

GAO

Fact Sheet for the Chairman,
Committee on the Budget,
House of Representatives

August 1990

BUDGET ISSUES

Effects of the Fiscal Year 1990 Sequester on the Department of Health and Human Services



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Human Resources Division

B-240472

August 9, 1990

The Honorable Leon Panetta
Chairman, Committee on the Budget
House of Representatives

Dear Mr. Chairman:

This fact sheet is one of a series of case studies responding to your request that we review the effects of the fiscal year 1990 sequester. Our objectives were to identify (1) how resources were reduced by the sequester and (2) what impact the sequester had on a department's ability to fulfill its mission and on the people served by its programs. This fact sheet presents information regarding the Department of Health and Human Services (HHS).

Results in Brief

The fiscal year 1990 sequester had little discernible impact on HHS programs. HHS program managers said they found it difficult to separate the impact of the sequester on program activities from other factors affecting the budget. Budget resources available to most of these managers ended up being higher than expected because

- the actual 1.4-percent sequester was much lower than the 5 to 6 percent that they had originally expected, and
- final appropriations for HHS were enacted after the October 15 sequestration deadline. Since the enacted appropriations were generally higher than prior year spending adjusted for inflation, the reduction of budget resources as percentages of final appropriations were less than 1.4 percent.

The program managers generally thought that, though the sequester was minimal, it was felt most in administrative accounts because of the combined impact of the sequester and the need to absorb the cost of employee salary increases. Both the size and number of grants were reduced in most grant programs, but these reductions tended to be taken from planned grant levels, which were higher than the previous year's grant program.

Background

The Balanced Budget and Emergency Deficit Control Act of 1985, as amended, established deficit targets to lead to a balanced unified budget by fiscal year 1993. Each year, the Office of Management and Budget (OMB) is required to submit an initial report on August 25 and a final

report on October 15 projecting the fiscal year deficit. If OMB projects a deficit in excess of the target amount plus \$10 billion, the President must issue a sequester order to reduce budgetary resources sufficiently in order to reach the target deficit level. The amount to be sequestered must be divided evenly between defense and nondefense accounts.

The act set the fiscal year 1990 deficit target at \$100 billion. The August OMB report estimated a \$116.2 billion deficit, exceeding the target by \$16.2 billion. OMB's October report slightly reduced the overall estimate to \$116.1 billion. Both reports would have required a sequester of 4.3 percent in defense accounts and 5.3 percent in all others subject to sequestration. Sequestration of this magnitude was never fully implemented, however, because of passage of the Omnibus Budget Reconciliation Act of 1989.

The 1989 Reconciliation Act, approved on December 19, 1989, reduced the mandatory sequester amount for fiscal year 1990 to 130/365 of the original \$16.1 billion requirement. This change effectively reduced sequester requirements to \$5.7 billion, or 1.5 percent in defense accounts and 1.4 percent in nondefense accounts. OMB responded to this legislation with a Revised Final Sequester Report, published December 27, 1989, that sequestered the lower amounts.

Because certain rules apply to sequestration when agency appropriations are enacted after the President issues his final sequestration order, and most appropriation acts affecting federal agencies had not been enacted by the October 15, 1989, sequestration deadline, the sequester percentage actually taken varied greatly from 1.4 percent.

Objectives, Scope, and Methodology

This fact sheet focuses on implementation of the sequester in HHS and what effect the sequester had on Department operations. To determine how HHS resources were reduced by the sequester, we obtained data on the Department's allocation of the reduction by program and, where available, by object of expenditure for all sequestrable accounts. We defined sequestrable accounts as all those sequestered in OMB's Revised Final Sequester Report plus any others identified by the agency. We also gathered data on the Department's actual obligations and available funding for fiscal years 1988 and 1989, and compared these to fiscal year 1990 obligations subsequent to sequester. This enabled us to compare fiscal year 1990 post-sequester resources to those of prior years. Except for the allocation of the sequester by program, these data were

obtained directly from The Budget of the United States Government, Fiscal Years 1990 and 1991.

