 million in prior year funds—approximately \$14 million from deobligations of prior year funds and \$24 million from unobligated fiscal year 2012 funding—to partially offset some of the sequestration reductions, according to agency officials. NRC officials said that while the agency routinely reprograms prior year funds and analyzes its available funding and expenses throughout every fiscal year, NRC did not reprogram any prior year funds in 2012, which left a larger amount available to reprogram in 2013.

NRC officials told us that these reprogramming actions were not solely for the purpose of mitigating the effects of sequestration—they also helped to implement NRC's priority activities for which additional funding was not provided. Specifically, NRC officials said that the agency reprogrammed \$28.5 million of prior year funds to the Nuclear Reactor Safety program, which officials said largely supported operating reactor licensing, oversight, and research activities, including activities stemming from the Fukushima disaster. According to agency officials, NRC also reprogrammed \$9.5 million of prior year funds to the Nuclear Materials and Waste Safety program, which they said provided funding to support updating of an NRC rule related to storage of spent nuclear fuel.

Figure 24 summarizes NRC's key actions to plan for and implement sequestration.

Figure 24: Timeline of Fiscal Year 2013 Sequestration Planning and Implementation at the Nuclear Regulatory Commission



Source: GAO analysis of legislation, OMB guidance, and information from NRC.

If sequestration were to be implemented again, NRC officials stated that some carryover balances would likely be available for possible reprogramming; however, the officials said that the funding available for reprogramming would not mitigate sequestration to the same extent as in fiscal year 2013. In addition, NRC officials told us that the agency could potentially replicate some of the actions it took to implement sequestration in fiscal year 2013, but others were one-time measures that would need to be re-evaluated to determine if they could be taken again.

Effects on Operations, Performance, or Services to the Public

NRC officials did not identify significant effects on the agency's safety and security mission or performance goals as a result of implementing sequestration. However, the officials indicated that there have been some effects on NRC's operations, and that there may be effects on services to the public. For example, NRC officials said that rescoping or delaying contracts has affected operations by delaying infrastructure development for information technology, as well as facilities maintenance and improvements. Regarding services to the public, NRC officials noted that it could take longer to license new reactors and technologies; however, the officials did not provide details on the extent of any delays. Additionally, NRC officials told us that the agency eliminated educational grants under a program that would have provided funding to 25 to 35 grantees. The grant program was to assist in expanding the workforce in nuclear safety and nuclear-related disciplines and in developing the next-generation nuclear workforce.

In addition, NRC officials noted that sequestration of the agency's total appropriation forced the agency to reduce its fees for fiscal year 2013. NRC is required to recover approximately 90 percent of its appropriation in licensing fees, and sequestration reduced the appropriation on which NRC bases these fees. Consequently, according to NRC officials, the government lost the opportunity to collect \$45.5 million in fees (about 87 percent of NRC's final sequestered amount of \$52.4 million) that would have been returned to the Treasury.

Agency Comments

We provided a draft of this report to NRC. NRC provided technical comments, which we incorporated as appropriate.

GAO Contact

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Mission and Budget Overview

Mission

OPM is responsible for the successful management of human capital across every federal agency. It oversees the creation and implementation of policies to support federal human resources departments—from classification and qualifications systems to hiring authorities as well as performance management and pay, leave, and benefits. OPM also manages insurance benefits for more than 8 million federal employees, retirees, and their families and serves more than 2.5 million annuitants and survivors.

2013 Funding Prior to Sequestration

OPM received a total of \$169.9 billion in funding for fiscal year 2013, including \$234.1 million in discretionary appropriations and \$169.7 billion in direct spending.

Sequestered Amount

Approximately \$8.7 million was sequestered—\$5.1 million in discretionary appropriations and \$3.6 million in direct spending. More than \$169 billion in funding—almost all direct spending—was exempt from sequestration. This included payments to the Civil Service Retirement and Disability, Employees and Retired Employees Health Benefits, and Employees Life Insurance trust funds.

Programs, Projects, and Activities (PPA)

Sequestration applied to six PPAs which were synonymous with the six accounts at OPM including Salaries and Expenses, Office of Inspector General, trust funds for Federal

(Continued on following page.)

Office of Personnel Management

Despite prior actions to prepare for reduced funding, according to the Office of Personnel Management (OPM), sequestration adversely affected some operations and services to the public, such as efforts to streamline and automate the exchange of federal employee human resources information; promote human resource information technology consolidation, standardization, and modernization; and process retirement claims. OPM had already prepared for a reduction in its fiscal year 2013 funding consistent with the President's budget request prior to sequestration. These actions helped position the agency to operate within the funding level for 2013 under sequestration. For example, a hiring freeze begun in October 2012, though not directly related to sequestration, helped the agency to achieve the reductions required by sequestration without resorting to furloughs. Nevertheless, according to OPM officials, OPM took actions to implement sequestration that adversely affected its ability to provide certain customer services in a timely fashion and to process federal employees' retirement claims. For example, OPM terminated a contract with a call center that handled customer inquiries regarding retirement. OPM also temporarily eliminated employee overtime which, along with other factors, impeded the agency from meeting its priority goal for processing retirement claims and addressing the existing backlog by the end of July 2013.

Planning

According to agency officials, OPM began formally planning for sequestration in January 2013 in response to an OMB request for a detailed written plan for sequestration by February. According to OPM officials, because they had already been preparing for a reduction in OPM's total funding consistent with the President's budget request, they were better positioned to plan for sequestration. For example, OPM officials stated that they planned on \$95.8 million in funding for the Salaries and Expenses account for fiscal year 2013 based on the President's budget—down from \$97.8 million the prior fiscal year. OPM received \$92.7 million for this account for 2013 after sequestration. OPM's guiding principle in planning for sequestration was to protect its ability to perform its mission on behalf of the American people. For example, OPM's planning documents identify administering the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) as one of OPM's highest priorities.

OPM officials identified uncertainty regarding their final funding level as the greatest challenge in planning for sequestration. The continuing resolution enacted for fiscal year 2013 contributed to this uncertainty. However, OPM officials stated that the limitations on the amount that OPM could spend under the continuing resolution also helped prepare the agency for the subsequent reductions required by sequestration. For example, OPM implemented a hiring freeze in October 2012 partly in response to the continuing resolution. The savings it achieved allowed the agency to operate within the reductions required by sequestration without resorting to furloughs. OPM officials said that budgeting based on a lower

Retirement, Health and Life Insurance, and Disability Programs and the Flexible Benefits Plan Reserve. For the trust fund accounts, only amounts attributable to administrative expenses were subject to sequestration.

Transfer Authority

OPM did not have transfer authority available to mitigate the effects of sequestration.

Reprogramming Limitations

In fiscal year 2013, OPM could reprogram funds within an account, subject to certain limitations, including a limit on augmenting an existing program, project, or activity in excess of \$5 million or 10 percent, whichever is less.

For information on the objectives, scope, and methodology, see [appendix I](#). For a detailed glossary of budget terms, see [appendix V](#).

level of spending was a lesson that they were continuing to incorporate to help the agency prepare for a potential fiscal year 2014 sequestration. OPM officials reported no challenges in determining PPAs, which are synonymous with their accounts, and no challenges determining OPM's final sequestered amount.

