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April 2016

# 2014 SEQUESTRATION

## Opportunities Exist to Improve Transparency of Progress Toward Deficit Reduction Goals

Accessible Version

# GAO Highlights

Highlights of [GAO-16-263](#), a report to the Chairman, Committee on the Budget, House of Representatives

## Why GAO Did This Study

In fiscal year 2014, federal agencies implemented the second consecutive year of sequestration reductions to mandatory spending, which are scheduled through fiscal year 2025.

GAO was asked to review the implementation of sequestration on mandatory accounts and any related effects. This report examines 1) the designation of mandatory accounts government-wide under the President's sequestration order for fiscal year 2014, 2) how selected agencies implemented sequestration and any effects they reported on programs or services, and 3) how continued sequestration of mandatory spending relates to the achievement of deficit reduction goals.

GAO analyzed fiscal year 2014 budget data on sequestration; selected a nongeneralizable sample of 6 accounts from USDA, HHS, Treasury, and DOT based on the amount of sequestrable budget authority, budget function, and account type; reviewed documentation on sequestration; interviewed budget officials; and reviewed legislation.

## What GAO Recommends

GAO recommends that OMB identify and publicly report the total amount of (1) temporarily sequestered budget authority that becomes available in subsequent fiscal years and (2) actual budget authority sequestered government-wide each year. OMB agreed with the first recommendation but disagreed with the second, citing implementation burden. GAO believes such information would enhance the transparency of achieving federal deficit reduction goals as discussed in the report.

View [GAO-16-263](#). For more information, contact Michelle Sager, (202) 512-6806, [sagem@gao.gov](mailto:sagem@gao.gov).

April 2016

## 2014 SEQUESTRATION

### Opportunities Exist to Improve Transparency of Progress Toward Deficit Reduction Goals

#### What GAO Found

GAO found that in fiscal year 2014, total mandatory budget authority government-wide was approximately \$2.9 trillion spread across roughly 443 accounts. The Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), as amended, required the Office of Management and Budget (OMB) to apply a range of sequestration rates to non-exempt mandatory spending. This resulted in estimated reductions of \$19.4 billion in fiscal year 2014, which was less than one percent of mandatory budget authority. Exemptions and special rules in BBEDCA led some areas of government to be reduced more than others. For example, 90 percent or more of mandatory budget authority for the administration of justice and transportation was subject to reduction. Veterans benefits and services were exempt. About two-thirds of the 67 federal agencies with mandatory budget authority implemented sequestration procedures in 2014. The largest drivers of mandatory spending growth—Social Security and health care—are statutorily exempt from sequestration under BBEDCA, with the exception of Medicare and certain health programs which are subject to a special rate.

Agency officials responsible for managing the selected accounts in GAO's review at the Departments of Agriculture (USDA), Health and Human Services (HHS), the Treasury (Treasury), and Transportation (DOT) reported varied administrative and programmatic effects. While they said 2014 sequestration procedures were similar to the prior year, implementation involved additional administrative activities to ensure that reductions were applied correctly and to accommodate the changes in cash flows for programs and services. In certain cases, selected officials said sequestration added uncertainty when planning and executing their budgets. They also said that the required reductions affected program beneficiaries in different ways including smaller direct payments, reduced services, delayed payments, and reduced tax credits.

The processes established by BBEDCA were designed to reduce the deficit over 10 years by at least an additional \$1.2 trillion. However, the subsequent availability of temporarily sequestered budget authority in certain accounts—referred to as “pop ups”—provide savings in the year they are sequestered but do not represent lasting savings. OMB staff said they do not tally the total amount of funds that “pop up,” nor are they required to do so. However, doing so would provide additional transparency to Congress about the total amount of funds agencies have available in a given year.

In addition, actual sequestered amounts for certain types of mandatory spending cannot be determined until the end of the fiscal year due to the variable nature of indefinite budget authority—budget authority for an unspecified or indeterminable amount at the time of enactment. OMB staff said they do not aggregate government-wide data on the actual amounts sequestered nor are they required to do so under BBEDCA. However, tabulating actual amounts after the close of the fiscal year would provide a clearer picture of the amount of funds that were permanently canceled, thereby representing the true savings generated from mandatory spending reductions each year. Moreover, compiling such data could improve transparency and serve as a benchmark to evaluate the progress made each year toward the required overall savings of \$1.2 trillion.

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### Abbreviations

ACF	Administration for Children and Families
BAB	Build America Bonds
BBEDCA	Balanced Budget and Emergency Deficit Control Act of 1985
BCA	Budget Control Act of 2011
CCC	Commodity Credit Corporation
DHS	Department of Homeland Security
DOT	Department of Transportation
FSA	Farm Service Agency
HRSA	Health Resources and Services Administration
IRS	Internal Revenue Service
IRS-CI	IRS Criminal Investigation
Joint Committee	Joint Select Committee on Deficit Reduction
MAP-21	Moving Ahead for Progress in the 21st Century Act
NCGA	National Corn Growers Association
NHSC	National Health Service Corps
OMB	Office of Management and Budget
OTA	Treasury's Office of Tax Analysis
PAYGO	Statutory Pay-As-You-Go Act of 2010
PPA	program, project, and activity
Recovery ACT	American Recovery and Reinvestment Act of 2009
SSBG	Social Services Block Grant
TEOAF	Treasury's Executive Office for Asset Forfeiture
TFF	Treasury Forfeiture Fund
Treasury	Department of the Treasury

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USDA

U.S. Department of Agriculture

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April 14, 2016

The Honorable Tom Price  
Chairman  
Committee on the Budget  
House of Representatives

Dear Chairman Price:

The Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA) first established sequestration, which is the cancelation of budgetary resources under a presidential order. The act set deficit reduction targets for the federal government and established sequestration procedures to enforce those targets. The Budget Control Act of 2011 (BCA) amended BBEDCA and revived this budgetary enforcement mechanism to encourage agreement on deficit reduction legislation or, in the event that such agreement was not reached, to automatically reduce spending so that an equivalent budgetary goal would be achieved. Sequestration was triggered after the Joint Select Committee on Deficit Reduction (Joint Committee) did not propose, and Congress and the President did not enact, legislation to reduce the deficit by at least an additional \$1.2 trillion.<sup>1</sup> In fiscal year 2014, federal agencies implemented the second consecutive year of across-the-board spending reductions to mandatory spending (also known as direct spending).<sup>2</sup>

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<sup>1</sup>BCA established the Joint Committee, which was tasked with proposing legislation to reduce the deficit by an additional \$1.2 trillion or more through fiscal year 2021. Such legislation was not proposed or enacted, which triggered the sequestration process provided in section 251A of BBEDCA, known as the Joint Committee sequestration. Section 251A currently requires the Office of Management and Budget (OMB) to calculate, and the President to order, a sequestration of direct spending in each year through fiscal year 2025, and a reduction of discretionary spending limits in fiscal years 2018 through 2021. Both discretionary appropriations and direct spending were sequestered in 2013. Direct spending is also known as mandatory spending. For purposes of this report, we will use the term mandatory.

<sup>2</sup>The President has issued an order requiring the sequestration of mandatory spending in each fiscal year since 2013.

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**Discretionary spending** is controlled through appropriations acts, which provide agencies with budget authority on a one-year, multi-year, or no-year basis. Examples include most defense spending, education, housing, and energy programs.

**Mandatory spending** (also known as direct spending) generally refers to budget authority provided through laws other than appropriations acts. By statute, funding tends to be driven by eligibility rules and benefit formulas, which means that funds are made available as needed to provide benefits to those who are eligible and wish to participate. Examples include Medicare, Social Security, unemployment insurance, and various veterans' programs.

Source: GAO-05-734SP and GAO analysis. | GAO-16-263

While an across-the-board reduction of discretionary appropriations was not triggered in fiscal year 2014 (and thus did not occur),<sup>3</sup> nor were discretionary spending limits required to be reduced under BBEDCA, current law requires mandatory spending to be sequestered every year through 2025. Mandatory outlays are largely driven by eligibility rules and benefit formulas, which means that funds are made available as needed to provide benefits to those who are eligible and choose to participate. Pursuant to BBEDCA, a great deal of mandatory spending is exempt from sequestration such as Social Security benefit payments, Medicaid grants, and funding for veterans' benefits programs.

Under sequestration, agencies are required to reduce nonexempt mandatory spending, which includes amounts for Medicare, various farm programs, unemployment insurance, and citizenship and immigration services.<sup>4</sup> The list of exemptions was established in the 1980s, when BBEDCA was first enacted, and has been amended since then. Through its amendments to BBEDCA in 2011, Congress encouraged the enactment of deficit reducing legislation and established consequential procedures in the absence of such legislation. Given that sequestration of mandatory spending will be in effect over the coming decade, it is important to evaluate the effects and implications of sequestration as a tool for reducing the federal deficit.

While under current law, Joint Committee reductions to discretionary spending limits are not required until fiscal year 2018, and an after session sequestration of discretionary appropriations will only occur if spending limits are breached, mandatory spending is to be sequestered under the Joint Committee sequestration process every year through

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<sup>3</sup>A sequestration of discretionary appropriations could occur in any year through fiscal year 2021, if Congress enacts appropriations that breach discretionary spending limits established by BBEDCA. This process is known as an "after session sequestration."

<sup>4</sup>Under BBEDCA, nearly all of the mandatory budget authority for Medicare was subject to a 2 percent reduction in fiscal year 2014 with the exception of approximately \$1.4 billion that was subject to a 7.2 percent reduction and \$644 million that was exempt from sequestration. Combined, these two amounts equal less than 1 percent of the total mandatory budget authority for Medicare.



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fiscal year 2025.<sup>5</sup> You requested that we examine the implementation of sequestration on mandatory accounts and any related effects. Specifically, this report discusses (1) the designation of mandatory accounts across the federal budget under the President's sequestration order for fiscal year 2014, (2) how selected agencies implemented the fiscal year 2014 sequestration order and the effects, if any, they reported the required spending reductions had on programs or services, and (3) how continued sequestration of mandatory spending relates to the achievement of deficit reduction goals.

To accomplish our first objective, we identified how mandatory accounts were designated under sequestration primarily using a data set provided by Office of Management and Budget (OMB) staff that was used to prepare OMB's *Report to the Congress on the Joint Committee Reductions for Fiscal Year 2014*. We also analyzed actual budget authority data for all mandatory accounts government-wide from OMB's MAX database to show trends over time from fiscal year 2005 through fiscal year 2014.<sup>6</sup> To accomplish our second objective, we selected a nongeneralizable sample of six accounts for a more in-depth review of the implementation of sequestration and its effects. We relied on the same data used for our first objective to select six accounts representing a variety of characteristics including the amount of sequestrable budget authority, type of account, agency, budget function, and whether the account included some portion of budget authority that was exempt from sequestration. We assessed the reliability of the data sources noted above through electronic data testing, interviews with agency officials, and reviewing related documentation. We found the data to be sufficiently reliable for the purpose of our report.

