2013 SEQUESTRATION

Selected Federal Agencies Reduced Some Services and Investments, While Taking Short-Term Actions to Mitigate Effects

What GAO Found

Fiscal year 2013 sequestration reduced funding to selected components of federal agencies and their program partners—such as state and local governments—that assist in carrying out agency missions. As a result, the selected components and their partners reduced or delayed some services to the public and operations in 2013. For example:

- Public housing authorities reported providing rental assistance to about 41,000 fewer very low-income households compared to 2012—a 2.2 percent reduction—because the authorities received less program funding from the Department of Housing and Urban Development’s Office of Public and Indian Housing (PIH).
- The Department of Health and Human Services’ Centers for Medicare & Medicaid Services (CMS) reported reducing the frequency of surveys to determine quality of care and compliance with federal standards at psychiatric hospitals from once every three years to once every four to five years and specialized organ transplant centers from once every three years to once every four to six years.
- The Department of Homeland Security’s U.S. Customs and Border Protection (CBP) reported that sequestration reductions did not leave them with sufficient funds to provide the overtime necessary to fully staff inspection booths which resulted in increased average wait times for international passengers. From fiscal years 2012 to 2013, wait times increased from 19.7 minutes to 22.8 minutes at one airport and from 20.9 minutes to 26.8 minutes at another.
- School districts GAO spoke with reported that reduced funding from the Department of Education’s Office of Elementary and Secondary Education (OESE) resulted in less resources for specialists providing extra instruction to students and an increase in the average number of students per elementary school class. For example, one district reported an average increase of two or three students per elementary school class from the prior school year.
- The Department of Defense (DOD) reported that canceled or limited military training and readiness activities could increase the number of nondeployable units, decrease surge capacity to meet additional requirements with ready forces, and lead to skills gaps.

In some cases, program partners reported increasing reliance on other federal, state, and local funding sources, where available, to mitigate sequestration’s effects on their services to the public. Certain state agencies reported that they relied on additional state funds to inspect and investigate health care facilities on behalf of CMS. However, in other cases, program partners reported that reductions in other funding sources magnified sequestration’s effects on services to the public. For example, officials at 7 school districts that receive federal education grants reported that sequestration compounded prior-year reductions in state funding.
However, GAO found in some cases the effects of sequestration could not be isolated from the effects of other changes in funding. For example:

- The effects of the 2 percent sequestration of Medicare payments are difficult to quantify due to the challenge of isolating the effects of sequestration from other factors that increased or decreased payments to providers, as well as possible changes in provider behavior to compensate for the sequestration reductions.
- It is difficult to isolate the specific effects of sequestration on Title I school districts because Title I funding typically makes up a small portion of the school district’s total funding compared to state and local sources. A district’s Title I formula allocation could also be reduced as a result of factors other than sequestration.

GAO found that sequestration planning and implementation varied among the selected components. In some cases, agencies directed components’ efforts, while in others components provided guidance and set priorities for program offices. Consistent with GAO’s March 2014 report, officials from all federal agency components reported that uncertainty regarding the timing and amount of sequestration and technical questions about how to apply sequestration to certain complex accounts presented challenges for planning and implementation. For example:

- CMS officials had difficulty determining all of the types of provider payments that would need to be cut and which funding was subject to special sequestration rules.
- According to CBP budget officials, applying sequestration to fee-based accounts was more difficult than applying sequestration to other accounts.

In addition, uncertainty surrounding the timing and amount of sequestration limited some components’ ability to substantively communicate with program partners and recipients, making it difficult for partners to plan and execute their budgets during the fiscal year. For example, recipients of Indian Housing Block grants from PIH did not receive the full amount of funds until several months into the calendar year.

Components that had initiated efficiency efforts prior to sequestration reported that they were better positioned to plan for and implement sequestration in fiscal year 2013. For example, CMS officials reported that savings from a 2011 initiative to improve the efficiency of its facility inspections helped the component plan for and implement sequestration.

In reviewing how agencies implemented sequestration, GAO also selected five programs, projects, and activities (PPAs) from each of the four nondefense case study components based on the specific programs or activities reviewed within each component and other factors and found that components complied with the provision in the Balanced Budget and Emergency Deficit Control Act of 1985 that specifies how PPAs should be identified for the purpose of sequestration.

In cases where officials had some discretion in implementing sequestration reductions, components reported that they sought to protect higher priority activities, either by using funding flexibilities or modifying or canceling contracts or other ongoing activities. For example, within DOD, the military services sought to protect training requirements for deployed and next-to-deploy forces by canceling or limiting training for forces not preparing to deploy in fiscal year 2014.

However, for some programs, officials reported having limited options to implement sequestration. For example, some of the case study components’ largest programs—such as HUD’s Housing Choice Voucher Program and Education’s Title I grants—are based on eligibility formulas and the funds are disbursed to program partners to provide services to the public. As a result, these program partners had to identify specific actions—such as limiting the number of housing vouchers issued and increasing classroom size—to absorb the reductions and mitigate their effects on the public.