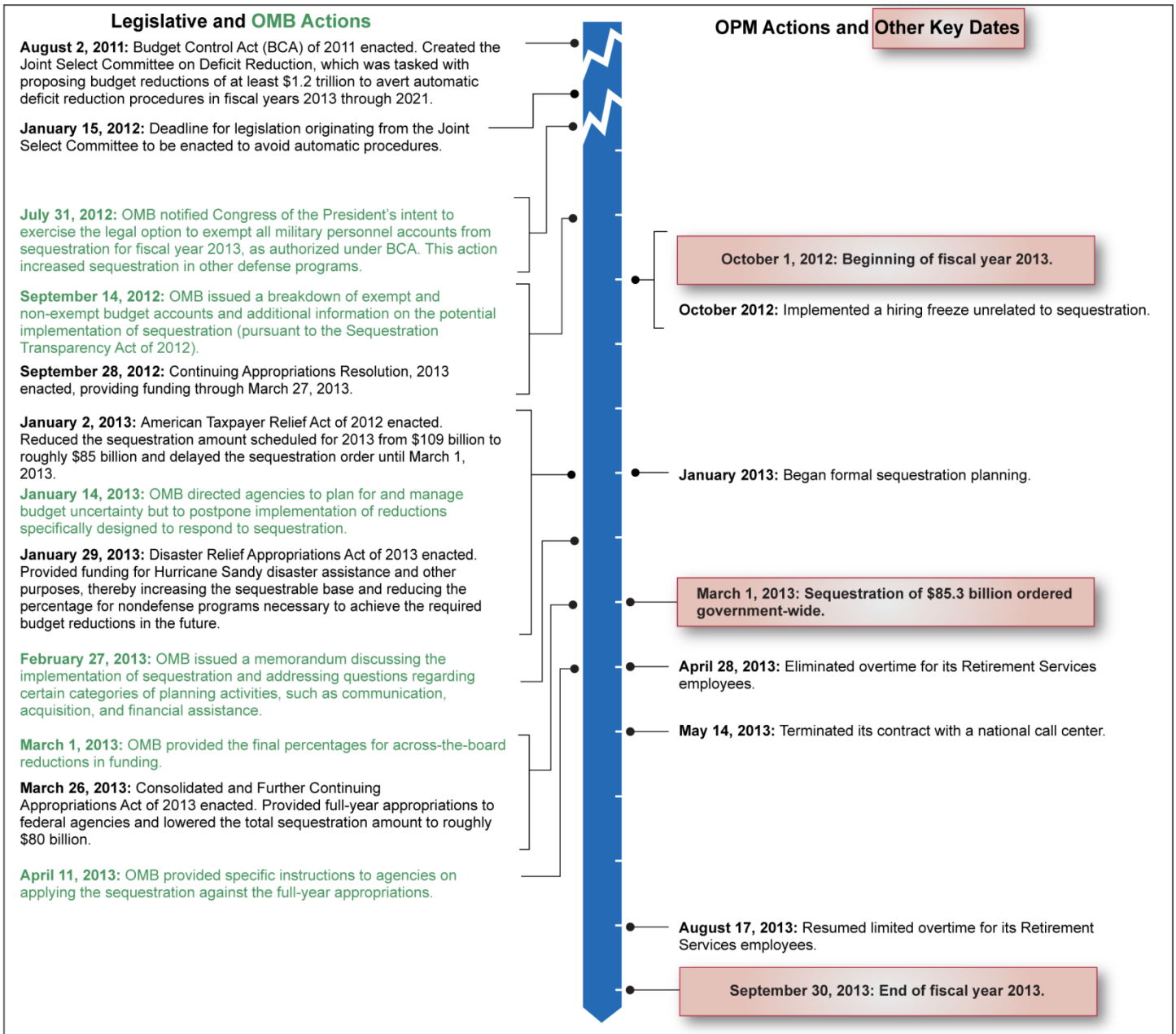
Implementation

Anticipating budget reductions in 2012 helped OPM to accommodate the effects of its eventual \$8.7 million sequestration in 2013. Nevertheless, OPM had to implement several sequestration-related actions. First, OPM eliminated overtime for Retirement Services employees on April 28, 2013. According to OPM's operating plan, this was expected to reduce operating costs by \$940,000. Second, OPM terminated its contract with a national call center on May 14, 2013. The call center handled questions on retirement plans and claims processing for annuitants and survivors throughout the federal government and helped OPM's federal employees handle peak hour calls. According to OPM's operating plan, the cost savings from this termination totaled \$610,000. As of November 2013, OPM officials stated they were not able to calculate the cost associated with terminating the contract, which will likely offset part of these cost savings.

According to OPM's operating plan, sequestration reduced the agency's Dental/Vision program, which administers benefits for federal employees, retirees, and their dependents, by approximately \$870,000. In addition, over \$370,000 in sequestered funding came from reductions to OPM's Enterprise Human Resources Integration program, designed to streamline and automate the exchange of federal employee human resources information, and its Human Resources Line of Business program, which leads the government-wide transformation of human resources information technology by focusing on modernization, integration, and performance assessment. As noted in OPM's operating plan, sequestration reduced or eliminated fiscal year 2013 funding for other operations, including the Wellness Works Program, which aided employees with health, family, and other work/life issues; building renovations; the summer Paralympics Job Fair, which, according to OPM, was instrumental in recruiting veterans; and other programs designed to achieve savings.

Figure 25 provides a timeline of OPM's key actions to plan for and implement sequestration.

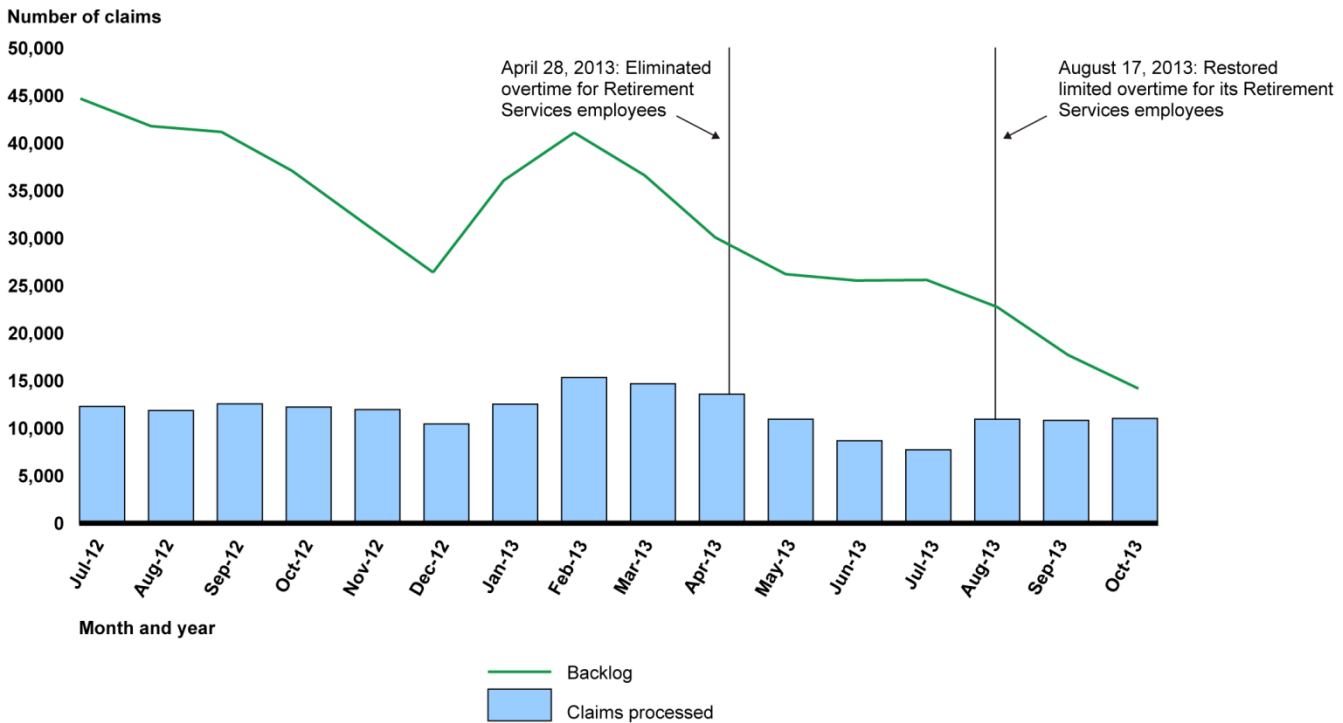
Figure 25: Timeline of Fiscal Year 2013 Sequestration Planning and Implementation at the Office of Personnel Management



Source: GAO analysis of legislation, OMB guidance, and documentation from OPM.

OPM officials stated that eliminating overtime in response to sequestration, along with other unrelated factors, prevented the agency from meeting its priority goal of processing and finalizing 90 percent of all incoming retirement claims within 60 days of receipt by July 2013. As shown in figure 26, the number of claims processed each month dropped from more than 15,000 in February (prior to the elimination of overtime for Retirement Services employees) to fewer than 8,000 by July 2013. As shown in figure 26, the number of claims processed each month dropped from more than 15,000 in February (prior to the elimination of overtime for Retirement Services employees) to fewer than 8,000 by July 2013.

Figure 26: Number of Retirement Claims Processed by the Office of Personnel Management’s Retirement Services



Source: GAO analysis of OPM data.

OPM officials stated that an early 2013 spike in claims resulting from a U.S. Postal Service buyout in late 2012 combined with the loss of staff from the prevailing hiring freeze exacerbated the effects of sequestration on retirement claims processing. OPM officials stated that upwards of 20,000 claims were subsequently filed in early 2013—far more than the normal increase in claims from across the federal government of 1,100 to 1,200 that OPM receives every January. According to agency officials, despite this influx of claims, Retirement Services had been on pace to meet its claims processing goals until implementation of sequestration. However, in September, OPM reported that a year-end budget review allowed Retirement Services to resume limited overtime on August 17. Consequently, the backlog in claims reached its lowest point in more than one year. In addition, OPM stated that the cost savings from canceling overtime eventually totaled just under \$838,000, rather than the \$940,000 initially estimated.