To identify the effects of the sequester on HHS programs, we interviewed Department officials regarding implementation strategies and areas the officials thought experienced the most impact, if any. We also obtained data from HHS program managers to measure the asserted impact. As agreed with Committee staff, we did not attempt to verify agency statements.

Sequester Implementation

Almost 40 percent of HHS's budget resources, excluding the Social Security trust funds, are fully exempt from sequestration. For most HHS budget resources in accounts subject to the sequester, special rules govern its implementation.

Only about 12 percent of HHS's budget resources are in accounts where the uniform 1.4-percent reduction in budget resources is required by the sequester order. The fiscal year 1990 sequester deducted a uniform 1.4-percent reduction from the sequestrable budgetary resources in each of these HHS budget accounts. However, the actual percentage reduction from authorized budget resources in each account varied considerably. Some accounts subject to sequestration ended up with higher spending authority than their sequestrable base after the HHS appropriation. For these accounts the reductions usually were less than 1.4 percent of fiscal year 1990 authority. Some accounts that would normally be subject to sequestration were not sequestered or received a reduced sequester during fiscal year 1990 because reductions had already been achieved through the appropriation process. The budget resources and final sequester amounts for all HHS programs are presented in appendix I.

Sequester Impact

The fiscal year 1990 sequester had little discernible impact on HHS programs. The final 1.4-percent sequester was defined after the agency had developed budget plans anticipating a much higher sequester of 5 to 6 percent. Because the HHS appropriations bill was passed after the sequester order and had budget levels even higher than anticipated, the Department had some flexibility to absorb the required reductions. HHS officials found it difficult to isolate the impact of the sequester from a number of other budget actions taking place concurrently. These actions included the need for agencies to absorb federal salary increases within their budgets and a requirement that agencies divert funds usually set aside for evaluation of agency activities to fund a new health research

agency. The 1.4-percent reduction by itself was described as manageable but the cumulative impact of all the other cuts did have noticeable effects on accounts or program activities that received little or no increase in funding from the previous year.

Administrative accounts were typically singled out as areas where the sequester and other changes, particularly absorbing the salary increase, had the greatest impact. Agency officials reported cutbacks in training, unfilled positions, and an inability to expand activities in such areas as the prevention of fraud and abuse. Not one of the agency officials we interviewed pointed to any reductions-in-force or lay-offs stemming from the sequester or other recent budget actions.

The bulk of the activity in sequestered accounts for HHS's programs was in grant programs. Agencies absorbed the cutbacks by reducing the number of grants, the dollar amount of individual grants from planned levels, or both. Generally programs giving grants to states reduced them by an amount commensurate with the sequester, while reductions were made in the number of grants awarded in discretionary grant programs.

As agreed with your office, we did not obtain written comments on this fact sheet. We did, however, discuss its contents with agency officials and incorporated their views where appropriate.

Unless you publicly announce its contents earlier, we plan no further distribution of this fact sheet until 30 days after its issue date. At that time, we will send copies to the Secretary of Health and Human Services; the Director, Office of Management and Budget; the Director, Congressional Budget Office; and other interested parties. Copies will also be made available to others on request.

Please contact me at (202) 275-6195 if you or your staff have any questions concerning this fact sheet. Other major contributors are listed in appendix III.

Sincerely yours,



Mark V. Nadel
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Contents

Letter	1
Appendix I Sequester Status of Department of Health and Human Services Accounts in Fiscal Year 1990	8
Appendix II Effects of the Sequester on Selected HHS Programs	11
Office of the Assistant Secretary of Health (OASH)	11
Alcohol, Drug Abuse, and Mental Health Administration (ADAMHA)	12
Health Care Financing Administration (HCFA)	12
Indian Health Service (IHS)	13
Office of Human Development Services (OHDS)	14
Health Resources and Services Administration (HRSA)	14
National Institutes of Health (NIH)	15
Appendix III Major Contributors to This Fact Sheet	17
Tables	
Table I.1: Fiscal Year 1990 Accounts Subject to Sequestration	8
Table I.2: Special Rule Programs	10
Table I.3: Fiscal Year 1990 Accounts (Excluding Social Security Trust Funds) Generally Exempt From Sequestration	10
Table II.1: Sequester Percentages on Medicare Payments	13