We reviewed budget data, guidance, and documentation of any reported programmatic effects of sequestration for each of the selected accounts.

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<sup>5</sup>In 2013, discretionary appropriations were sequestered under the Joint Committee sequestration by operation of law after the Joint Committee did not propose and Congress and the President did not enact legislation to reduce the deficit. Going forward, section 251A of BBEDCA requires OMB to reduce the discretionary spending limits in its Sequestration Preview Report for each fiscal year from 2018 through 2021. A breach of these lower limits would trigger an after session sequestration.

<sup>6</sup>OMB Circular A-11, *Preparation, Submission and Execution of the Budget* contains OMB's guidance to agencies regarding preparing and submitting budget information. Agencies develop their budget information and enter the data into the budget data system (MAX).

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We spoke with agency budget and program officials, as well as OMB staff, about their challenges and lessons learned from implementing sequestration. We also spoke with a nongeneralizable selection of interest groups to gain their perspective on the effects of sequestration on programs and services. To accomplish our third objective, we reviewed relevant literature and the government-wide federal budget data described above that was used for our first objective. We reviewed OMB's processes compared to federal standards for internal control specifically related to information and communication. In addition, for each of the objectives, we reviewed relevant legislation, executive memoranda, and OMB guidance. For additional details on scope and methodology, see appendix I.

We conducted this performance audit from February 2015 to April 2016 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.

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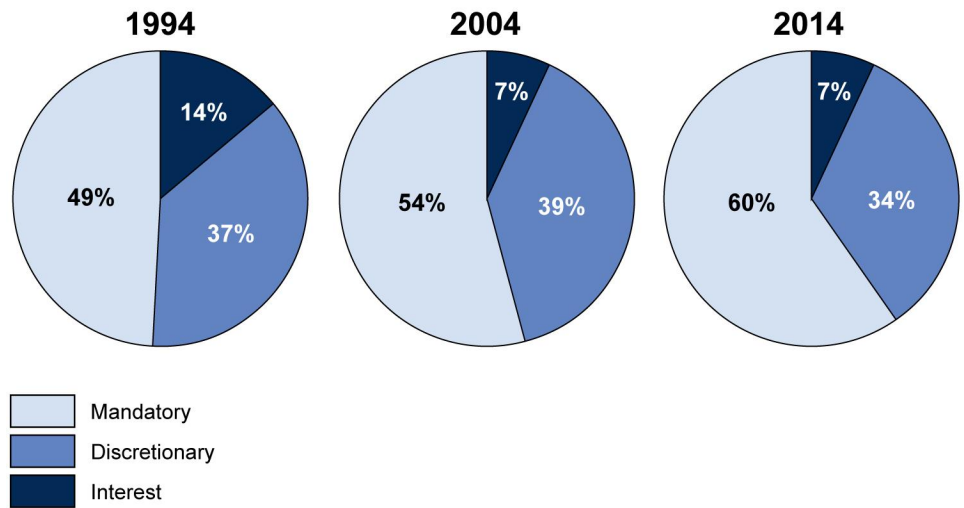
## Background

Over the past five decades, mandatory spending has grown as a share of the total federal budget. For example, figure 1 shows that outlays from mandatory programs rose from approximately 49 percent of total federal spending in 1994 to about 54 percent in 2004, and to 60 percent in 2014. This growth is projected to continue at least through fiscal year 2046.<sup>7</sup>

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<sup>7</sup>Congressional Budget Office, *The Budget and Economic Outlook: 2016 to 2026* (January 2016).

**Figure 1: Federal Outlays for Mandatory and Discretionary Programs**



Source: GAO analysis of President's budget data. | GAO-16-263

Note: Percentages above may sum larger than 100 due to rounding.

Current law requires OMB to calculate the reductions to budgetary resources required each year to ultimately reduce the deficit by at least an additional \$1.2 trillion. For fiscal year 2014, BBEDCA directed OMB to calculate a sequestration of mandatory spending, which was effective on October 1, 2013.

A percentage reduction, or sequestration rate, is applied to programs, projects, and activities (PPA), which are generally sub-elements within accounts, to achieve the total reduction amount required for the fiscal year. The sequestration rate varies from year to year based on a formula outlined in BBEDCA. The annual reduction amount calculated by OMB (\$109.3 billion) is split evenly between the defense and nondefense functions,<sup>8</sup> and then allocated between discretionary appropriations and

<sup>8</sup>The "defense function" means accounts in budget function 050, which is the national defense budget function. The "nondefense" function refers to accounts in all other functions.

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mandatory spending in each function in proportion to their share of the function.<sup>9</sup>

**2014 Sequestration Rates:**

- 7.2 percent for nonexempt, nondefense mandatory programs
- 2.0 percent for Medicare and certain other mandatory health programs
- 9.8 percent for nonexempt defense mandatory programs

Source: OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2014, Corrected version, May 2013. | GAO-16-263

To determine the requisite percentage reduction to nonexempt budget accounts in each function pursuant to BBEDCA, OMB must define the sequestrable base.<sup>10</sup> For fiscal year 2014, the base for mandatory spending was equal to the current law baseline amounts provided in the President's Budget submission for fiscal year 2014, including unobligated balances<sup>11</sup> in the defense function, and administrative expenses in otherwise exempt accounts. OMB was directed to calculate a sequestration consistent with provisions of sections 251A, 255, and 256 of BBEDCA, which limit or exempt the sequestration of certain budget authority.<sup>12</sup> Under BBEDCA, many mandatory programs are exempt from sequestration, and Medicare non-administrative spending (spending to pay for services provided to Medicare beneficiaries) could not be reduced by more than two percent.

These calculations are issued annually in OMB's *Report to the Congress on the Joint Committee Reductions*. OMB provided guidance to agencies primarily through memoranda for heads of executive departments and agencies and other technical assistance. In addition, in July 2014, OMB updated Circular A-11 to include a new Section 100, providing agencies with guidance on sequestration. This added section encouraged agencies to record how sequestration was implemented to maintain consistency from year to year, inform efforts to plan for sequestration in future years, and build institutional knowledge.

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<sup>9</sup>Discretionary appropriations were not subject to the Joint Committee reductions in fiscal year 2014, but are referenced for purposes of describing the calculation and allocation of the deficit reduction amount.

<sup>10</sup>The sequestrable base is the total of nonexempt budget accounts within each function.

<sup>11</sup>An unobligated balance is the portion of budget authority that has not yet been obligated. An obligation is a definite commitment that creates a legal liability of the government for the payment of goods and services, or a legal duty that could mature into a legal liability by actions beyond the control of the United States.

<sup>12</sup>As mentioned earlier, these rates vary year to year based on a formula outlined in BBEDCA. For example, the sequestration rate in fiscal year 2013 for non-exempt, nondefense mandatory programs was 5.1 percent compared to the 7.2 percent in fiscal year 2014. Most recently, this rate changed to 6.9 percent for fiscal year 2017.

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## Required Distribution of Fiscal Year 2014 Reductions Affected a Relatively Small Portion of Mandatory Spending

In fiscal year 2014, the total amount of mandatory budget authority across the federal government was approximately \$2.9 trillion, spread across roughly 443 accounts. For each of these accounts, OMB applied the designations outlined in BBEDCA, which labeled certain accounts or activities exempt or subject to special rules, to determine how much budget authority, if any, was subject to sequestration and the relevant sequestration rate for calculating the amount of the reduction. OMB reported the estimated reductions for each account subject to sequestration in the *OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2014*, which was released in the spring of 2013.<sup>13</sup> Since this report was released prior to the start of fiscal year 2014, the report included estimates for accounts with indefinite budget authority and actual amounts for accounts with definite budget authority.<sup>14</sup> We were unable to quantify the actual amount of total sequestered dollars government-wide in fiscal year 2014 because OMB staff said they do not have complete records of actual budget authority or the amount actually sequestered on an account by account basis. Therefore, they cannot aggregate this data.<sup>15</sup>

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<sup>13</sup>BBEDCA requires OMB to compile and publish these determinations before the beginning of the fiscal year.

<sup>14</sup>Budget authority is authority provided by federal law to incur obligations that will result in immediate or future outlays. Indefinite authority is budget authority that, at the time of enactment, is for an unspecified amount. Indefinite budget authority 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. Some examples of accounts with this type of budget authority are Build America Bonds and the Commodity Credit Corporation. Definite budget authority is stated as a specific sum at the time of enactment. This type of authority, whether in an appropriation act or other law, includes authority stated as “not to exceed” a specified amount. Some examples of accounts with this type of budget authority include the Department of Health and Human Services’ Social Services Block Grant account and the Health Resources and Services account.

<sup>15</sup>Identifying actual amounts would require data collection from each individual agency, which was beyond the scope of this review. We selected 6 accounts across a variety of departments and agencies and obtained the actual amounts sequestered for those accounts as illustrative examples.

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Sequestration Affected Less Than One Percent of Mandatory Budget Authority in Fiscal Year 2014