According to officials from OPM’s Retirement Services, termination of the call center contract meant that the remaining staff had to handle calls from only 7:40 a.m. through 5 p.m. eastern time rather than until 8 p.m. They expected that the reduced hours likely disproportionately affected customers on the West Coast. Data later supplied by OPM suggested that

the termination of the call center contract did negatively affect its customer service.

Sequestration also indirectly affected OPM's operations. For example, according to its operating plan, OPM expected sharp declines in its Revolving Fund due to a decline in demand for shared services. Specifically, while the fund itself was not subject to sequestration, the federal agency customers of its operations that charge fees for service, such as the Federal Investigative Services and Human Resources Solutions programs, faced sequestration.

When we spoke with OPM officials in November 2013, they stated that they were likely to meet or exceed their other performance goals for the fiscal year, including those they have designated as priority goals, in part because OPM's final funding amount including sequestration was largely consistent with the funding level officials assumed when they established the performance goals. The agency's other priority goals include ensuring high-quality federal employees, increasing health insurance choices for Americans, maintaining the speed of national security background investigations, and improving agencies' performance culture as part of the Goals-Engagement-Accountability-Results pilot program designed to inform the development of government-wide policies.

Agency Comments

We provided a draft of this report to OPM. OPM indicated it had no comments.

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Small Business Administration

Mission and Budget Overview

Mission

SBA provides financial assistance, counseling and technical assistance to small businesses, and also provides loans to individuals or entities affected by disasters.

2013 Funding Prior to Sequestration

SBA received a total of \$1.9 billion in funding for fiscal year 2013, all of which was discretionary appropriations. The Disaster Relief Appropriations Act, 2013, a supplemental appropriation in the wake of Hurricane Sandy, provided \$804 million of SBA's funding. Nearly all of SBA's supplemental funding was for disaster loans, with the remainder appropriated for grants to or cooperative agreements with organizations to provide technical assistance related to Hurricane Sandy and for SBA's Office of Inspector General.

Sequestered Amount

Approximately \$93 million of SBA's funding was sequestered, including \$40 million of funding from the supplemental disaster relief funding.

Programs, Projects, and Activities (PPA)

Sequestration applied to six PPAs, which are synonymous with SBA's appropriation accounts. SBA has separate accounts for salaries and expenses, its Office of Inspector General, its Office of Advocacy, and three program accounts.

Transfer Authority

In fiscal year 2013, subject to certain restrictions, SBA had authority to transfer 5 percent of appropriations

(Continued on following page.)

The Small Business Administration (SBA) was able to implement sequestration reductions without furloughing employees because of savings it obtained from its 2012 early retirement offering and a partial hiring freeze, according to officials. Though sequestration cut SBA's loan programs, the reduced funding level for these programs was sufficient for SBA to meet the demands of qualified loan applicants. However, because SBA's disaster loan funding can be used in future years, without additional funding the sequestration cuts will reduce the amount of disaster loans SBA can make in future years. SBA estimated that reduced funding for SBA grants to partners that provide support to small businesses has decreased the number of businesses served by 2 to 25 percent, depending on the program.

Planning

SBA began planning for a potential sequestration during the last quarter of fiscal year 2012. SBA developed an implementation plan in February 2013 that officials updated as the sequestration date approached. SBA officials told us that their priorities in implementing sequestration were to ensure that their customers, including borrowers, lenders, and noncredit partners, would not suffer severe or disproportionate consequences. SBA officials told us that they experienced delays and difficulties finalizing the plan and communicating with customers because of the timing of the sequestration order, which occurred less than 1 month before the end of the continuing resolution funding the federal government. Uncertainties about the final amount of agency funding under the sequestration persisted until April 2013.

Implementation

SBA was able to implement sequestration without furloughs because it previously reduced personnel costs. In fiscal year 2012, SBA completed an early retirement offering, through which nearly 200 employees retired. SBA also achieved \$9.5 million in savings by implementing a partial hiring freeze and \$1.5 million in savings by reducing travel.

Sequestration reduced the maximum total amount of available SBA direct and guaranteed lending through SBA's three non-disaster business loan programs from \$25 billion to \$24 billion. Sequestration also reduced funding for disaster loans from \$896 million to \$851 million. SBA's funding for disaster loans are no-year appropriations, which remain available for obligation until expended. Most of SBA's other funding comes from fiscal year appropriations, and thus must be obligated during that fiscal year.

SBA did not fund its Program for Investment in Micro-Entrepreneurs, which provided funding to organizations that help low-income entrepreneurs gain access to capital. SBA officials said SBA chose not to fund the program (which received \$3.5 million in 2012) in part because our

in each account into another account, provided that such transfers did not increase any account by more than 10 percent.

Reprogramming Limitations

For fiscal year 2013, SBA could reprogram funds within each account, though it had certain limitations if, among other situations, the reprogrammings changed the accounts involved by more than \$5 million or 10 percent, whichever is less.

For information on the objectives, scope, and methodology, see [appendix I](#). For a detailed glossary of budget terms, see [appendix V](#).

work on duplication and overlap had identified it as one of a number of lending programs that assisted entrepreneurs.⁸¹

SBA prioritized travel related to oversight over other travel, which enabled it to conduct travel necessary for oversight of small business eligibility for and participation in certain contracting programs. Travel for such oversight helps SBA identify fraud, waste, and abuse.⁸² For example, according to officials, SBA performed about the same number of documentation and on-site eligibility reviews as it had planned to complete before sequestration for the Historically Underutilized Business Zone Program and the 8(a) Business Development Program. The first program provides small businesses in historically underutilized business zones with federal sole-source contracting opportunities and contracting preferences, and the second program provides small disadvantaged businesses with access to federal sole-source contracting opportunities and other benefits.

SBA officials told us that their partners (such as Small Business Development Centers and Women's Business Centers that provide mentoring, counseling, and training to small businesses) had been expecting and preparing for lower fiscal year 2013 funding before the fiscal year began. The President's fiscal year 2013 budget request (issued in February 2012) for the grant programs that fund these centers was lower than the funding they actually received in fiscal year 2013 after the sequestration (\$155 million). SBA officials told us that after the President's budget request, SBA notified its partners through regular conference calls to expect reduced funding for fiscal year 2013.

SBA's Office of Advocacy, which manages its budget independently of the rest of SBA, reduced contracting for economic research on small businesses by more than half, saving nearly \$500,000, according to officials. Officials told us these savings enabled the office to reduce the effects of sequestration on staff and avoid furloughs.

SBA's Office of the Inspector General, which also manages its budget independently of the rest of the agency, obtained the savings to implement sequestration through employee attrition and a hiring freeze, according to officials. It also reduced training and stopped paying cash awards to employees.

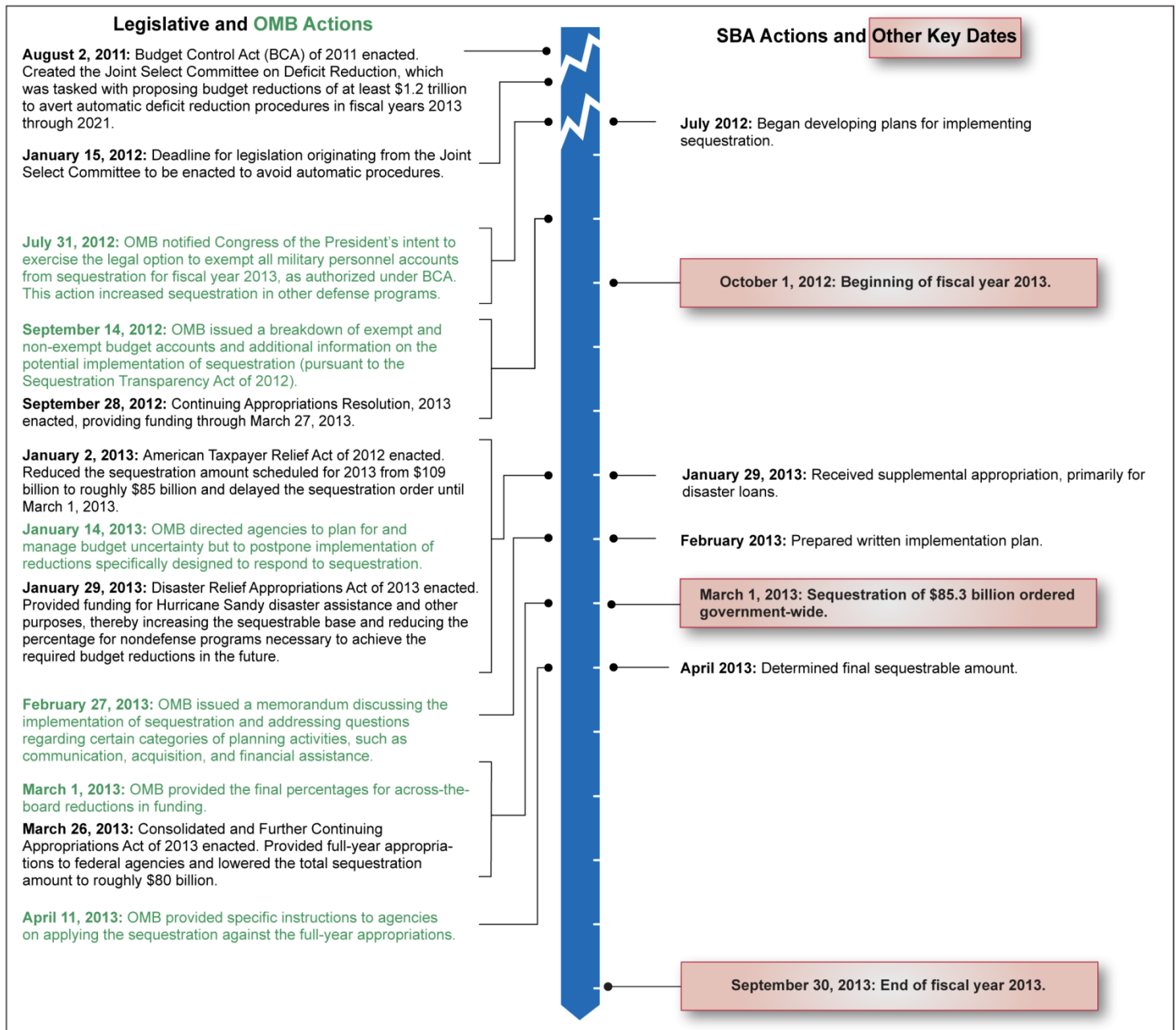
SBA officials told us they did not need to transfer funds to implement sequestration. Prior to sequestration, SBA reprogrammed \$70 million in unobligated balances for the costs of direct disaster loans to cover administrative costs for these loans.