Abbreviations

ADAMHA	Alcohol, Drug Abuse, and Mental Health Administration
AIDS	acquired immunodeficiency syndrome
AFDC	Aid to Families With Dependent Children
HCFA	Health Care Financing Administration
HHS	Department of Health and Human Services
HIV	human immunodeficiency virus
HMO	health maintenance organization
HRSA	Health Resources and Services Administration
IHS	Indian Health Service
NIH	National Institutes of Health
OASH	Office of Assistant Secretary of Health
OHDS	Office of Human Development Services
OMB	Office of Management and Budget
PHS	Public Health Service

Sequester Status of Department of Health and Human Services Accounts in Fiscal Year 1990

Table I.1: Fiscal Year 1990 Accounts Subject to Sequestration

Dollars in thousands			
Account name	Sequestrable budget resources	Sequester	Sequester as percentage of budget resources
Food and Drug Administration			
Buildings/facilities	\$8,350	\$0	^a
Program expenses/rent	585,883	7,092	1.2
Revolving fund	3,216	45	1.4
Health Resources and Services Administration			
Health Resources and Services	1,282,933 ^b	16,945	1.3
Centers for Disease Control			
Disease control, research, and training	1,105,006 ^c	14,216	1.3
National Institutes of Health			
John F. Fogarty International Center	15,516	0	^a
National Library of Medicine	82,932	1,071	1.3
Buildings and facilities	61,600	558	0.9
National Institute on Aging	242,685	3,230	1.3
National Institute of Child Health and Human Development	449,087	6,173	1.4
Office of the Director	108,668	1,049	1.0
National Cancer Institute	1,657,161	22,829	1.4
National Institute of General Medical Sciences	691,278	9,496	1.4
National Institute of Environmental Health Sciences	232,476	3,242	1.4
National Heart, Lung, and Blood Institute	1,087,524	15,170	1.4
National Institute of Dental Research	137,646	1,897	1.4
National Institute of Diabetes and Digestive and Kidney Diseases	589,594	8,117	1.4
National Institute of Allergy and Infectious Diseases	843,745	10,768	1.3
National Institute of Neurological Disorder and Stroke	495,625	5,216	1.1
National Eye Institute	239,889	3,356	1.4
National Institute of Arthritis and Musculoskeletal and Skin Diseases	171,250	2,320	1.4
National Center for Nursing Research	33,935	422	1.2
National Institute on Deafness and Other Communicative Disorders	118,839	1,256	1.1
National Center for Human Genome Research	59,938	400	0.7
Research Resources	353,734	0	^a

(continued)

**Appendix I
Sequester Status of Department of Health
and Human Services Accounts in Fiscal
Year 1990**

Account name	Sequestrable budget resources	Sequester	Sequester as percentage of budget resources
Alcohol, Drug Abuse and Mental Health Administration			
Alcohol, drug abuse, and mental health	2,652,683	26,745	1.0
Saint Elizabeths Hospital	18,000	0	^a
Assistant Secretary for Health			
Medical treatment effectiveness	26,838	0	^a
Office of the Assistant Secretary	77,157	1,005	1.3
Health Care Financing Administration			
HMO Loan and Loan Guarantee Fund	5,000	70	1.4
Program Management	101,908	1,356	1.3
Program Management Trust Fund	1,869,986	24,841	1.3
Family Support Administration			
Program Administration	87,088	1,191	1.4
Community services block grants	390,639	1,859	0.5
Interim assistance to states for legalization	870,000 ^d	12,180	1.4
AFDC work programs	466,646	3,608	0.8
Low income home energy assistance	1,393,000	0	^a
Refugee and entrant assistance legalization	368,822	0	^a
Human Development Services			
Social Services Block Grant	2,800,000	37,800	1.4
Human Development Services	2,807,653	37,341	1.3
Social Security Administration			
Payments to Social Security Trust Funds (administrative)	4,788,968	0	^a
Special benefits for disabled miners (administrative)	6,847	16	0.2
Departmental management			
General departmental management	80,399	983	1.2
Office for Civil Rights	17,528	234	1.3
Office of Consumer Affairs	1,859	25	1.3
Policy research	5,001	0	^a
Office of the Inspector General	50,488	0	^a
Total	\$29,545,020	\$284,123	1.0