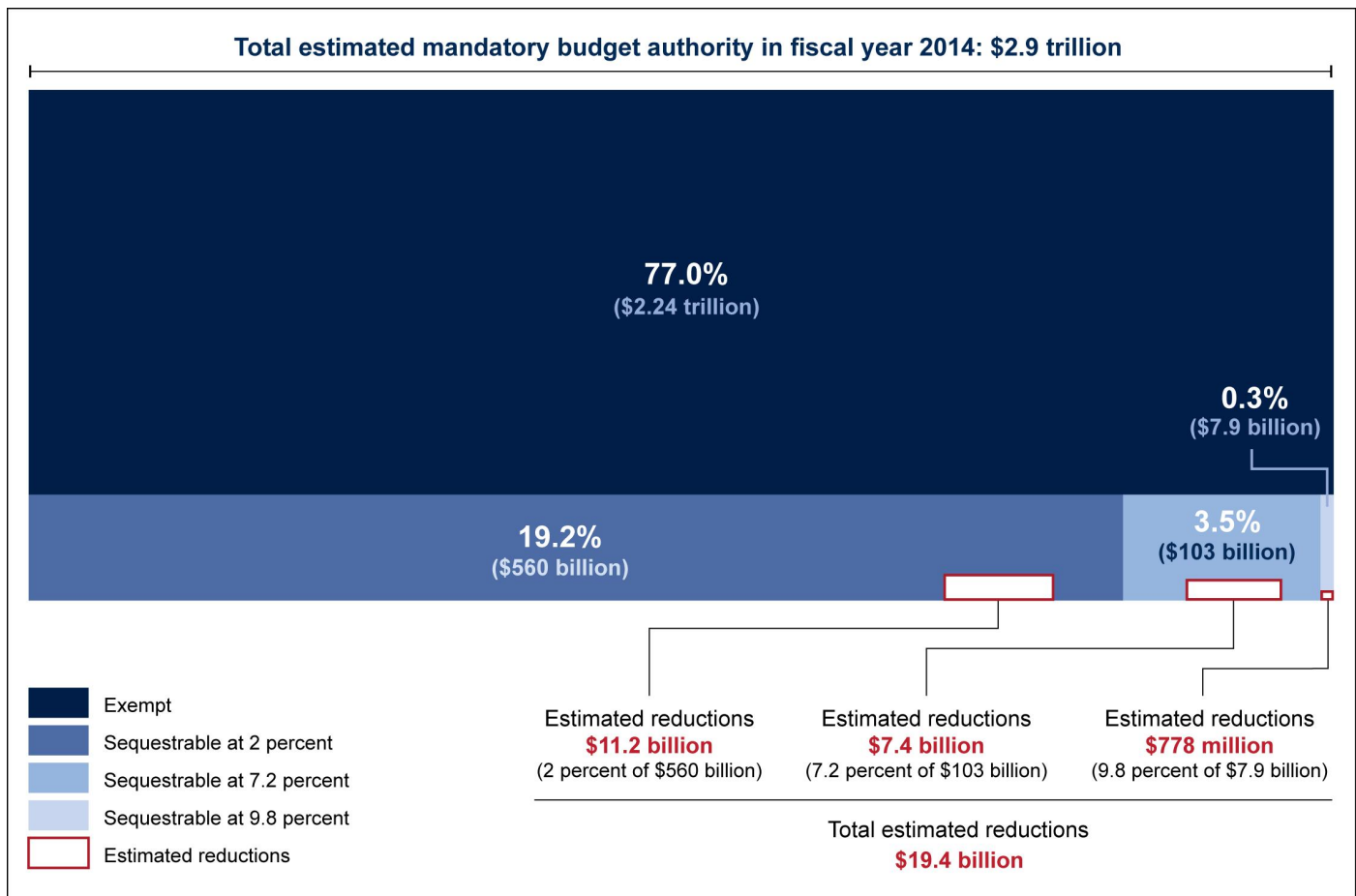
The sequestration procedures established under BBEDCA were designed to serve as a budget enforcement mechanism and reduce the federal budget deficit. The sequestration procedures do not apply to all mandatory spending. Certain budget authority is exempt or subject to special rules. The majority of mandatory budget authority across the federal government is exempt from sequestration. Among the accounts subject to sequestration, OMB calculated reductions based on differing rates ranging from 2 percent to 9.8 percent, as determined under the provisions of BBEDCA.

As shown in figure 2, about \$2.2 trillion, or approximately 77 percent, of the total estimated government-wide mandatory budget authority in fiscal year 2014 was exempt from sequestration. Applying the corresponding rates to each sequestrable account yielded an estimated target of \$19.4 billion in sequestration reductions government-wide in fiscal year 2014. This represented less than 1 percent of the total estimated mandatory budget authority for that year.<sup>16</sup> The estimated \$19.4 billion includes \$11.2 billion from budget authority sequestered at the 2 percent rate, \$7.4 billion from budget authority sequestered at the 7.2 percent rate, and \$778 million from budget authority sequestered at the 9.8 percent rate.

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<sup>16</sup>As a point of reference, the actual fiscal year 2014 deficit of \$486 billion as reported by the Congressional Budget Office was over 25 times larger than the estimated reductions.

**Figure 2: Government-wide Estimated Mandatory Budget Authority under Fiscal Year 2014 Sequestration**



Source: GAO analysis of Office of Management and Budget data. | GAO-16-263

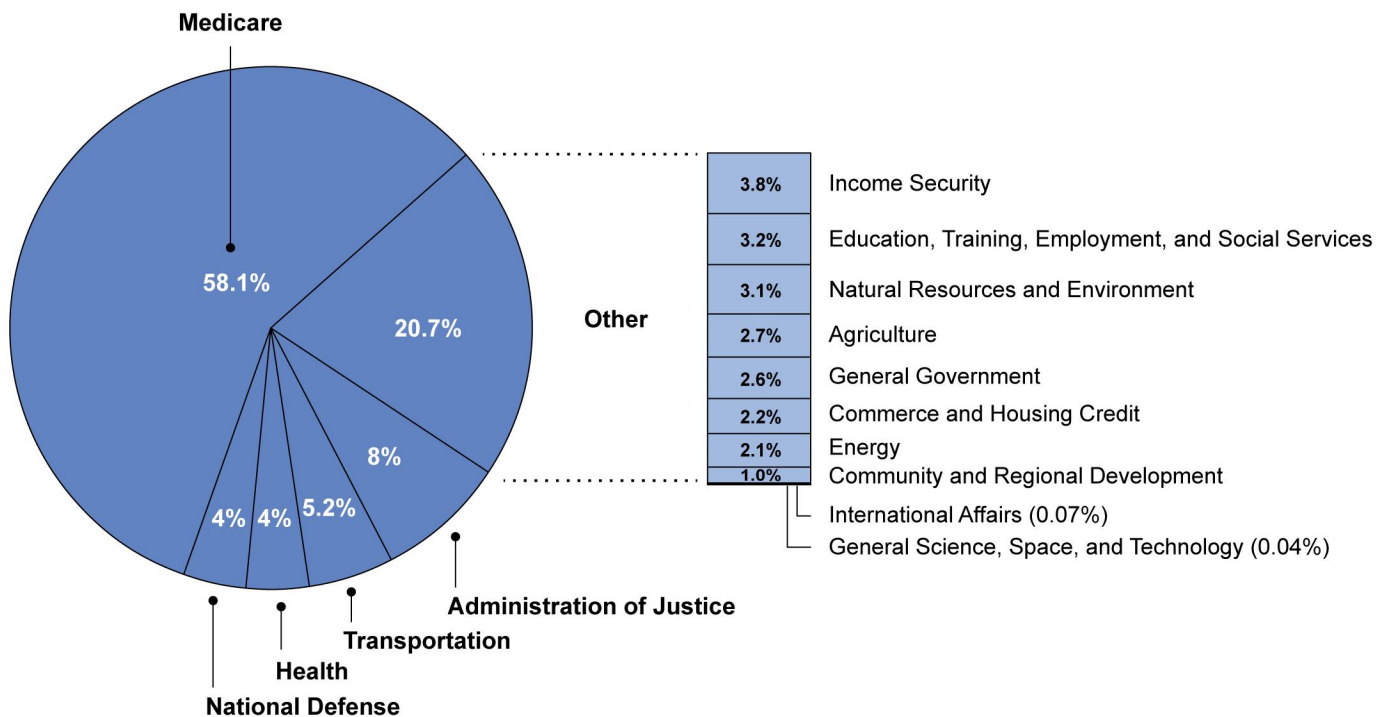
Note: Sequestration rates were determined by the Office of Management and Budget based on calculations established in BBEDCA. To the extent practical, we eliminated amounts transferred within and between federal accounts to minimize possible double counting.

Every federal account is assigned a “budget function,” which identifies the national priority supported by that account.<sup>17</sup> As shown in figure 3,

<sup>17</sup>Budget function is a classification according to national priority or major purpose served (e.g., agriculture, transportation, income security). Each federal activity is placed into a single functional classification that best defines the activity’s most important purpose, even though many activities serve more than one purpose. Major functions are further divided into sub functions.

approximately 58 percent of the \$19.4 billion in estimated reductions, or \$11.3 billion, came from Medicare. Although BBEDCA limits the sequestration of Medicare and certain other health programs to a rate of 2 percent, Medicare comprises the majority of the budget authority estimated to be sequestered and it is the largest sequestrable national priority. The projected increases in Medicare spending will likely cause Medicare to comprise a larger share of the sequestration reductions over time.<sup>18</sup>

**Figure 3: Share of the \$19.4 Billion Estimated Reductions in Fiscal Year 2014, By National Priority**



Source: GAO analysis of Office of Management and Budget data. | GAO-16-263

As shown in figure 3, after Medicare the next largest reductions in fiscal year 2014 came from mandatory budget authority for the administration of

<sup>18</sup>The Medicare Board of Trustees project that total Medicare costs will grow from approximately 3.5 percent of GDP in 2014 to 5.4 percent of GDP by 2035 and will increase gradually thereafter to about 6.0 percent of GDP by 2089.



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justice (\$1.5 billion), transportation (\$1 billion), health (\$783 million), and national defense (\$778 million). The remaining 20.7 percent of the estimated reductions were spread across 10 other national priorities.

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### BBEDCA Requirements Meant That Some Areas of Government Were Reduced More than Others