See figure 27 for a timeline of key events in SBA's planning for and implementation of sequestration.

⁸¹GAO, *Small Business Programs: Efforts to Address Internal Control Weaknesses and Potential Duplication*, [GAO-11-558T](#) (Washington, D.C.: June 16, 2011).

⁸²We have previously reported on weaknesses in SBA's ability to screen and monitor fraud and abuse in its contracting programs and recommended the use of site visits. See GAO, *8(a) Program: Fourteen Ineligible Firms Received \$325 Million in Sole-Source and Set-Aside Contracts*, [GAO-10-425](#) (Washington, D.C.: Mar. 30, 2010) and *HUBZone Program: Fraud and Abuse Identified in Four Metropolitan Areas*, [GAO-09-440](#) (Washington, D.C.: Mar. 25, 2009).

Figure 27: Timeline of Fiscal Year 2013 Sequestration Planning and Implementation at the Small Business Administration



Source: GAO analysis of legislation, OMB guidance, and documentation from SBA.

Effects on Operations, Performance, or Services to the Public

Qualified small business loan applicants were able to obtain SBA loans despite sequestration, according to SBA officials. SBA did not reach the sequestration-reduced maximum authorized lending amounts for any of its non-disaster business loan programs, and was able to make loans through the end of the fiscal year.

SBA officials told us that the supplemental appropriation provided sufficient funding for the immediate response to Hurricane Sandy. However, they said sequestration decreased the total amount of disaster loans SBA can make, which could reduce the availability of disaster loans in subsequent years and would deplete its disaster loan reserves more rapidly without additional funding.

The reduction in SBA grants to SBA partners for counseling and training of small businesses decreased the numbers of businesses served by these partners. For example, SBA officials told us that SBA's Small Business Development Centers served 2,839 (4.2 percent) fewer long-term counseling clients in fiscal year 2013 than in fiscal year 2012, and its Women's Business Centers will assist 3,186 (2.3 percent) fewer female entrepreneurs in fiscal year 2013 than in fiscal year 2012. SBA officials also said that reduced funding for SCORE, a nonprofit association that provides education and mentoring to small businesses primarily through volunteers, decreased the number of clients served in fiscal year 2013 by 112,871 compared to fiscal year 2012, a decline of 24.6 percent. SBA officials told us that the decline in clients served was greatest for SCORE because while the other programs receive some funding from sources such as state and local governments and the private sector, SCORE's sole source of funding is SBA, and the reduced funding for SCORE affected its ability to conduct local and national outreach and marketing.

As a result of the Office of Advocacy's reduced spending on contracts for economic research on small businesses, it contracted for 4 research projects in fiscal year 2013, down from the 11 projects funded in fiscal year 2012. However, it increased the number of projects completed by its in-house staff, which it estimated would enable it to meet its performance goal of issuing 20 reports in fiscal year 2014—when the projects funded in fiscal year 2013 will generally be completed. Still, officials from the Office of Advocacy told us that the reduced spending on external research would limit the type of research that could be completed, as certain research projects can only be done by organizations that have collected proprietary data or developed proprietary models.

Officials from the Office of the Inspector General told us that as a result of attrition and the hiring freeze needed to implement the sequestration, the office had 88 employees at the end of fiscal year 2013, down from 97 at the end of fiscal year 2012. The office reported that in fiscal year 2012 its efforts resulted in \$91 million in savings, cost avoidances, and recoveries and fines, more than five times its budget. However, the officials told us that the reduction in staffing to implement the sequestration could reduce their capacity to attain that level of accomplishments.

SBA had a fiscal year 2013 performance goal of collaborating with other federal agencies to ensure that at least 23 percent of federal contract dollars were awarded to small businesses, but agency officials were unsure as to whether any decline in total federal contracting resulting from sequestration, which they said increased competition between small and

large businesses for some contracts, affected this goal because they said that final validated data will not be available until July 2014.

Agency Comments

We provided a draft of this report to SBA. SBA provided technical comments, which we incorporated as appropriate.

GAO Contact

For additional information, contact Orice Williams Brown at (202) 512-8678 or williamso@gao.gov.



Mission and Budget Overview

Mission

SSA is responsible for providing benefits and services that affect the lives of nearly every American. It provides financial assistance to eligible individuals through Social Security retirement and disability benefits and Supplemental Security Income (SSI) payments.

2013 Funding Prior to Sequestration

SSA had a total of \$930.5 billion in funding for fiscal year 2013, including about \$919 billion in direct spending and \$11.5 billion in discretionary appropriations. Most of SSA's funding is used to pay Social Security retirement, survivors, and disability benefits from the Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund.

Sequestered Amount

For fiscal year 2013, all of SSA's direct spending and the Supplemental Security Income portion of its discretionary appropriations were exempt from sequestration, leaving the remaining discretionary appropriations subject to sequestration. The estimated amount sequestered from SSA's discretionary appropriations was \$391 million, which includes the amount sequestered from the Office of the Inspector General (OIG).

Programs, Projects and Activities (PPA)

SSA funding is provided in four primary accounts: Payments to Social Security Trust Funds; the Supplemental Security Income (SSI)

(Continued on following page)

Social Security Administration

The Social Security Administration (SSA) reported that it began implementing cost savings initiatives in 2011, which helped avoid furloughs and mitigate some of the challenges in implementing sequestration in fiscal year 2013. After sequestration was ordered, SSA reported that it continued many of its cost-cutting measures such as restricting hiring and limiting overtime and travel. While it is difficult to separate the effects of sequestration from the effects of other ongoing budget constraints, SSA reported that sequestration cuts would result in growing backlogs of hearings for Disability Insurance and Supplemental Security Income (SSI) benefit claims and longer wait times at Social Security offices. Further, officials noted that loss of experienced staff could mean increasing workloads, backlogs, and improper payments in the future. In addition, SSA officials told us that the inability to replace departed staff can negatively affect long-term succession planning.

Planning

SSA began informally planning for sequestration in 2011, when SSA executives began holding high-level discussions regarding implications of the Budget Control Act of 2011. At that time, SSA also implemented a hiring freeze with limited hiring in frontline areas it considered critical in response to budget reductions from the previous two years. Documentation provided by SSA stated that during planning SSA created scenarios of preliminary sequestration funding levels for fiscal year 2013. The agency also communicated with SSA staff prior to sequestration to provide updates on the budget and potential steps the agency might take to mitigate the risk of furloughs. According to SSA budget officials, the agency's guiding principle for planning future reductions was to focus on carrying out its primary mission of providing benefits and services to the public.

SSA officials reported that the biggest challenge in planning and implementing sequestration was uncertainty about whether or how sequestration would play out. Sequestration occurring in the middle of the fiscal year was also a challenge, in that it limited the options available to the agency. Officials also said that it was difficult to plan strategically without knowing the final budget numbers, and that uncertainty about budget resources had made it difficult for SSA to engage in long-term planning. SSA did not report encountering any significant challenges in defining its PPAs nor did it report that the structure of the PPAs influenced the types of options available.