^aDesignates hold-harmless accounts in which no sequester was taken.

^bIncludes \$365,000 collected from nonfederal sources.

^cExcludes \$255 million in royalties.

^dIncludes \$555,244 of funding rescinded after sequestration.

**Appendix I
Sequester Status of Department of Health
and Human Services Accounts in Fiscal
Year 1990**

Table I.2: Special Rule Programs

Dollars in thousands			
Account name	Sequestrable budget resources	Sequester	Sequester as percentage of budget resources
Indian Health Service			
Indian health services	\$1,196,160	\$14,823	1.2
Indian health facilities	72,496	863	1.2
Health Care Financing Administration			
Medicare	109,000,000	510,159 ^a	0.5
Health Resources and Services Administration			
Community health centers	433,000	5,691	1.3
Migrant health centers	48,000	631	1.3
Family Support Administration			
Child support enforcement	1,353,326	18,326	1.4
Human Development Services			
Payments to states for foster care and adoption assistance	1,380,048	5,132	0.4
Total	\$113,483,030	\$555,625	0.5

^aEstimated effect of sequester after 1989 Omnibus Budget Reconciliation Act.

**Table I.3: Fiscal Year 1990 Accounts
(Excluding Social Security Trust Funds)
Generally Exempt From Sequestration**

Dollars in thousands		
Account name	Budget resources	Sequester
Assistant Secretary for Health		
Retirement pay and medical benefits for commissioned officers	\$112,604	\$0
Family Support Administration		
Aid to Families With Dependent Children	10,390,946	0
Health Care Financing Administration		
Grants to states for Medicaid	40,229,502	0
Payments to health care trust funds	36,705,500	0
Health Resources and Services Administration		
Health Professions Graduate Student Loan Insurance Fund	24,870	0
Medical Facilities Guarantee and Loan Fund	21,000	0
Vaccine Improvement Program Trust Fund	214,200	0
Social Security Administration		
Special Benefits for Disabled Coal Miners	863,422	0
Supplemental Security Income Program	12,294,758	0
Total	\$100,856,802	\$0

Effects of the Sequester on Selected HHS Programs

Office of the Assistant Secretary of Health (OASH)

OASH consists of general and special staff offices that support the Assistant Secretary of Health and the Surgeon General and plan and direct the activities of the Public Health Service (PHS). OASH also supports the National Center for Health Services Research and Health Care Technology Assessment.

Between fiscal years 1989 and 1990, OASH's appropriations increased by 10 percent (\$6.9 million) even after the sequester, which dampened its impact. In view of the budget increase, most program areas were reduced by only 1.07 to 1.09 percent from planned 1990 funding levels. PHS's Health Services Research program sequester appears to exceed 1.4 percent because the budget item excluded additional funds for acquired immunodeficiency syndrome (AIDS) research and program support and included interfund transfers that were already sequestered at the appropriation source.

OASH made a reduction of \$1.2 million below its appropriated level in response to the sequester (\$1 million) and other budget reductions (\$195,000). The impact of these reductions on OASH-funded programs follows.