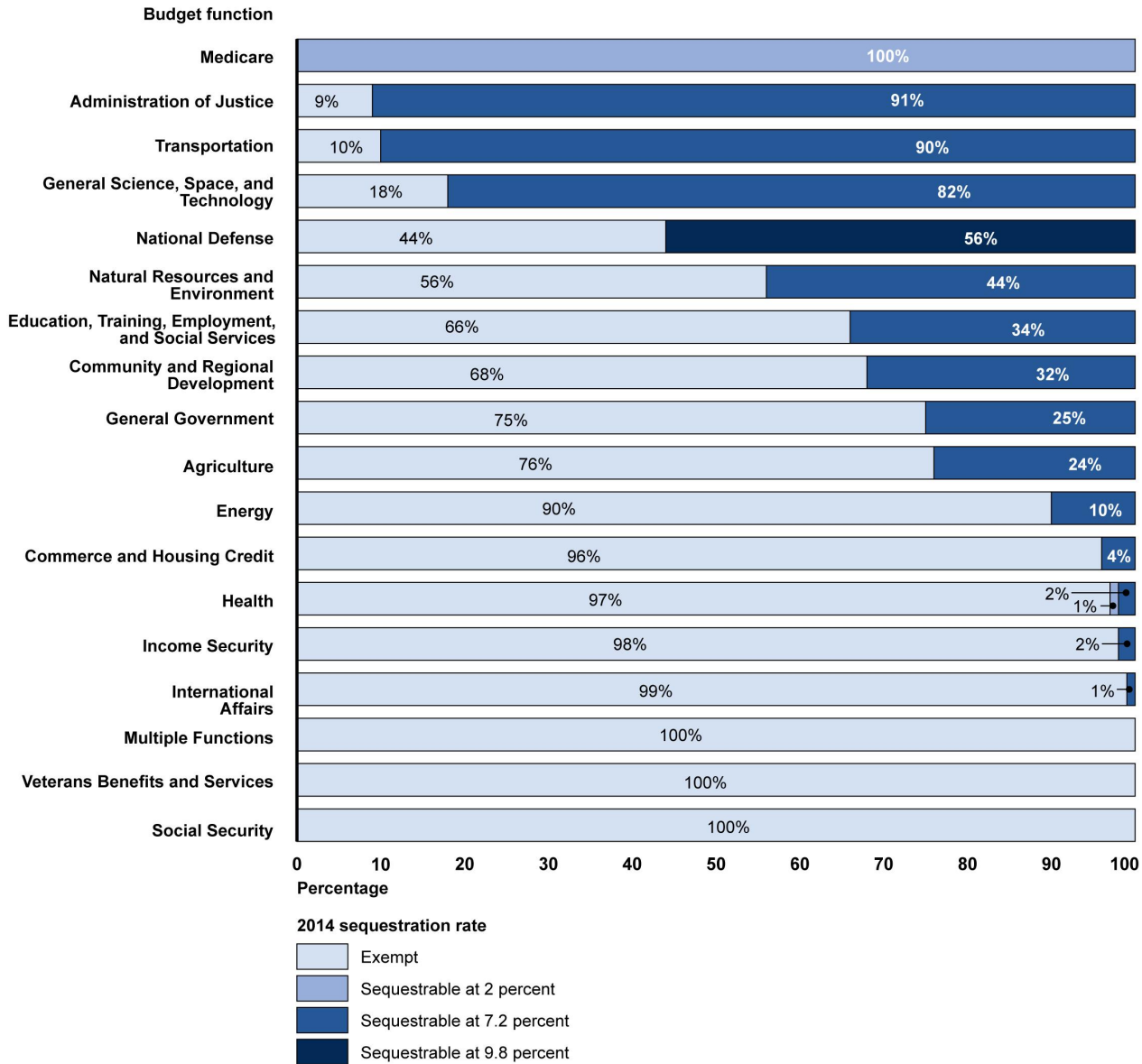
BBEDCA specifies that the same percentage reductions must be applied to each PPA within a sequestered account. However, because BBEDCA specifies exemptions and special rules for certain mandatory programs, under the law, different percentage reductions may apply to PPAs within the same budget account, and some PPAs or budget accounts may be entirely exempt. The exemptions and special rules lead sequestration to affect some areas of the federal government more than others. In fiscal year 2014, certain national priorities had a greater proportion of sequestrable budget authority. For example, nearly all mandatory budget authority for Medicare and more than 90 percent of the mandatory budget authority that supports the administration of justice was sequestrable, whereas national priorities such as social security and veterans benefits, which comprise a larger portion of the federal budget, were exempt from sequestration.

As shown in figure 4, four national priorities had more than 80 percent of their mandatory budget authority subject to sequestration in fiscal year 2014. In contrast, eight national priorities had less than 25 percent of their mandatory budget authority subject to sequestration.<sup>19</sup> In addition to the varying levels at which national priorities were subject to sequestration, certain national priorities were also subject to different sequestration rates. As described earlier, while BBEDCA limits the fiscal year 2014 sequestration of Medicare and certain other health programs to 2 percent, OMB calculated a 9.8 percent sequestration rate for mandatory budget authority that supports national defense and a 7.2 percent rate for nondefense mandatory budget authority.

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<sup>19</sup>The figure shows a ninth national priority called “multiple functions,” which is a category used to classify accounts that involve two or more major functions.

**Figure 4: Mandatory Budget Authority Supporting National Priorities Was Reduced at Different Rates and Varying Proportions under Fiscal Year 2014 Sequestration**



Source: GAO analysis of Office of Management and Budget data. | GAO-16-263

Notes: The category “multiple functions” is used to classify accounts that involve two or more major functions. To the extent practical, we eliminated amounts transferred within and between federal accounts to minimize possible double counting. The presentation above shows that mandatory budget authority for Medicare was 100 percent sequestrable, however this is due to rounding. Under BBEDCA, nearly all of the mandatory budget authority for Medicare was subject to a 2 percent reduction in fiscal year 2014 with the exception of approximately \$1.4 billion that was subject to a 7.2

percent reduction and \$644 million that was exempt from sequestration. Combined, these amounts equal less than 1 percent of the total mandatory budget authority for Medicare.

As with national priorities, varied proportions of federal agencies' mandatory budget authority were subject to sequestration in fiscal year 2014. About two-thirds of federal agencies with mandatory budget authority implemented sequestration procedures in 2014. As shown in table 1, twelve agencies' entire mandatory budget authority was subject to sequestration, while 22 agencies' mandatory budget authority was completely exempt. Of the remaining 33 agencies that were somewhere in between, 9 agencies had 50 percent or more of their mandatory budget authority subject to sequestration and 24 agencies had less than 50 percent of their mandatory budget authority subject to sequestration.

**Table 1: Sequestration Reductions Affected Most Agencies with Mandatory Budget Authority in Fiscal Year 2014**

Share of Mandatory Budget Authority Subject to Sequestration	Number of Agencies (Total=67)	Agencies with the Most Mandatory Budget Authority in Each Category
100% sequestrable	12	Patient-Centered Outcomes Research Trust Fund Bureau of Consumer Financial Protection Securities Investor Protection Corporation
Less than 100% and greater than or equal to 50% sequestrable	9	Department of Health and Human Services Department of Justice Department of Homeland Security
Less than 50% and greater than 0% sequestrable	24	Office of Personnel Management Department of the Treasury Department of Agriculture
0% sequestrable	22	Social Security Administration Department of Veterans Affairs Other Defense Civil Programs

Source: GAO analysis of Office of Management and Budget data. | GAO-16-263

While there were varying proportions of mandatory budget authority that was sequestrable within agencies, 45 of the 67 agencies with mandatory budget authority were responsible for administering sequestration. Some of the types of resources that agencies needed to redirect, if any, to implement sequestration are described in a later section of this report.

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## The Largest Drivers of Mandatory Spending Growth are Statutorily Exempt from Sequestration

The greatest amount of growth in mandatory spending is attributed to the effects of an aging population and rising care costs for major federal health and retirement programs such as Medicare and Social Security.<sup>20</sup> Most of the mandatory spending that is subject to automatic, annual sequestration is not from the areas that have been the main drivers behind the growth in mandatory spending during the past 10 years. While Social Security and health care are the largest contributors to the overall growth in mandatory spending, aside from Medicare and certain other health programs, these areas are either completely or largely exempt from sequestration.<sup>21</sup> Medicare has a fixed rate of reduction of 2 percent through fiscal year 2024, and Social Security and 21 other agencies are exempted from sequestration cuts.<sup>22</sup> The remaining agencies with sequestrable mandatory budget authority have variable reductions based on the exemptions and rate calculation formula outlined in BBEDCA. Figure 5 shows how the amount of mandatory budget authority that is exempt from sequestration has changed over time compared to the amount that is subject to the required reductions.

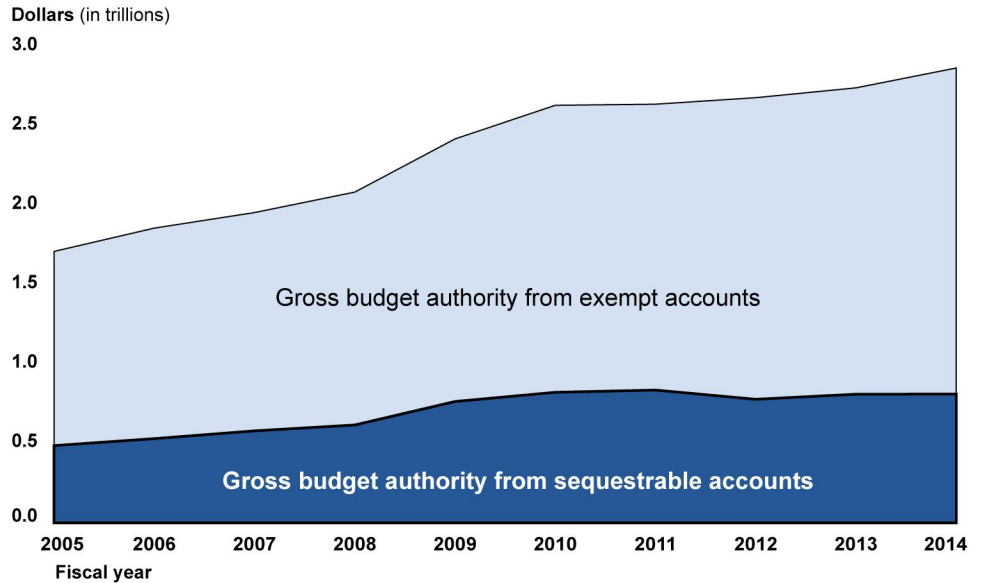
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<sup>20</sup>For additional information on mandatory spending growth, see GAO, *Mandatory Spending: Using Budget Triggers to Constrain Growth*, [GAO-06-276](#) (Washington, D.C.: Jan. 31, 2006) and GAO's Federal Fiscal Outlook webpage: [http://www.gao.gov/fiscal\\_outlook/federal\\_fiscal\\_outlook/overview](http://www.gao.gov/fiscal_outlook/federal_fiscal_outlook/overview).

<sup>21</sup>The Congressional Budget Office projects that Social Security and major health care programs will increase from 10.5 percent of GDP in 2016 to 15.0 percent of GDP in 2037 through 2046. See Congressional Budget Office, *The Budget and Economic Outlook: 2016 to 2026* (January 2016).

<sup>22</sup>Under current law, in fiscal year 2025, Medicare will be subject to a 4 percent reduction for the first six months, and a 0 percent reduction for the remaining six months.

**Figure 5: Growth in Total Mandatory Budget Authority Driven by Areas Largely Exempt from Sequestration**



Source: GAO analysis of Office of Management and Budget data. | GAO-16-263

Notes: This chart displays actual mandatory budget authority over time, matched with fiscal year 2014 sequestration designation to show how mandatory budget authority would have been treated under sequestration. About 6 percent of total mandatory budget authority in the budget appendix could not be matched with fiscal year 2014 designations, and therefore were excluded from the analysis. The budget authority within the chart does not include interest paid on the debt, which is a type of mandatory budget authority that is exempt from sequestration. Social Security and health care are the largest drivers of the overall growth in mandatory spending. Aside from Medicare and certain other health programs, these areas are either completely or largely exempt from sequestration. To the extent practical, we eliminated amounts transferred within and between federal accounts to minimize possible double counting.

## Potential Exists for Additional Sequestration of Mandatory Accounts

In addition to the annual, automatic reductions to mandatory spending, the Statutory Pay-As-You-Go Act of 2010<sup>23</sup> (PAYGO), specifies a second type of sequestration that can be triggered if certain conditions are met. The act established a permanent budget enforcement mechanism intended to prevent enactment of mandatory spending and revenue legislation that would increase the federal deficit. The act requires OMB to track costs and savings associated with enacted legislation and to determine at the end of each congressional session if net total costs

<sup>23</sup>The Statutory PAYGO Act of 2010 was enacted on February 12, 2010 as Title I of Pub. L. 111-139.