Implementation

To implement sequestration, SSA mainly continued some of the cost-cutting initiatives begun in 2011. According to SSA officials, these earlier actions helped mitigate some of the challenges in implementing the sequestration reductions, and allowed the agency to avoid furloughs in

Program; the OIG; and the Limitation on Administrative Expenses, which provides the administrative funding for the retirement and disability programs, among others.

At SSA, sequestration applied to six PPAs within two of these accounts—the OIG and the Limitation on Administrative Expenses accounts. The six PPAs included Old-Age and Survivors Insurance, Disability Insurance, Hospital Insurance, Supplementary Medical Insurance, Medicare Part D, and OIG General Fund.

Transfer Authority

For fiscal year 2013, SSA was statutorily authorized to transfer a limited amount from the Limitation on Administrative Expenses account to the OIG account, provided that the Appropriations Committees were notified at least 15 days in advance.

Reprogramming Limitations

SSA may reprogram funds, although for fiscal year 2013 it was required to notify the Appropriations Committees 15 days in advance of certain reprogramming; for example, any reprogramming that created new programs, or any reprogramming in excess of \$500,000 or 10 percent, whichever was less, that augmented existing PPAs, among others.

For information on the objectives, scope, and methodology, see [appendix I](#). For a detailed glossary of budget terms, see [appendix V](#).

fiscal year 2013. Some of the earlier actions and any specific actions taken after sequestration as reported by SSA are highlighted below:

- Implemented a hiring freeze, with only minimal hiring in critical frontline areas. SSA reported that this action resulted in the loss of about 11,000 employees since 2011, including about 1,875 federal and state employees from March 1, 2013 to September 30, 2013.⁸³
- Offered early-out retirement to employees in fiscal year 2013. According to SSA, 235 or about 3 percent of an estimated 7,700 eligible employees took these offers.
- Consolidated 92 field offices into 46 and closed 521 contact stations, in addition to forgoing plans to open eight new hearing offices and a new Teleservice center.⁸⁴
- Reduced the hours that field offices are open to the public to allow staff to complete late-day interviews without using overtime.
- Implemented an acquisitions savings plan that realized nearly \$620 million in savings from fiscal year 2010 to fiscal year 2012. In fiscal year 2013, SSA officials anticipated a savings of approximately \$1 billion. According to SSA, these savings were achieved through strategic sourcing and negotiating with potential contractors to receive discounts, and were calculated by determining what the agency would have paid had it not negotiated or strategically sourced an item or service compared to what was actually paid
- Reduced travel in accordance with the President's Executive Order 13589, Promoting Efficient Spending, which has saved an estimated \$30 million since fiscal year 2010, according to SSA.
- Reduced agency-sponsored conferences from 113 in fiscal year 2010 to 13 in fiscal year 2012, saving almost \$7 million.
- Suspended lower priority notices sent to the public (e.g., recontact and direct deposit notes) and reduced the number of Social Security statements mailed annually to current workers. Since the beginning of fiscal year 2013, SSA has stopped mailing Social Security statements annually to all individuals.
- Reduced the number of continuing disability reviews, which are periodic reviews to verify that certain recipients still meet SSA disability rules.

To mitigate sequestration's effects on the OIG, SSA transferred \$3 million from its Limitation on Administrative Expenses account to the OIG account. Of this amount, \$2.8 million was to avoid OIG staff furloughs due to sequestration, and the remainder was to support critical OIG operations. According to a letter SSA sent to the Appropriations Committees on May 17, 2013, about 85 percent of the OIG budget is dedicated to salaries and benefits. The remainder supports general

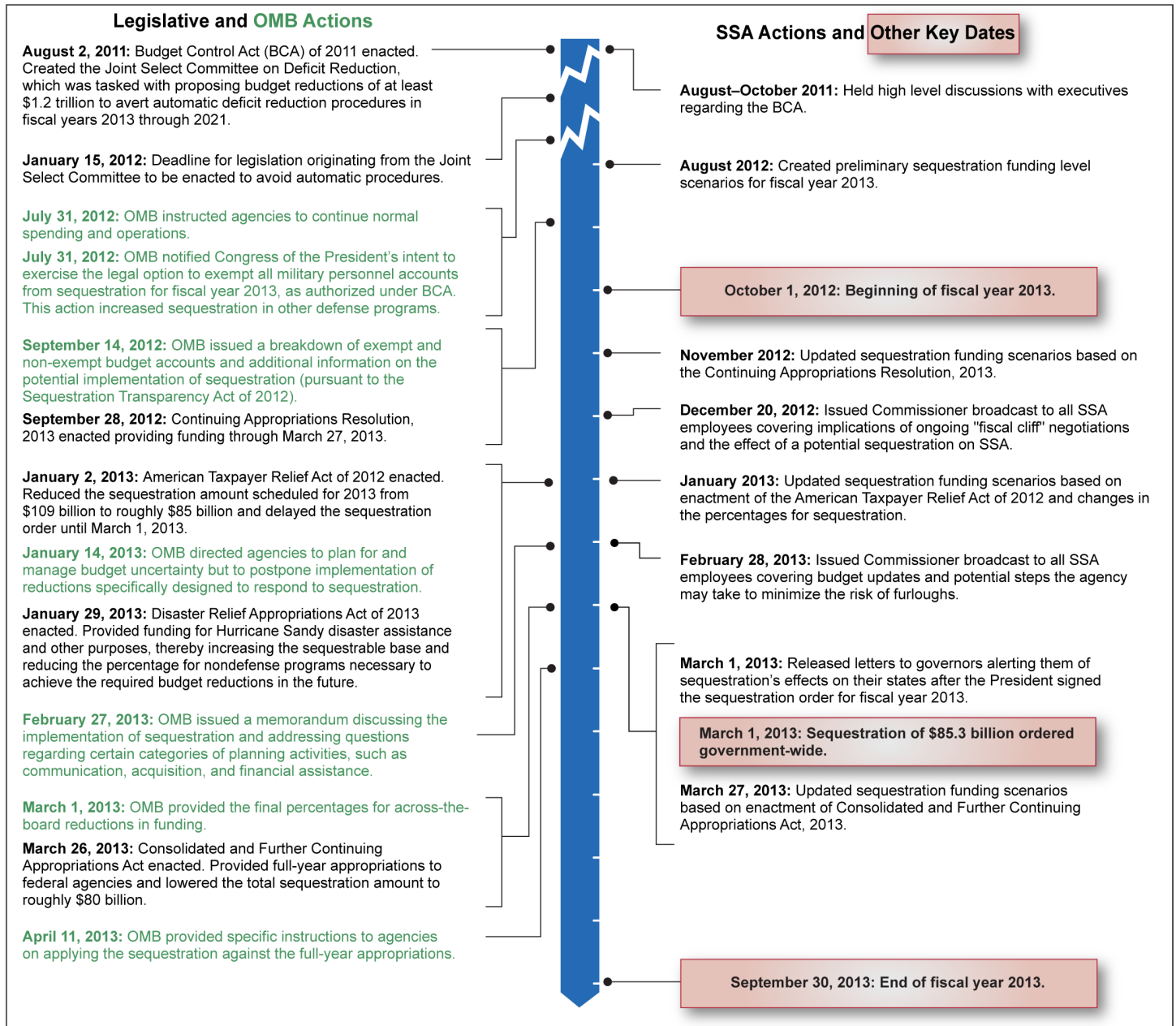
⁸³ SSA funds Disability Determination Services, which are state agencies, to process disability applications and conduct continuing disability reviews in accordance with SSA policies and procedures. In May 2013, we reported that SSA had over 80,000 state and federal employees to administer SSA programs in about 1,700 facilities nationwide. See GAO, *Social Security Administration: Long-Term Strategy Needed to Address Key Management Challenges*, [GAO-13-459](#) (Washington, D.C.: May 29, 2013).

⁸⁴ Teleservice centers handle general inquires from the public, simple post-entitlement actions, and referrals from field offices.

expenditures related to audit, investigative, and law enforcement work, as well as critical training, travel, and procurement.

For further information regarding the timeline of SSA’s sequestration planning and implementation, see figure 28.

Figure 28: Timeline of Fiscal Year 2013 Sequestration Planning and Implementation at the Social Security Administration



Source: GAO analysis of legislation, OMB guidance, and documentation from SSA.