- The Adolescent Family Life program (with a \$5,000 budget reduction and a \$103,000 sequester) dropped one of its grants and placed some restrictions on travel and support services.
- The Minority Health program (with a \$15,000 budget reduction and a \$87,000 sequester) was unable to carry out some of its planned studies of special population groups and other research activities.
- PHS management (with a \$42,000 budget reduction and a \$212,000 sequester) was unable to fill vacancies, significantly curtailed travel, and virtually eliminated training.
- The Agency for Health Care Policy and Research (with a budget reduction of \$69,000 and a sequester of \$423,000) reduced the amounts available for grants and contracts in all areas of health services research, including activities related to AIDS and the human immunodeficiency virus (HIV). The number of competing research grants to be funded from budget authority was reduced by three. OASH discontinued 3 of its 80 grants.

The other OASH programs suffered little or no impact.

Alcohol, Drug Abuse, and Mental Health Administration (ADAMHA)

ADAMHA provides a national focus for the federal effort to increase knowledge and promote effective strategies to deal with health problems and issues associated with the use and abuse of alcohol and drugs and with mental illness and mental health.

In carrying out these responsibilities, ADAMHA conducts and supports research on the causes, prevention, and treatment of these problems; supports training and development of research resources; and develops and provides information for the public and scientific community.

Between fiscal years 1989 and 1990, ADAMHA's budget increased by 42 percent (\$781.9 million), a substantial increase in funds even after the \$26.7 million sequester. Given the budget increase, the sequester reduced approved budgets for ADAMHA programs by only 1.01 to 1.16 percent.

The sequester had a minimal impact on ADAMHA's planned increase in operations. ADAMHA did not have any reductions-in-force or lay-offs of personnel as a result of the sequester. The agency reduced 55 of its planned 1,508 full-time traineeship positions in research training, 2 research contracts, 1 drug abuse demonstration, 15 of 613 substance abuse prevention demonstrations, and 2 treatment improvement grants due to the sequester. ADAMHA also reduced the number of research grants planned for fiscal year 1990 from 2,947 to 2,903 grants, which exceeded the 2,599 in fiscal year 1989.

Health Care Financing Administration (HCFA)

HCFA is responsible for overseeing the Medicare and Medicaid programs and related federal medical care utilization and quality control staffs. The program management functions are subject to full sequestration. Medicaid is exempt from sequestration, and the Medicare sequester is governed by special rules.

Program Management

HCFA provides program management for both Medicare trust funds (\$1.87 billion) and for other program management activities. Between fiscal years 1989 and 1990 HCFA's appropriation for other program management functions increased by 8 percent (\$7.3 million), which lessened the impact of the sequester.

As fiscal year 1990 began, HCFA officials were concerned about having adequate funds for the remainder of the fiscal year. They anticipated a 5-percent sequester, and HCFA also faced other budget constraints,

including requirements to fund the fiscal year 1990 salary increase and provide funds for the “war on drugs.”

HCFA officials told us that the impact of the sequester was minimal in part because HCFA was able to use extra funds formerly appropriated for Medicare catastrophic coverage. The Congress repealed catastrophic benefits as of December 31, 1989. There were no reductions-in-force or lay-offs of HCFA employees.

Medicare Benefits

For fiscal year 1990 the actual amount sequestered on Medicare payments to hospitals, skilled nursing facilities, and other institutional providers (under Part A) and to physicians and suppliers (under Part B) was \$510 million.

As a result of the Omnibus Budget Reconciliation Act of 1989, the following sequester rates were in effect for Medicare payments during fiscal year 1990, according to HCFA officials.

Table II.1: Sequester Percentages on Medicare Payments

Figures are percentages

Dates	Medicare Part A	Medicare Part B
October 17 through December 31, 1989	2.092	2.092
January 1 through March 31, 1990	0	2.092
April 1 through October 15, 1990	0	1.460

Indian Health Service (IHS)

The Indian Health Service provides a comprehensive health services delivery system for American Indians and Alaska natives. The Service’s goal is to raise the health level of the Indian and Alaska native people to the highest level possible and to provide them with the opportunity for maximum tribal involvement in developing and managing programs to meet their health needs.