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exceed net total savings. If so, a separate sequestration will be triggered. Under sequestration—triggered either by BBEDCA or the PAYGO Act—the exemptions and special rules of Sections 255 and 256 of BBEDCA apply.<sup>24</sup> Consequently, the same mandatory accounts that are subject to sequestration under BBEDCA could incur further reductions if a secondary PAYGO sequestration is triggered. It is unclear what effects an additional enforcement sequestration under PAYGO would have on the level of federal agencies’ operations.

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## Selected Agencies Reported Varied Administrative and Programmatic Effects

To provide context and perspective in terms of an individual account or program, we selected a nongeneralizable sample of six accounts for further analysis.<sup>25</sup> As shown in table 2, each of the selected accounts had mandatory budget authority subject to a 7.2 percent reduction including one account that also had a portion of mandatory budget authority subject to a 2 percent reduction. The agencies reported that they implemented these reductions by decreasing the amount of funds or direct payments provided to other federal partners, state and local entities, or individuals.

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<sup>24</sup>Section 251A of BBEDCA provides that the percentage reduction for Medicare “shall not be more than 2 percent for a fiscal year” through fiscal year 2024; however, the special rules for Medicare provided in section 256(d) govern under a PAYGO sequestration, in which case the percentage reduction for Medicare would be limited to 4 percent. 2 U.S.C. §§ 901a(6), 906(d).

<sup>25</sup>The selected accounts represent a variety of agencies and account characteristics including the amount of sequestrable mandatory budget authority, budget function, and account type. We noted earlier that Medicare is the largest mandatory spending program to be sequestered; however, we did not include it in our selection of case illustration accounts since we previously reported on it in 2013. See GAO, *2013 Sequestration: Selected Federal Agencies Reduced Some Services and Investments, While Taking Short-Term Actions to Mitigate Effects*, [GAO-14-452](#) (Washington, D.C.: May 28, 2014). In that report we found that sequestration affected some activities but effects of the 2 percent reduction to Medicare payments and cuts to other activities were difficult to quantify. Additional details on how accounts were selected for this review are included in appendix I. Appendix II provides detailed information on each of the six accounts.

**Table 2: Case Illustration Accounts Sequestered in Fiscal Year 2014**

Account Name (Department)	Estimated Sequestrable Mandatory Budget Authority (in millions)	Actual Sequestrable Mandatory Budget Authority (in millions)	Sequestration Rate	Estimated Reduction (in millions)	Actual Reduction (in millions)
Payments to the Transportation Trust Fund (Dept. of Transportation)	\$12,600	\$12,600	7.2%	\$907	\$907
Commodity Credit Corporation Fund (U.S. Dept. of Agriculture)	\$7,968	\$9,132	7.2%	\$574	\$646
Build America Bond Payments, Recovery Act (Internal Revenue Service)	\$4,334	\$3,597	7.2%	\$312	\$263
Health Resources and Services (Dept. of Health and Human Services)	\$2,521	\$2,521	2.0% and 7.2%	\$79	\$79
Social Services Block Grant (Dept. of Health and Human Services )	\$1,785	\$1,785	7.2%	\$129	\$129
Treasury Forfeiture Fund (Dept. of the Treasury)	\$1,544	\$1,735	7.2%	\$111	\$125

Source: OMB data as reported in the OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2014 and selected agencies' data. | GAO-16-263

For three of the accounts in the table, the actual sequestered amount differed from the estimate because these accounts have indefinite budget authority.<sup>26</sup>

<sup>26</sup>As noted earlier, indefinite budget authority is budget authority that at the time of enactment is for an unspecified amount. As a result, there is not an amount to which the sequestration rate can be applied against in advance of the applicable fiscal year. A portion of the Department of Health and Human Service's Health Resources and Services account also had indefinite budget authority. However, in fiscal year 2014, the estimated and actual sequestered amounts of the account as a whole were the same.

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## While Sequestration Procedures Were Familiar to Selected Agencies, Officials Reported Implementation Involved Additional Administrative Activities

OMB's guidance for the fiscal year 2013 sequestration—which was issued in the spring of 2013—was the same guidance that applied for the fiscal year 2014 sequestration. Agency officials from four of the six agencies we interviewed described aspects of implementing sequestration in fiscal year 2014 as generally less challenging because they had already experienced the 2013 sequestration. For example, these agencies had already categorized accounts based on their sequestration designation, determined how to allocate the required reductions, and modified reporting systems to implement the 2013 sequestration. Thus, these activities did not need to be repeated to implement the 2014 sequestration order.

### Affected administrative activities cited by selected agencies include:

- Financial management
- Budget execution
- Development of new protocols and reports
- Human capital management
- Technical assistance

Source: GAO analysis of information provided by selected agencies. | GAO-16-263

Even though they had created the administrative framework to implement sequestration during its first year in fiscal year 2013, the agency officials we spoke with indicated that implementation of the fiscal year 2014 sequestration required them to engage in additional administrative activities to ensure that reductions were applied correctly and to accommodate the changes in cash flows for programs and services. This included such things as notifying program participants, performing manual computations, and updating software systems.

For two of our six selected accounts, agency officials said it took time to clarify which fiscal year's sequestration rate to apply when calculating payment reductions to program participants. For example, under the Build America Bonds (BABs) program, the Internal Revenue Service (IRS) administered sequestration reductions by reducing direct payments to bond issuers or reducing tax credits to taxpayers. Officials stated that payments could overlap fiscal years which brought confusion since fiscal year 2013 and fiscal year 2014 were subject to different sequestration rates, thus it was unclear whether the 2013 or 2014 sequestration rate should be applied to the return. As a result of this confusion, IRS's Office of the Chief Financial Officer developed and issued guidance to describe which sequestration rate should be applied based on which fiscal year certain administrative actions had been completed and if delays had occurred. In addition, until required payment programming changes could be made, IRS staff manually calculated reductions to individual issuers and individually notified payment recipients of the sequestration rate and the total reduction applied to their payment. After issuing the guidance, IRS determined that 262 payments had been made using the wrong sequestration rate, and those payments had to be corrected and re-issued. In the end, IRS sequestered \$263 million, which was 7.2 percent of the approximately \$3.6 billion in BABs payments made in fiscal year 2014.



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Similarly, officials from the Farm Service Agency (FSA) within the U.S. Department of Agriculture (USDA) described their challenge of identifying which sequestration rate applied to the Commodity Credit Corporation (CCC) Fund when reducing direct payments to farmers whose crop year did not coincide with the federal fiscal year. Consequently, similar program recipients were subject to different reduction rates depending on the crop year and when their payment was obligated. FSA officials said this meant there could be two neighboring farmers participating in the same CCC program but subject to different sequestration rates.<sup>27</sup> To help ensure appropriate application of the reductions, the agency modified its software programs to incorporate the sequestration calculations for more than a dozen programs. FSA described an additional challenge of determining whether and how to apply fiscal year 2014 sequestration reductions after the Agricultural Act of 2014, known as the Farm Bill reauthorization, was enacted in February 2014.<sup>28</sup> The 2014 Farm Bill created some new programs, while terminating others, which OMB and FSA staff said required time and resources to identify which programs were subject to sequestration and how to implement the required reductions.

In certain cases, officials said that sequestration added further uncertainty to pre-existing budgetary restrictions on agencies' programs. For example, at the Department of the Treasury (Treasury), officials said sequestration reductions to the Treasury Forfeiture Fund (TFF) created additional uncertainty about the availability of funds, which led to cash management concerns. Due to the combination of sequestration reductions, as well as a cancellation and rescission of budgetary resources in fiscal year 2014, Treasury's Executive Office for Asset Forfeiture (TEOAF) had fewer funds to allocate to participating law enforcement agencies. Treasury applied sequestration reductions to federal forfeiture program related expenses of the member agencies,

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<sup>27</sup>The sequestration rate of CCC in fiscal year 2013 was 5.1 percent compared to 7.2 percent in fiscal year 2014.

<sup>28</sup>Pub. L. No. 113-79, 128 Stat. 649 (Feb. 7, 2014). The 2014 Farm Bill is an omnibus, multi-year piece of authorizing legislation that governs an array of agricultural and food programs. Without a new farm bill or an extension, the authority for some farm programs to incur new obligations would expire and others would cease to operate altogether unless reauthorized. The farm commodity programs not only expire, but would revert to permanent law dating back to the 1940s. The farm bill is typically renewed about every five years. Seventeen farm bills have been enacted since the 1930s (2014, 2008, 2002, 1996, 1990, 1985, 1981, 1977, 1973, 1970, 1965, 1956, 1954, 1949, 1948, 1938, and 1933).

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allowing them to prevent state and local partners, as well as victims, from seeing reduced payments. Treasury staff said sequestration reduced the agency's flexibility to cover unexpected expenses, such as unanticipated victim payments from prior year forfeitures.<sup>29</sup> While the \$125 million in sequestration reductions later became available to TEOAF in fiscal year 2015, the sequestration reduced the amount of funds available in fiscal year 2014, which Treasury staff said made it difficult to manage cash flows. In some circumstances current law allows for budget authority sequestered in one fiscal year to become available to the agencies again in a subsequent fiscal year. OMB refers to these amounts as "pop ups."

Another account where officials reported that sequestration added uncertainty to existing budget restrictions was the Highway Trust Fund. Department of Transportation (DOT) officials said the sequestration of \$907 million—that would have otherwise been transferred into the Highway Trust Fund—became a complicating factor to deal with on top of the broader existing cash shortfall the Highway Trust Fund was facing because revenues from fuel taxes were insufficient to maintain authorized spending levels for highway and transit programs.<sup>30</sup>

In addition to the agencies managing the six selected accounts included in our review, we also spoke with staff from OMB, given its oversight role and responsibilities related to implementing sequestration across all federal agencies. OMB staff said they also had to redirect staff time and resources to meet the needs of the agencies including a substantial amount of staff hours that could otherwise have been devoted to other agency priorities. For example, staff from OMB's Budget Review Division said that they spent a substantial amount of time working closely with their Office of General Counsel staff to make determinations regarding

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<sup>29</sup>In many cases, forfeiture revenue is refunded to the victims of the associated crime at the request of law enforcement, the Department of Justice, or by court order. Because all revenue is sequestered when deposited, the TFF absorbs the cost of the reduction for sequestration when it pays out claims to victims, which leaves less funding for the TFF's operating expenses and law enforcement.

<sup>30</sup>We have previously reported in February 2015 on the condition of the Highway Trust Fund, which is the major source of federal surface transportation funding. For example, see GAO, *High-Risk Series: An Update*, [GAO-15-290](#) (Washington, D.C.: Feb. 11, 2015). To maintain spending levels for highway and transit programs and to cover revenue shortfalls, Congress transferred a total of about \$63 billion in general revenues to the Highway Trust Fund on six occasions between 2008 and 2014. In August 2014, the Congressional Budget Office estimated that \$157 billion in additional revenues would be required to maintain current spending levels plus inflation between 2015 and 2024.