Effects on Operations, Performance, or Services to the Public

Overall, SSA was able to mitigate some of sequestration’s effects on its operations and performance because of the combination of actions it took in previous years, unrelated to sequestration, and its continuation of several cost-cutting measures. However, SSA officials emphasized that the additional cuts due to sequestration have further impeded the agency’s ability to serve members of the public who need its services. The

cuts have also resulted in growing backlogs of hearings for Disability Insurance and SSI benefit claims and longer wait times at Social Security offices. For example, due to reduced staff and overtime, SSA estimated that callers to SSA's 800-number in fiscal year 2013 waited twice as long as callers in fiscal year 2012; the average busy rate rose from 5 percent in fiscal year 2012 to 12 percent by the end of fiscal year 2013. On average, applicants for disability benefits waited almost a week longer for a decision on an initial disability claim and nearly a month longer for a disability hearing decision compared to last year.

Further, according to SSA officials, resource constraints have made it more difficult to remain current on the number of continuing disability reviews the agency is required to conduct. When these reviews are not conducted as scheduled, beneficiaries may receive benefits for which they are no longer eligible, and the agency may forgo future program savings, which SSA officials estimate are about \$9 for every \$1 spent conducting the reviews over a 10-year period.⁸⁵

In addition, officials noted that the loss of experienced staff, combined with the inability to replace departed staff, can result in a drain on institutional knowledge and expertise at a time when workloads are growing and can negatively affect long-term succession planning.

According to SSA officials, sequestration has negatively affected the agency's priority goal for faster hearing decisions. Officials said that the inability to provide balanced overtime throughout the year, lack of hiring, and limited replacement of aging video units contributed to longer wait times for decisions. For example, SSA had planned and modeled achieving an average processing time of 380 days for September 2013, but the year ended with a 396-day average processing time compared to 362 days in September 2012.

Furthermore, agency officials reported that although SSA met its priority goal for online services,⁸⁶ in the long term sequestration will affect its ability to invest in new eServices at the pace necessary to drive substantial growth.

Agency Comments

We provided a draft of this report to SSA. SSA provided written comments which are presented in appendix IV of this report. In its written comments, SSA agreed with our findings. SSA also provided technical comments, which we incorporated as appropriate.

GAO Contact

For additional information, contact Daniel Bertoni at (202) 512-7215 or bertonid@gao.gov.

⁸⁵This figure represents the present value of future benefits saved for Old-Age, Survivors, and Disability Insurance; Supplemental Security Income; Medicare; and Medicaid. The estimate includes savings to Medicare and Medicaid because in some cases eligibility for SSI and Disability Insurance confers eligibility for certain Medicare or Medicaid benefits. The share of continuing disability reviews that result in terminating eligibility for benefits depends on the frequency of reviews performed and the types of beneficiaries for whom they are conducted. If in the future a different frequency or mix of continuing disability reviews is conducted, then the share of reviews that result in terminating eligibility—and thus the average value of future benefits saved—could differ from previous experience.

⁸⁶We previously reported that one of SSA's goals in its strategic plan is to increase the public's use of online services. See [GAO-13-459](#).

Appendix I: Objectives, Scope, and Methodology

This report examines: (1) the effects of sequestration in fiscal year 2013 on agency operations, performance, or services to the public; (2) how agencies prepared and planned for sequestration; and (3) how agencies implemented sequestration.¹

To achieve these objectives, we gathered standard information from 23 of the 24 chief financial officers (CFO) in CFO Act agencies. We excluded the Department of Veterans Affairs, because its accounts were exempt from sequestration.² The CFO Act agencies covered by the CFO Act of 1990, as amended, are:³

Department of Agriculture (USDA)
Department of Commerce (Commerce)
Department of Defense (DOD)
Department of Education (Education)
Department of Energy (DOE)
Department of Health and Human Services (HHS)
Department of Homeland Security (DHS)
Department of Housing and Urban Development (HUD)
Department of the Interior (Interior)
Department of Labor (DOL)
Department of Justice (DOJ)
Department of State (State)
Department of Transportation (DOT)
Department of the Treasury (Treasury)
Department of Veterans Affairs (VA)
Agency for International Development (USAID)
Environmental Protection Agency (EPA)
General Services Administration (GSA)

¹We will issue additional work at a later date providing more detail on the planning, implementation, and effects of sequestration at four case study bureaus within these agencies: DHS's U.S. Customs and Border Protection, Education's Elementary and Secondary Education, HHS's Centers for Medicare & Medicaid Services, and HUD's Public and Indian Housing.

²2 U.S.C. § 905(b). See also [B-323157](#), May 21, 2012.

³The CFO Act agencies are the executive branch agencies listed at 31 U.S.C. § 901(b). For the purposes of this report, when we refer to "agency," we are referring to the overall government component. This could be a cabinet-level department (e.g., the Department of Transportation) or an independent agency (e.g., the Environmental Protection Agency).

National Aeronautics and Space Administration (NASA)
National Science Foundation (NSF)
Nuclear Regulatory Commission (NRC)
Office of Personnel Management (OPM)
Small Business Administration (SBA)
Social Security Administration (SSA)

These agencies accounted for approximately 98 percent of the total sequestration for fiscal year 2013. They also accounted for the majority of federal spending in 13 of the federal government's 17 broad mission areas, or budget functions.⁴ For purposes of this report, information on State and USAID is reported together because State's Office of U.S. Foreign Assistance Resources jointly manages both budgets. Therefore, we report summary results in terms of 22 rather than 23 agencies.

To address our objectives, we used a web-based information request and structured interview with the CFO or designee at each agency. We reviewed standard information provided in response to our information request such as a list of each agency's sequestered discretionary and mandatory programs, projects, and activities (PPA); total discretionary and mandatory funding levels; and total amount sequestered. We also reviewed each agency's reprogramming restrictions and transfer authorities identified as part of the information request and supporting documentation of how these authorities were used, if at all, in response to sequestration. In addition, we asked for additional agency documents, such as operating and spending plans and illustrative examples of sequestration-related guidance and formal communications with their employees, unions, and other stakeholders. We did not assess the appropriateness of actions agencies took to implement sequestration, such as transfer and reprogramming actions.

⁴Based on OMB data for actual obligations in fiscal year 2012. The budget function classification system provides a comprehensive and consistent means to capture federal activity and group budgetary resources according to mission area or "national need." These "national needs" are grouped into 17 broad areas for analyzing and understanding the budget. Three additional categories—Net Interest, Allowances, and Undistributed Offsetting Receipts—do not address specific "national needs" but are included in the budget function classification system so that the total of all functions sum to the budget totals. For more information on budget functions, see GAO, *Federal Budget: Agency Obligations by Budget Function and Object Classification for Fiscal Year 2003*, [GAO-04-834](#) (Washington, D.C.: June 25, 2004).

We pre-tested this information request with OPM in June and then distributed it to all of the agencies by July 2013. Almost all of the agencies returned their completed questionnaires and the requested documents by the end of August 2013. We confirmed the accuracy and completeness of the information provided with agency officials by November 2013 to take into account any actions that might have occurred late in the fiscal year and to update estimates. We requested and reviewed additional information beyond what was asked in the standard information request when necessary to address our objectives.

As part of this structured information request, we asked agencies to identify the source of any information provided and a description of any known limitations or purposes for which the data being provided should not be used. We reviewed agencies' supporting documents to assess the reasonableness of their data and any estimates of the effects of sequestration on agency operations, performance, and services to the public. Specifically, we reviewed the data and methodology used to calculate these estimates and we reported the estimates when they met our evidentiary standards. In some cases we found it appropriate to report agency estimates, as long as we also included significant contextual information and information about limitations regarding the estimates. In other cases, if agency explanations of the data and methodologies used to estimate the effects of sequestration indicated significant uncertainty surrounding the estimates, we did not report the estimates. To further assess the reliability of the data provided by agencies we interviewed knowledgeable officials as needed. We also reviewed existing reports by inspectors general on the databases or systems that produced any data provided.

In our communications, we asked federal agencies to isolate the effects of sequestration from other factors such as operating under a continuing resolution (CR) and the rescissions enacted in the Consolidated and Further Continuing Appropriations Act, 2013, to the degree possible. We recognize that these other factors could also contribute to budget uncertainty and affect agency operations, performance, and services to the public. For example, because CRs only provide funding until an agreement is reached on final appropriations, they create uncertainty for agencies about both when they will receive their final appropriation and what level of funding ultimately will be available. Our past work has shown that an agency may delay hiring or contracts during the CR period, potentially reducing the level of services agencies provide and increasing costs.

While we reviewed the sources agencies used to determine their PPAs for the purpose of sequestration, we did not review whether or not the PPAs agencies identified complied with the law. Nor did we independently verify the number of PPAs or accounts subject to sequestration. Information on agencies' total budgets for fiscal year 2013 and on the amounts sequestered is based on agencies' responses to a standard information request. Figures, particularly for mandatory funding, may be estimates and are subject to change based on final end-of-the-year financial data.