Between fiscal years 1989 and 1990, IHS appropriations increased by 16 percent (\$170.9 million) net of sequester reductions, thereby minimizing their impact. A budget official informed us that the impact of the fiscal year 1990 sequester on IHS is hard to quantify. He believed the tremendous increases IHS received in its appropriation probably negated the cutbacks caused by the sequester. He further indicated that sequester effects were difficult to isolate from other factors acting to constrain

IHS's budgetary resources, including the funding of pay increases, inadequate adjustments for medical inflation that exceeds the general rate of inflation, and IHS's need to divert some of its program resources to fund the war on drugs.

Office of Human Development Services (OHDS)

OHDS serves as the adviser to the Secretary and Under Secretary of HHS on human development services and provides leadership and direction to human services programs for the elderly, children and youth, families, Native Americans, persons in rural areas, and handicapped people.

Between fiscal years 1989 and 1990, OHDS's nonfoster care budget increased 5 percent (\$258.6 million).¹ Because of this growth, OHDS officials we interviewed thought the sequesters had no material impact on OHDS programs in fiscal year 1990. OHDS did not have any reductions-in-force or lay-offs or reduced expenditures in any other object classes due to the sequester.

Foster care and adoption assistance programs are governed by a special sequester rule. The special rule prohibits the federal government from increasing payments to states to cover the cost of any state-initiated increase in foster parent or adoption assistance payments. Since a sequester was implemented this year, OHDS interpreted the special rule as requiring a complete prohibition of foster care payment increases for the entire year. OHDS officials cited California as an example of a state that passed its first foster care rate increase in several years but would be denied federal funds to help pay for this increase because of the sequester for fiscal year 1990.

Health Resources and Services Administration (HRSA)

HRSA has responsibility within the Public Health Service for general health services and resource issues relating to access, equity, quality, and cost of health care.

Between fiscal years 1989 and 1990, HRSA's appropriations increased by 7 percent (\$118.4 million), even after the sequester, which lessened its impact. Given the budget increase, most program areas were reduced between 1.21 and 1.38 percent of approved 1990 authority and three did not receive a sequester.

¹Between fiscal years 1989 and 1990, payments to states for foster care and adoption assistance decreased 11 percent (\$168 million).

HRSA officials informed us that the sequester was spread across existing programs without reducing the number of grants. Budget officials were not aware of the impact of the sequester on HRSA programs, because the programs are administered at the state level and state officials have not commented on any adverse impact.

National Institutes of Health (NIH)

NIH's mission is to improve the health of the American people. The agency conducts and supports biomedical research into the causes, prevention, and cure of diseases; supports research training and the development of research resources; and makes use of modern methods to communicate biomedical information.

Between fiscal years 1989 and 1990, NIH's budget increased by 6 percent (\$431.8 million), net of sequester reductions. Allowing for the budget increase, most program areas were reduced between 1.05 and 1.40 percent from authorized 1990 funding; three were reduced by less than 1 percent, and two received no reductions.

NIH officials initially assumed the sequester would be 5.3 or 5.4 percent, and the impact would be more severe than the 1.4-percent sequester actually imposed. NIH officials felt a reduction-in-force was unnecessary with a 1.4-percent sequester.

Although NIH officials believed the fiscal year 1990 sequester had an impact on their operations, they also believed they would have difficulty in specifically identifying the impact, because, in addition to the sequester, other factors reduced or constrained NIH's budget. These factors were

- funding the January 1990 pay increase and
- providing NIH's share of funds (\$22 million) for the Agency for Health Care Policy and Research.

NIH reduced the number of grants awarded but increased the total dollar amount of its remaining grants. The number of NIH grants awarded was 20,681 in fiscal year 1989 and 20,316 in fiscal year 1990. NIH increased the total dollar amount of grants by 5.9 percent (from \$4.033 billion to \$4.197 billion) between fiscal years 1989 and 1990.

For both competitive and noncompetitive grants, NIH had been reducing the grant amount in negotiations after the grant award. Because of the

**Appendix II
Effects of the Sequester on Selected
HHS Programs**

sequester, NIH increased the level of downward negotiation on competitive grants from 10 to 11 percent and from 11 to 12.5 percent for non-competitive grants.

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