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the availability of sequestered amounts in subsequent years pursuant to section 256(k)(6) of BBEDCA and to document these decisions. OMB staff said this was a new issue that surfaced in fiscal year 2014 since it was the first year that such amounts would become available for obligation. Staff also indicated that OMB had developed principles to aid in sequestration implementation; however, the process must be repeated every year as new accounts are created. OMB staff also indicated that while they and the agencies have gained more expertise in implementing sequestration, it requires resources and adds considerations that must be factored into the budget process.

In March 2014, we recommended that OMB issue guidance directing agencies to formally document the decisions and principles used to implement sequestration for potential future application.<sup>31</sup> In response to our recommendation, OMB revised its Circular A-11 guidance to include a new section about sequestration and directed agencies to record how they implemented sequestration to maintain consistency from year to year, inform agencies' efforts to plan for sequestration in future years, and build institutional knowledge. OMB staff and some agency officials we spoke with said they rely primarily on apportionment records to document how sequestration was implemented and how much was actually sequestered.

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### Reported Effects on Program Participants Varied Across Entities and Individuals in Our Review

Selected agencies reported that program beneficiaries were affected in different ways by the sequestration reductions ranging from smaller direct payments, reduced services, delayed payments, and reduced tax credits. For example, the Health Resources and Services Administration (HRSA) provides services to underserved and vulnerable communities in need of health care. According to HRSA, sequestration reductions in fiscal year 2014 to the health centers and workforce programs prevented the expansion of services to an estimated 365,000 new patients.<sup>32</sup> In addition, HRSA officials reported that, in the absence of sequestration, the National Health Service Corps program would have been able to increase the number of practitioners providing primary care, dental,

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<sup>31</sup> GAO, *2013 Sequestration: Agencies Reduced Some Services and Investments, While Taking Certain Actions to Mitigate Effects*, [GAO-14-244](#) (Washington, D.C.: Mar. 6, 2014).

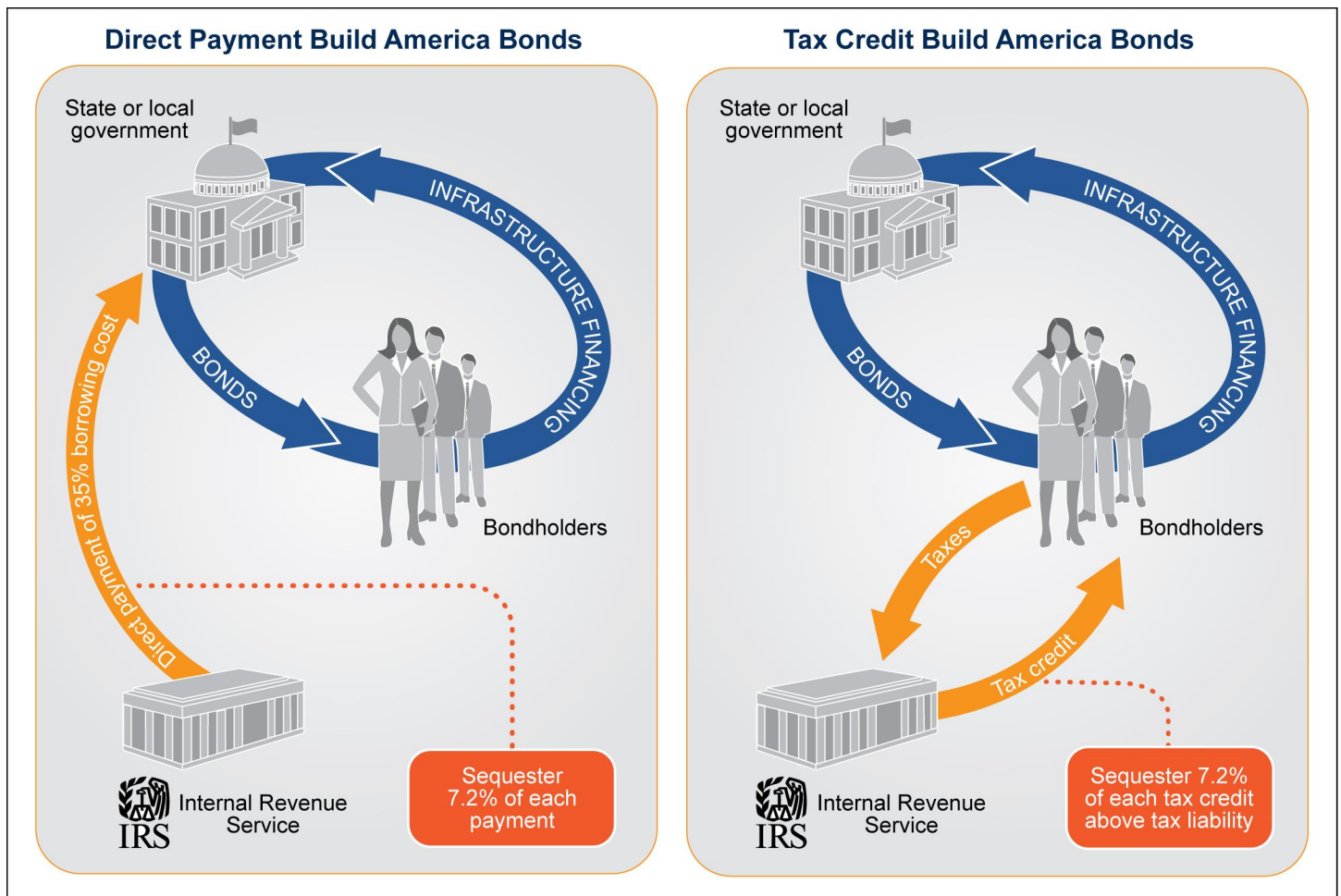
<sup>32</sup> Some HRSA programs including the National Health Service Corps program, loan programs, and some health center programs were sequestered at the 7.2 percent rate. The community health and migrant health centers programs were sequestered at the 2 percent rate.

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mental and behavioral health services in the field by 358—from 9,242 to 9,600. According to the officials, this additional staff would have been able to provide services to approximately 300,000 additional individuals in fiscal year 2014.

As illustrated in figure 6, in the case of direct payment BABs, sequestration reductions were transferred directly to issuers through reducing the outlay by 7.2 percent after IRS determines that a refund can be disbursed. In the case of tax credit BABs, sequestration reductions of 7.2 percent were taken from any payment owed to the taxpayer by IRS above the bond holder's tax liabilities, but no reductions were taken from the tax credit if tax liabilities were higher than the amount of the BABs tax credit.

Figure 6: Illustration of Internal Revenue Service Sequestration Application to Types of Build America Bonds



Source: GAO analysis of IRS program information. | GAO-16-263

FSA's CCC Fund provides direct payments to farmers under a variety of farm programs to support their operational activities. FSA administered an estimated \$574 million in reductions by reducing individual direct payments to farmers at the 7.2 percent sequestration rate, which FSA reported affected thousands of producers across different programs. A senior director from the National Corn Growers Association (NCGA) said the reductions further exacerbated the uncertainty growers were already experiencing from delays in final appropriations decisions for federal programs upon which they rely. FSA officials echoed this concern. In addition, the NCGA representative emphasized the need for growers to know the sequestration reduction amounts with enough time that they

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may include it in their final projections needed to secure loans for production costs.

For fiscal year 2014, \$12.6 billion was transferred from DOT's Payments to the Transportation Trust Fund account directly into the Highway Trust Fund, which in December 2012, we found had been facing increasing shortfalls because revenues from fuel taxes were insufficient to maintain authorized spending levels.<sup>33</sup> This amount was subject to the 7.2 percent reduction rate, translating into a \$907 million reduction in monies available to reimburse states for highway projects. However, as a result of a subsequent appropriation of general revenues into the Highway Trust Fund of approximately \$9.8 billion in August 2014, officials said DOT was able to pay states any outstanding reimbursement amounts. In other words, states received the full reimbursement, without additional reductions. The subsequent amount was appropriated under the Moving Ahead for Progress in the 21st Century Act (MAP-21) extension, the Highway and Transportation Funding Act of 2014, which was not subject to the 2014 sequestration because the extension was enacted after the sequestration order was issued for fiscal year 2014.<sup>34</sup> We spoke with a senior official from the American Association of State Highway and Transportation Officials, who said the sequestration reductions accelerated the timing of the potential cash shortfall in the Highway Trust Fund. DOT officials echoed this same sentiment. However, this shortfall was ultimately postponed once the MAP-21 extension was enacted.

Of the agencies we spoke with, only HRSA could quantify the effects of sequestration on programs or their recipients. The others described the effects in general terms. For example, in the case of the Build America Bonds, which are issued by state and local governments, IRS officials said they do not have a system to track whether bond issuers canceled projects or refinanced them due to sequestration reductions. A senior government official from one state that issued BABs, said that, while sequestration did not lead to the cancelation of any infrastructure projects, the reductions had a negative effect on the state's budget as a whole. Moreover, it affected his perspective on the reliability of federally subsidized bond programs.

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<sup>33</sup>GAO, *Highway Trust Fund: Pilot Program Could Help Determine the Viability of Mileage Fees for Certain Vehicles*, [GAO-13-77](#) (Washington, D.C.: Dec. 13, 2012).

<sup>34</sup>Pub. L. No. 113-159, § 2002, 128 Stat. 1839, 1848 (Aug. 8, 2014).

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According to Treasury officials, in addition to the \$125 million reduction to comply with the sequestration order, additional amounts in the TFF were rescinded and canceled, which made it difficult to isolate the specific effects from sequestration alone. However, officials said the reductions had an operational effect on TFF member agencies. For example, officials from IRS' Criminal Investigation unit (IRS-CI), one of the member agencies that receives the greatest amount of support from the TFF, reported that reductions in funding have limited their capacity to address emerging tax compliance and enforcement issues, such as cybercrime and identity theft.<sup>35</sup> IRS-CI officials reported that lower funding levels caused them to reduce hiring, training, equipment purchases, and case support.

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## Opportunities Exist to Increase Transparency to Measure Progress Against Deficit Reduction Goals

As previously described, when the Joint Committee did not propose and Congress and the President did not enact legislation in January 2012 to reduce the deficit over 10 years by at least an additional \$1.2 trillion, the sequestration process in section 251A of BBEDCA was triggered to automatically reduce spending such that an equivalent budgetary goal would be achieved. BBEDCA requires cuts totaling \$109.3 billion in each year through fiscal year 2021.<sup>36</sup> It is expected that reductions in both discretionary appropriations and mandatory spending will contribute to reaching this target. Reporting actual reductions may increase transparency and help ensure the deficit reduction targets are reached.