In December 2013, we also sent a short e-mail questionnaire to federal inspectors general offices at the 23 agencies included in our review. The questionnaire asked for information related to the effects of sequestration on each office's budget and its oversight activities. We received responses from 19 inspectors general offices by the end of January 2014.

We conducted structured interviews with each agency's CFO or designee from June 2013 to August 2013 using a standard set of questions about agencies' sequestration planning and preparation, actions taken to implement sequestration, and the effects of sequestration on agency operations, performance, and services to public. We conducted additional interviews with other agency officials when necessary to address our objectives.

Based on agencies' responses to the information request, structured interviews, and other information obtained from the agency, we assessed whether actions taken by agencies were broadly consistent with Office of Management and Budget (OMB) guidance. We also assessed whether OMB's actions were broadly consistent with the Balanced Budget and Emergency Deficit Control Act of 1985 and other related laws and regulations in terms of providing information and guidance that enhanced public understanding of sequestration and whether the guidance was distributed at the appropriate time to enable efficient and effective decision making. As part of this analysis, we also reviewed OMB guidance on sequestration and conducted several interviews with OMB officials.

To further analyze the effects of sequestration on agency operations and the public, we interviewed organizations representing service contractors, academic research institutions that receive federal funds, state governments, and federal employees: the Professional Services Council, the American Federation of Government Employees, the Federal Demonstration Partnership, and the National Association of State Budget

Officers. We reviewed the results of OPM's 2013 Federal Employee Viewpoint Survey (FEVS). While not specifically addressing sequestration, the FEVS captures employees' general perceptions in areas including their work experiences and their agency that could be affected by sequestration. To assess the reliability of the FEVS data, we reviewed reports and other descriptions of the survey methodology available on the OPM website: <http://www.fedview.opm.gov/2013/>.

We conducted this performance audit from April 2013 to March 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Comments from the Department of Education



UNITED STATES DEPARTMENT OF EDUCATION
WASHINGTON, D.C. 20202

February 11, 2014

Ms. Melissa Emrey-Arras
Director, Education, Workforce,
and Income Security Issues
Government Accountability Office
Washington, DC 20548

Dear Ms. Emrey-Arras:

Thank you for the opportunity to respond to the Government Accountability Office's (GAO) draft report "2013 Sequestration: Agencies Reduced Some Services and Investments, While Taking Certain Actions to Mitigate Effects" (GAO-14-244).

Department of Education officials found the report balanced and informative. Those who participated in the review and discussions with GAO staff about the actions taken as a result of the sequester also welcomed the opportunity to discuss the challenges presented by the unusual reduction. While the Department did a good job in addressing this matter, it was helpful to review the information in the draft report.

As the report indicates, it is challenging to determine the precise impact of the sequester on Department programs or operations. The Department took a number of steps to mitigate the effects of the \$2.3 billion reduction in discretionary appropriations. The bulk of that funding was taken from grants that would have gone to State, local, and institutional grant recipients for school year 2013-14, so the effects are still being felt. Programs such as Impact Aid, Titles I and II of the Elementary and Secondary Education Act, and the Individuals with Disabilities Education Act lost critical funding. While it is difficult to quantify the impact of the loss, the decrease in funds affected thousands of schools and caused some reductions to the services to our country's neediest students. On the other hand, our decision in July 2012 to delay the reduction from the 2013 sequester for the large State grant programs enabled recipients to plan and might have tempered some of the negative consequences. We also helped grantees avoid some of the disruption by following our regulations and placing a priority on funding continuation grants rather than starting new competitions.

Our reductions in administrative funding pared back hiring, travel, conferences, printing, and contracts. We were already taking steps to implement many of these kinds of savings in 2012 and early 2013, so we did not have to furlough employees, like many agencies. As with the program reductions, there may be some long-term consequences of the cutbacks in investments, particularly in career staff, but we have continued to carry out our basic mission in the short run.

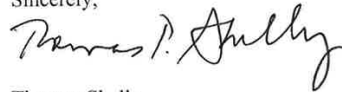
www.ed.gov

The Department of Education's mission is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.

Page 2 - Ms. Melissa Emrey-Arras

The Department appreciates GAO's thoroughness in this report. Should you need additional assistance, please contact Jan Solomon in the Department's Budget Service.

Sincerely,



Thomas Skelly
Director, Budget Service and Delegated to Perform
Functions and Duties of the Chief Financial Officer

Appendix III: Comments from the Department of Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

February 14, 2014

James White
Director, Tax Issues
Government Accountability Office
441 G Street NW
Washington, D.C. 20548

Sent via email to McCabeT@gao.gov

Dear Mr. White,

Thank you for the opportunity to comment on the draft report entitled *2013 Sequestration: Agencies Reduced Some Services and Investments, While Taking Certain Actions to Mitigate Effects (GAO-14-244)*.

As described in the report, the cuts required by sequestration curtailed investments vital to economic growth, threatened the safety and security of the American people, and harmed programs that benefit the American taxpayer. The across-the-board nature of the spending cuts forced reductions across nearly all Treasury programs, impacting the Treasury workforce and critical Treasury operations.

Treasury bureaus subject to sequestration conducted an extensive review of expenses in an effort to achieve the savings required by sequestration while minimizing the impact on Treasury's mission and employees. Unfortunately, sequestration resulted in a reduction in the agency's ability to provide quality services to taxpayers. At the Internal Revenue Service (IRS), furloughs and cuts to other operating expenses impeded taxpayer access to IRS call and assistance centers. The IRS estimates that sequestration resulted in billions of dollars in lost revenue due to fewer tax return reviews and diminished fraud detection.

In addition to reducing services, Treasury sequestration decreased payments, export certifications, tax credits, and financial assistance programs that support small businesses and state and local governments. Sequestration forced Treasury to reduce direct payments to state and municipal bond issuers, decrease assistance for development of renewable energy, and grant fewer and smaller grants to low-income and disadvantaged communities.

Sequestration had a considerable impact on the Treasury workforce as well, causing Treasury bureaus to institute hiring freezes and reduce training. The IRS also furloughed all employees for three days in fiscal year 2013. We believe these events contributed to a decline in the Treasury employee satisfaction and engagement scores as measured by OPM's Federal Employee Viewpoint Survey.

As the Administration has said many times, sequestration was destructive to the operations of the federal government and should never have happened. Treasury leadership attempted to absorb

the cuts in the most responsible way possible, while still maintaining mission critical operations and minimizing the impact of such arbitrary cuts on taxpayers and Treasury employees. Despite these efforts, the negative impacts of sequestration at Treasury were significant.

Thank you again for the opportunity to provide comments. Please let me know if you have any questions.

Sincerely,



Nani Coloretti
Assistant Secretary for Management

Appendix IV: Comments from the Social Security Administration



SOCIAL SECURITY
Office of the Commissioner

February 12, 2014

Mr. Daniel Bertoni, Director
Education, Workforce, and Income Security Issues
United States Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Bertoni:

Thank you for the opportunity to review the draft report, "2013 Sequestration: Agencies Reduced Some Services and Investments, While Taking Certain Actions to Mitigate Effects" (GAO-14-244). The report accurately describes our sequestration planning activities, and we have no additional comments.

If you have any questions, please contact me at (410) 966-9014. Your staff may contact Gary S. Hatcher, our Senior Advisor for Records Management and Audit Liaison Staff, at (410) 965-0680.

Sincerely,

A handwritten signature in black ink that reads "Katherine Thornton".

Katherine Thornton
Deputy Chief of Staff

SOCIAL SECURITY ADMINISTRATION BALTIMORE, MD 21235-0001

Appendix V: Glossary of Budget Terms

Appropriation	Budget authority to incur obligations and to make payments from the Treasury for specified purposes. An appropriation act is the most common means of providing appropriations; however, authorizing and other legislation itself may provide appropriations.
Annual appropriation	A provision of law appropriating funds enacted annually to provide budget authority to incur obligations and make payments from the Treasury for specified purposes.
Supplemental appropriation	A provision of law appropriating funds in addition to those already enacted in an annual appropriation act. Supplemental appropriations provide additional budget authority, usually in cases where the need for funds is too urgent to be postponed until enactment of the regular appropriation bill. Supplemental appropriations may sometimes include items not appropriated in the regular bills due to a lack of timely authorizations.
Advance appropriation	Budget authority that becomes available 1 or more fiscal years after the fiscal year for which the appropriation was enacted. For example, a fiscal year 2012 appropriation could provide that budget authority for a specified activity would not become available until October 1, 2012 (the start of fiscal year 2013) or later. For sequestration, funding enacted as advance appropriations—available in fiscal year 2013—was included in the sequestrable base.
Availability	Budget authority that is available for incurring new obligations.
Budget account	An item for which appropriations are made in any appropriation act and, for items not provided for in appropriation acts, the term means an item for which there is a designated budget account identification code number in the President's budget.
Budget authority	Authority provided by federal law to enter into financial obligations that will result in immediate or future outlays involving federal government funds.