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## Some Sequestered Mandatory Budget Authority Becomes Available Again in Subsequent Years

The availability of amounts pursuant to section 256(k)(6) of BBEDCA could affect progress towards fiscal targets. While those sequestered amounts are counted as reductions in the fiscal year for which they are sequestered, because they can be made available for obligation again in future years, they do not result in lasting savings for the federal government. For example, amounts from revolving, trust, and special fund accounts and offsetting collections from appropriations accounts are temporarily sequestered and may become available in the subsequent

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<sup>35</sup>For additional work on identity theft, see GAO, *Identify Theft and Tax Fraud: Enhanced Authentication Could Combat Refund Fraud, but IRS Lacks an Estimate of Costs, Benefits, and Risks*, [GAO-15-119](#) (Washington, D.C.: Jan. 20, 2015).

<sup>36</sup>From fiscal years 2022 through 2025, nonexempt direct spending resources will be sequestered at the same percentage applied to direct spending resources in fiscal year 2021. Pub. L. No. 114-74, § 101(c) (Nov. 2, 2015).

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year to the extent otherwise provided in law.<sup>37</sup> If the temporarily sequestered amounts become available to the agency for obligation, OMB staff said those amounts are not subject to a second level of sequestration.

In response to our March 2014 recommendation,<sup>38</sup> OMB revised Circular A-11 to include a description of what happens to sequestered budgetary resources, including funds that are temporarily reduced.<sup>39</sup> This guidance also instructs agencies on how to record such amounts, which OMB staff said helps to avoid a re-sequestration of those same amounts in the subsequent year. More recently, we asked OMB staff to provide aggregate data to show what amount of funds were sequestered permanently versus those that may become available for obligation in future fiscal years pursuant to the statute. OMB staff said they could not provide total government-wide dollar amounts on this, in part, because the determinations vary case-by-case, depending on the specific statutory language related to each account. BBEDCA does not require OMB to tally the total amount of funds that “pop up” in a given year. However, the act established annual deficit reduction targets. In addition, providing such information is consistent with the internal control standard for information and communication, which states, among other things, that entities must have relevant, reliable, and timely information and communications to achieve their objectives.<sup>40</sup> While we recognize the need for a case-by-case approach to confirm the amount of funding available from “pop ups,” actual amounts for each of these situations could be assembled after the close of each fiscal year. Such information would provide insight about actual progress against the \$1.2 trillion deficit reduction target, and would also provide additional transparency to Congress about the total amount of funds agencies have available in a given year.

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<sup>37</sup>2 U.S.C. § 906(k).

<sup>38</sup>[GAO-14-244](#).

<sup>39</sup>*OMB Circular A-11, Preparation, Submission, and Execution of the Budget* (July 2014, revised November 2014).

<sup>40</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: Nov. 1999).



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## For Certain Types of Sequestered Mandatory Spending, Actual Amounts Cannot be Determined Until After the End of the Fiscal Year

Section 251A of BBEDCA requires OMB to provide estimates of the required reductions for any fiscal year in which a sequestration of mandatory spending and reductions of discretionary spending limits has been ordered. These estimates include a listing of the reductions required for each nonexempt mandatory account and are reported each spring in OMB's *Report to the Congress on the Joint Committee Reductions*.<sup>41</sup> OMB staff confirmed that the reductions listed for mandatory accounts with definite budget authority—that is, accounts for which a specific amount of budget authority is determinable at the time of enactment—are equal to the actual amounts sequestered from those accounts. However, OMB staff also confirmed that the reductions listed for mandatory accounts with indefinite budget authority may differ from the amounts that were actually sequestered because the amount of budget authority for these accounts is for an unspecified or indeterminable amount at the time of enactment. This lack of specified amount makes it difficult to determine the total amount to be sequestered in advance of the fiscal year. In addition, OMB staff said there were changes in budget authority for some indefinite accounts and their database has not been updated to reflect those changes to show the actual amounts sequestered in fiscal year 2014. As a result, the database does not reflect the actual amounts sequestered. Thus, while OMB staff calculated the amounts ordered to be sequestered, they were unable to provide an aggregate actual amount sequestered government-wide. Moreover, they are not required under BBEDCA to tally the actual amounts reduced in a given year. This makes it difficult to determine whether progress is being made toward the required reductions.

While there is uncertainty in estimating sequestration reductions for accounts with indefinite budget authority, actual amounts could be tabulated after the close of the fiscal year. These data would provide a clearer picture of the precise amount of funds that were permanently canceled, thereby representing the true savings generated from mandatory spending reductions in each year. Moreover, compiling such data could serve as a benchmark to evaluate the progress made each year toward the overall savings of \$1.2 trillion required by law. Providing this information is also consistent with the internal control standard for information and communication. Among other things, this standard states

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<sup>41</sup>The Sequestration Preview Report, which OMB submits at the same time, includes calculations of the amounts by which the discretionary caps specified in section 251(c) of BBEDCA are required to be lowered in applicable fiscal years.

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that entities must have relevant, reliable, and timely information and communications to achieve their objectives.<sup>42</sup>

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## Conclusions

Of the approximately \$2.9 trillion of estimated mandatory budget authority across the federal government in fiscal year 2014, an estimated \$19.4 billion was sequestered after OMB and the agencies implementing sequestration carried out their responsibilities under BBEDCA. This represents less than one percent of mandatory budget authority in fiscal year 2014. Dozens of agencies implemented sequestration procedures in 2014 to administer the required reductions. In addition, the reductions affected certain national priorities more than others as provisions of BBEDCA provided exemptions and special rules for certain programs and accounts. Aside from Medicare and certain other health programs, the largest drivers of mandatory spending growth are statutorily exempt from sequestration.

The selected agencies we spoke with reported that they were more familiar with sequestration procedures in 2014 since it was the second consecutive year of implementing the required reductions. However, these agencies said implementation involved additional administrative activities, and in certain cases, an additional element of uncertainty when planning and executing their budgets. The form of the reported reductions varied by program and affected beneficiaries differently ranging from smaller direct payments, reduced services, delayed payments, and reduced tax credits.

The processes established under BBEDCA were designed to reduce the federal deficit by at least an additional \$1.2 trillion over 10 years. However, in certain cases, sequestered amounts become available to agencies in subsequent fiscal years, thereby reversing the corresponding savings from those reductions. OMB does not tally the total amount of funds that are temporarily sequestered and become available in the next fiscal year, referred to as “pop ups.” Identifying these amounts would provide additional transparency to Congress about the total amount of funds agencies have available in a given year. In addition, while OMB publicly reports the estimated amount of sequestration reductions each year, it does not tabulate and report the total amount of the actual reductions government-wide at year-end. Doing so, along with reporting

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<sup>42</sup>[GAO/AIMD-00-21.3.1.](#)

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the amount of “pop ups,” would provide a clearer picture to decision makers of the amount of funds that were permanently canceled, thereby representing the true savings generated from mandatory spending reductions each year. Moreover, this data would increase the transparency of the process and provide annual benchmarks to measure progress toward the overall savings of \$1.2 trillion required by law.

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## Recommendations for Executive Action

To increase the transparency to Congress about the total amount of funds agencies have available in a given year, we recommend that the Director of the Office of Management and Budget identify and publicly report the total amount of actual budget authority government-wide that is temporarily sequestered and “pops up,” or becomes available again to agencies for obligation in the subsequent fiscal year.

To promote further transparency in measuring the federal government’s progress against deficit reduction targets required under current law, we recommend that the Director of the Office of Management of Budget identify and publicly report the total amount of actual reductions in budget authority government-wide each year as a result of sequestration or the reduction of discretionary spending limits under BBEDCA.

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## Agency Comments and Our Evaluation

We provided a draft of this report to OMB and the Departments of Agriculture, Health and Human Services, Transportation, and the Treasury for review and comment. OMB agreed with the first recommendation but disagreed with the second, as discussed below. Each of these agencies provided technical comments, which we incorporated as appropriate.

In oral comments received on January 20, 2016, OMB staff agreed with the first recommendation in this report and said they have started to take action. For example, beginning with the fiscal year 2016 budget, the President’s budget contains a data field to record “pop up” amounts. OMB staff said “pop up” amounts are delineated with a particular value in the OMB MAX database and are identified so as not to re-sequester those same funds in the subsequent fiscal year.

OMB staff disagreed with the second recommendation in this report and said this would be a burdensome new requirement that is not applied for other types of budget enforcement. For example, they said estimated savings are used for PAYGO enforcement, and there is no requirement for agencies to track actual PAYGO savings over time. In addition, OMB staff said this would be problematic for programs with indefinite funding

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for direct payments (e.g., benefit payments) because agencies typically record indefinite budget authority equal to obligations incurred as they operate the program. Further, they said requiring agencies to capture the sequestration savings separately in their accounting records would require changes to agencies' financial systems so that both a pre-sequestration amount and a reduction amount could be recorded for each payment. OMB staff said that their current oversight of sequestration via an annual exercise requiring agencies to certify that they are executing the reductions to payments required by the sequestration order and OMB's review of estimated reductions is a balanced approach that focuses attention on the critical control elements needed to achieve savings. OMB staff said the attempt to provide additional precision is outweighed by the cost and confusion—and potentially erroneous conclusions—that would be engendered by this recommendation. They said collecting such data would require significant accounting changes both by OMB and agencies and would require coordination and approval by the Department of the Treasury—all of which could take years to implement.

As stated earlier in this report, we acknowledge the uncertainty in estimating sequestration reductions for accounts with indefinite budget authority, thereby requiring actual amounts to be tabulated at the close of the fiscal year. In our view, identifying the actual amounts reduced at the close of each fiscal year would be consistent with the type of budgetary reporting practices OMB and agencies already follow when preparing the President's budget each year. Regarding OMB's concern that this would require modifications to agencies' financial systems, we found that the selected agencies who manage the six accounts included in our more in-depth analysis were able to readily provide us with actual amounts reduced under sequestration, including cases where indefinite budget authority was involved. Moreover, there is evidence that at least these agencies have developed their own tracking mechanisms to identify the actual amounts that were reduced each fiscal year. We recognize such tracking mechanisms may vary across agencies, but OMB could request agencies to report the actual amounts as part of the annual preparation of the President's budget, which could also be compared to apportionment records for the relevant fiscal year. Regarding OMB's concern that collecting such data would require accounting changes across agencies and coordination with the Department of the Treasury, we recognize that it will take time to establish and refine a government-wide data set of sequestered amounts that is reliable and comparable across agencies. In the interim however, there are data available to both OMB and the agencies that can serve as a meaningful starting point to tally sequestered amounts and calculate a government-wide total, which could

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be refined over time. The fact that sequestration of mandatory spending will be in effect over the coming decade and an issue that agencies will have to continue to manage heightens the significance of identifying and tracking the actual amounts reduced to promote transparency to key decision makers. Moreover, we believe that taking the next step to calculate a government-wide aggregate dollar amount that could be publicly reported would provide confirmation of the amount of funds that were permanently canceled thereby adding transparency on the true savings generated from mandatory spending reductions each year. We continue to believe that this could help serve as a benchmark to evaluate the progress made each year toward the overall savings of \$1.2 trillion required by law.