Duration

One-year appropriation

Budget authority available for obligation only during a specific fiscal year that expires at the end of that fiscal year.

Multiyear appropriation

Budget authority available for a fixed period of time in excess of 1 fiscal year. This authority generally takes the form of 2-year, 3-year, and so forth availability but may cover periods that do not coincide with the start or end of a fiscal year.

No-year appropriation

Budget authority that remains available for obligation for an indefinite period of time. A no-year appropriation is usually identified by language such as “to remain available until expended.”

Timing of legislative action

Permanent appropriation

Budget authority that is available as the result of previously enacted legislation and is available without further legislative action. Many programs with permanent appropriations are exempt from sequestration (see “mandatory” below).

Determination of amount

Definite appropriation

Budget authority that is stated as a specified sum at the time the appropriation is enacted. This type of authority, whether in an appropriation act or other law, includes authority stated as “not to exceed” a specified amount.

Indefinite appropriation

Budget authority that, at time of enactment is for an unspecified amount, such as entitlement programs where obligations depend on the number of eligible beneficiaries receiving benefits. Also for fee-funded accounts in which total obligations depend on demand for the good or service provided by the program (e.g., programs funded by regulatory fees). Indefinite appropriations may be appropriated as all or part of the amount of proceeds from the sale of financial assets, the amount necessary to cover obligations associated with payments, the receipts from specified sources—the exact amount of which is determinable only at some future

date—or it may be appropriated as “such sums as may be necessary” for a given purpose. For sequestration, unless otherwise specified in law, agencies were directed to implement sequestration for accounts with indefinite authority by reducing the remaining obligations from fiscal year 2013 sequestrable resources by a uniform percentage.

Availability for new obligations

Expired budget authority

Budget authority that is no longer available to incur new obligations but is available for an additional 5 fiscal years for disbursement of obligations properly incurred during the budget authority’s period of availability.

Budget function

The functional classification system is a way of grouping budgetary resources so that all budget authority and outlays of on-budget and off-budget federal entities and tax expenditures can be presented according to the national needs being addressed. National needs are grouped in 17 broad areas to provide a coherent and comprehensive basis for analyzing and understanding the budget.

Carryover balance
(unexpended balance)

The sum of the obligated and unobligated balances.

Continuing resolution

An appropriation act that provides budget authority for federal agencies, specific activities, or both, to continue in operation for a specific period of time when Congress and the President have not completed action on the regular appropriation acts by the beginning of the fiscal year.

Deobligate

A cancellation or downward adjustment of previously incurred obligations made by an agency. Deobligated funds may be reobligated within the period of availability of the appropriation.

Direct spending

Budget authority that is provided in laws other than appropriation acts and entitlement authority (for example, Supplemental Nutrition Assistance, Medicare, and veterans’ pension programs). Direct spending, also referred to as mandatory spending, includes payment of interest on the public debt, and nonentitlements such as payments to states from Forest Service receipts. For sequestration, many mandatory programs are exempt. But for those that are not exempt, the PPAs for mandatory

accounts are generally delineated in the President's budget for fiscal year 2013.

Discretionary spending Outlays from budget authority that is provided in, and controlled by, appropriations acts.

Expended funds Funds that have actually been disbursed or outlaid.

Mandatory spending See definition of direct spending above.

Obligated balance (obligated funds) The amount of obligations already incurred for which payment has not yet been made. Technically, the obligated balance is the unliquidated obligations. Budget authority that is available for a fixed period expires at the end of its period of availability, but the obligated balance of the budget authority remains available to liquidate obligations for 5 additional fiscal years. At the end of the fifth fiscal year, the account is closed and any remaining balance is canceled. Budget authority available for an indefinite period may be canceled and its account closed if (1) it is specifically rescinded by law or (2) the head of the agency concerned (or the President) determines that the purposes for which the appropriation was made have been carried out and disbursements have not been made from the appropriation for 2 consecutive years.

Obligation An obligation is a definite commitment that creates a legal liability of the government for the payment of goods and services ordered or received, or a legal duty on the part of the United States that could mature into a legal liability by virtue of actions of another party.

Program, Project, or Activity (PPA) An element within a budget account. The programs, projects, and activities as delineated in the appropriation act or accompanying report for the relevant fiscal year covering that account. For accounts not included in appropriation acts, PPAs are delineated in the most recently submitted President's budget or congressional budget justifications, specifically the program and financing schedules that the President provides in the "Detailed Budget Estimates" in the budget submission for the relevant fiscal year.

Receipts, offsetting
collections, and offsetting
receipts

Governmental receipts

Collections from the public based on the government's exercise of its sovereign powers, including individual and corporate income taxes and social insurance taxes, excise taxes, duties, court fines, compulsory licenses, and deposits of earnings by the Federal Reserve System.

Offsetting collections

Collections authorized by law to be credited to appropriation or fund expenditure accounts. Offsetting collections result from (1) businesslike transactions or market-oriented activities with the public, (2) intragovernmental transfers, and (3) collections from the public that are governmental in nature but required by law to be classified as offsetting. Laws authorizing offsetting collections make them available for obligation to meet the account's purpose without further legislative action. However, it is not uncommon for annual appropriation acts to include limitations on the obligations to be financed by these collections. The authority to obligate and spend offsetting collections is a form of budget authority.

Offsetting receipts

Like offsetting collections, offsetting receipts result from (1) businesslike transactions or market-oriented activities with the public, (2) intragovernmental transfers, and (3) collections from the public that are governmental in nature but required by law to be classified as offsetting receipts. Offsetting receipts are collections that are offset against gross outlays but are not authorized to be credited to expenditure accounts and cannot be used without being appropriated.

User charges/fees

Fees assessed to users for goods or services provided by the federal government. User fees generally apply to federal programs or activities that provide special benefits to identifiable recipients above and beyond what is normally available to the public. User fees are normally related to the cost of the goods or services provided. An agency may not obligate against fees collected without specific statutory authority.

Reprogramming

Reprogramming is the shifting of funds from one program to another within an appropriation or fund account for purposes other than those contemplated at the time of appropriation. The authority to reprogram is implicit in an agency's responsibility to manage its funds; no statutory authority is necessary but the agency may be required to notify the congressional appropriations committees, the authorizing committees, or both of any reprogramming action.

Rescission	Legislation enacted by Congress that cancels budget authority previously enacted before the authority would otherwise expire. For sequestration, the Consolidated and Further Continuing Appropriations Act, 2013 included across-the-board rescissions, which were applied to full-year appropriations for fiscal year 2013 (in addition to the reductions required by the Joint Committee sequestration).
Sequestration	In general, the permanent cancellation of budgetary resources under a presidential order. For fiscal year 2013, the uniform percentage reduction is applied to all programs, projects, and activities within a budget account, with some program exemptions and special rules.
Spending authority	A specific form of budget authority that authorizes obligations and outlays using offsetting collections credited to an expenditure account. Spending authority is typically provided in authorizing laws and in some cases appropriation acts limit obligations.
Transfer	The shifting of funds between accounts is called a transfer. An agency may not transfer funds unless it has statutory authority to do so.
Unobligated balance (unobligated funds)	The portion of budget authority that has not yet been obligated. For an appropriation account that is available for a fixed period, the budget authority expires after the period of availability ends and is no longer available for new obligations, but its unobligated balance remains available for 5 additional fiscal years for recording and adjusting obligations properly chargeable to the appropriations period of availability. For example, an expired, unobligated balance remains available until the account is closed to record previously unrecorded obligations or to make upward adjustments in previously under-recorded obligations (such as contract modifications properly within scope of the original contract). At the end of the fifth fiscal year, the account is closed and any remaining balance is canceled. For a no-year account, the unobligated balance is carried forward indefinitely until (1) specifically rescinded by law or (2) the head of the agency concerned (or the President) determines that the purposes for which the appropriation was made have been carried out and disbursements have not been made from the appropriation for 2 consecutive years.

For more information on budget terms and concepts, see GAO, *A Glossary of Terms Used in the Federal Budget Process*, [GAO-05-734SP](#) (Washington, D.C.: Sept. 2005) (published in cooperation with the Secretary of the Treasury and the Directors of the OMB and the Congressional Budget Office).

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In addition, staff that contributed to sections of this report on selected agencies are listed in Table 5.

**Appendix VI: GAO Contacts and Staff
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Table 8: Names of GAO Staff Contributing to Information on Selected Agencies

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**Appendix VI: GAO Contacts and Staff
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Source: GAO.

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