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We are sending copies of this report to the appropriate congressional committees; Director of OMB; the Secretaries of Agriculture, Health and Human Services, Transportation, and the Treasury; and other interested parties. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-6806 or [sagerm@gao.gov](mailto:sagerm@gao.gov). Contact points for our Office of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix III.

Sincerely yours,

A handwritten signature in black ink that reads "Michelle Sager". The signature is written in a cursive, flowing style.

Michelle Sager  
Director, Strategic Issues

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# Appendix I: Objectives, Scope, and Methodology

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This report examines: (1) the designation of mandatory accounts across the federal budget under the President's sequestration order for fiscal year 2014; (2) how selected agencies implemented the fiscal year 2014 sequestration order and the effects, if any, they reported the required spending reductions had on programs and services; and (3) how continued sequestration of mandatory spending relates to the achievement of deficit reduction goals.

To accomplish our first objective, we identified how mandatory accounts were designated under sequestration primarily using a data set provided by OMB staff. This data set was generated by OMB through a government-wide data collection exercise to calculate the sequestration percentage and reductions by account, and issue the report required under the Joint Committee process. The data set includes the estimated budget authority, sequestration designation, sequestration rate, and the budget subfunction for every account with mandatory budget authority in fiscal year 2014.<sup>1</sup> We assessed the reliability of this data set through interviews with agency officials, review of relevant documentation, and electronic data testing. We found the data to be sufficiently reliable for the purpose of our report. We focused on fiscal year 2014 because mandatory accounts were sequestered but discretionary accounts were not. Additionally, fiscal year 2014 was the most recently completed fiscal year for which actual data were available for the selected accounts included in our review. We also analyzed actual budget authority data for all mandatory accounts government-wide from OMB's MAX database and matched it with the sequestration designation data to show trends over time from fiscal year 2005 through fiscal year 2014. We assessed the reliability of the data extracted from OMB's MAX database through electronic data testing. We found the data to be sufficiently reliable for the purpose of our report.

To accomplish our second objective, we selected a nongeneralizable sample of six accounts for a more in-depth review of the implementation of sequestration and its effects. To select the six accounts, we reviewed OMB sequestration data for all mandatory accounts across the federal budget for fiscal year 2014 and sorted for those accounts with at least \$50 million in estimated reductions. This analysis yielded 31 accounts, which represented over 90 percent of all sequestrable mandatory budget authority government-wide in fiscal year 2014. From these accounts, we

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<sup>1</sup>Sequestration designations included "sequestrable," "exempt," and "special rule."

selected six accounts representing a variety of characteristics including the amount of sequestrable budget authority, type of account, agency, budget function, and whether the account included some portion of budget authority that was exempt from sequestration. In addition, we identified which national priorities (i.e., budget function) were affected the most (in percentage terms) by the fiscal year 2014 sequestration. We eliminated accounts that were recently discussed in prior GAO work, such as Medicare.<sup>2</sup> Table 3 lists the six accounts that we selected.

**Table 3: Selected Case Illustration Accounts**

Department	Agency/Bureau	Account
U.S. Department of Agriculture	Farm Service Agency	Commodity Credit Corporation Fund
Department of Health and Human Services	Administration for Children and Families	Social Services Block Grant
Department of Health and Human Services	Health Resources and Services Administration	Health Resources and Services
Department of the Treasury	Internal Revenue Service	Build America Bond Payments, Recovery Act
Department of the Treasury	Departmental Offices	Treasury Forfeiture Fund
Department of Transportation	Federal Highway Administration	Payment to the Transportation Trust Fund

Source: GAO analysis of Office of Management and Budget data. | GAO-16-263

Furthermore, we reviewed budget data, guidance, and documentation of any reported programmatic effects of sequestration for each of the selected accounts. We spoke with agency budget and program officials, as well as OMB staff, about their challenges and lessons learned from implementing sequestration. In addition, we spoke with a nongeneralizable selection of interest groups to gain their perspective on the effects of sequestration on programs and services. We also interviewed agency officials on how their agency implemented OMB's revised A-11 guidance on sequestration.

To accomplish our third objective, we reviewed relevant literature and the government-wide federal budget data described above that was used for our first objective. In addition, we reviewed relevant legislation, executive memoranda, OMB guidance and federal standards for internal control to identify the criteria used in our analysis. Also, to inform our analysis, we interviewed a nongeneralizable selection of budget specialists with a

<sup>2</sup>[GAO-14-452](#).

broad range of agency, congressional, and academic experiences including current and former congressional staffers and agency officials to obtain their perspective on the implications of sequestration. Each selected specialist had at least 15 years of experience with extensive backgrounds in federal budget and policy issues and served in a variety of positions across the federal government and academia. While the views from these selected specialists are not generalizable nor do they represent the full range of possible views on sequestration, they provided insight and perspectives about sequestration.

We conducted this performance audit from February 2015 to April 2016 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.



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# Appendix II: Case Illustrations of Mandatory Accounts Subject to Sequestration in Fiscal Year 2014

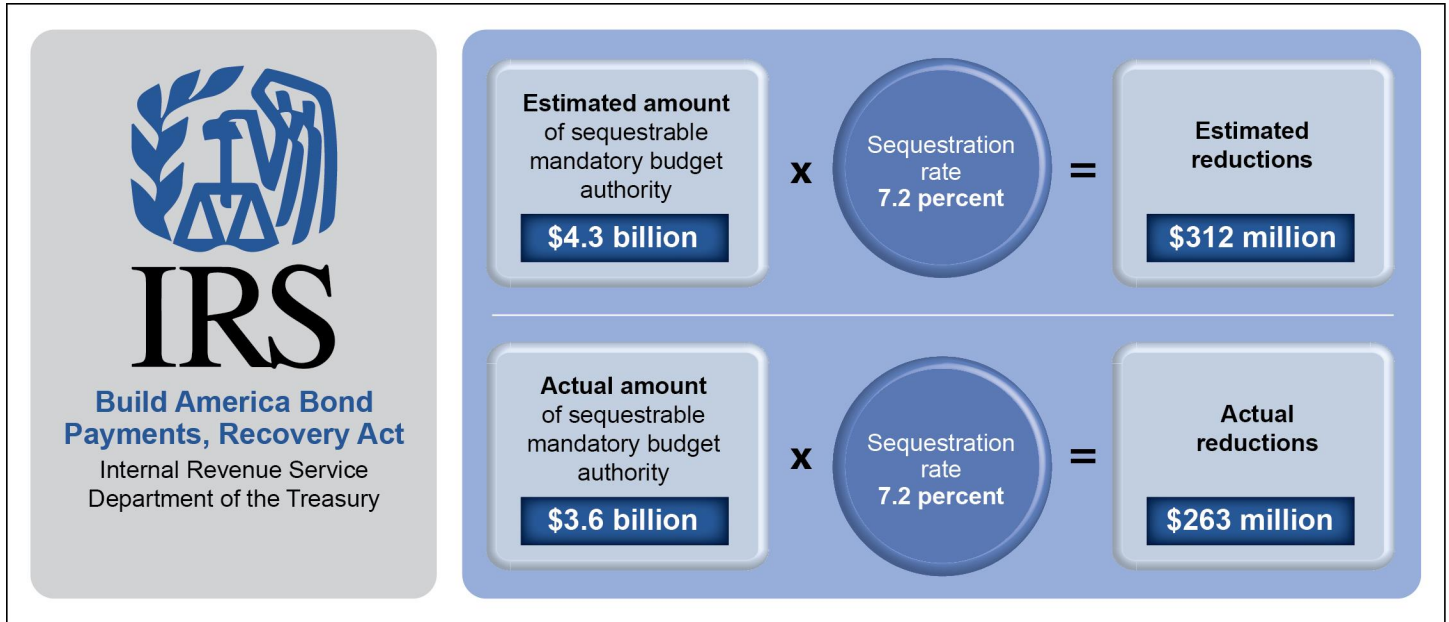
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As part of our review, we selected a nongeneralizable sample of six accounts and examined how the agencies responsible for managing those accounts reported implementing sequestration procedures in fiscal year 2014. These six accounts serve as case illustrations to better understand how the required spending reductions were applied and what effects, if any, these reductions had on agencies' programs and services. We selected accounts based on several characteristics including the amount of sequestrable mandatory budget authority, budget function, type of account, agency, and whether the account included some portion of funds that were exempt from sequestration.

The six accounts we reviewed as case illustrations were:

- [Build America Bond Payments, Recovery Act - Internal Revenue Service](#)
- [Commodity Credit Corporation Fund - U.S. Department of Agriculture](#)
- [Health Resources and Services - Department of Health and Human Services](#)
- [Payment to the Transportation Trust Fund - Department of Transportation](#)
- [Social Services Block Grant - Department of Health and Human Services](#)
- [Treasury Forfeiture Fund - Department of the Treasury](#)

Figure 7: IRS Build America Bond Payments, Recovery Act



Source: GAO analysis of Office of Management and Budget and IRS data. | GAO-16-263

Note: The totals shown above do not reflect this product due to rounding.

## Account Overview

Build America Bonds (BABs) were created as a part of the American Recovery and Reinvestment Act of 2009 (Recovery Act) to stimulate municipal infrastructure spending by reducing borrowing costs for state and local governments. BABs are taxable government bonds with federal subsidies for a portion of the borrowing costs. BAB subsidies could be either in the form of nonrefundable tax credits provided to holders of the bonds (tax credit BABs) or refundable tax credits paid to state and local governmental issuers of the bonds (direct payment BABs). The funding for this account was authorized under the Recovery Act. State and local governments had the ability to issue BABs through December 31, 2010. The BABs account supports our national priority on general purpose fiscal assistance (budget subfunction 806).

## Implementation of the Fiscal Year 2014 Sequestration

In the case of direct payment BABs, sequestration reductions were transferred directly to issuers through reducing the outlay by 7.2 percent after IRS determines that a refund can be disbursed. In the case of tax credit BABs, sequestration reductions of 7.2 percent were taken from any payment owed to the taxpayer by IRS above the bond holder's tax liabilities, but no reductions were taken from the tax credit if tax liabilities

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were higher than the amount of the BABs tax credit. In fiscal year 2014, approximately \$263 million was reduced and permanently canceled from this account in accordance with sequestration procedures.

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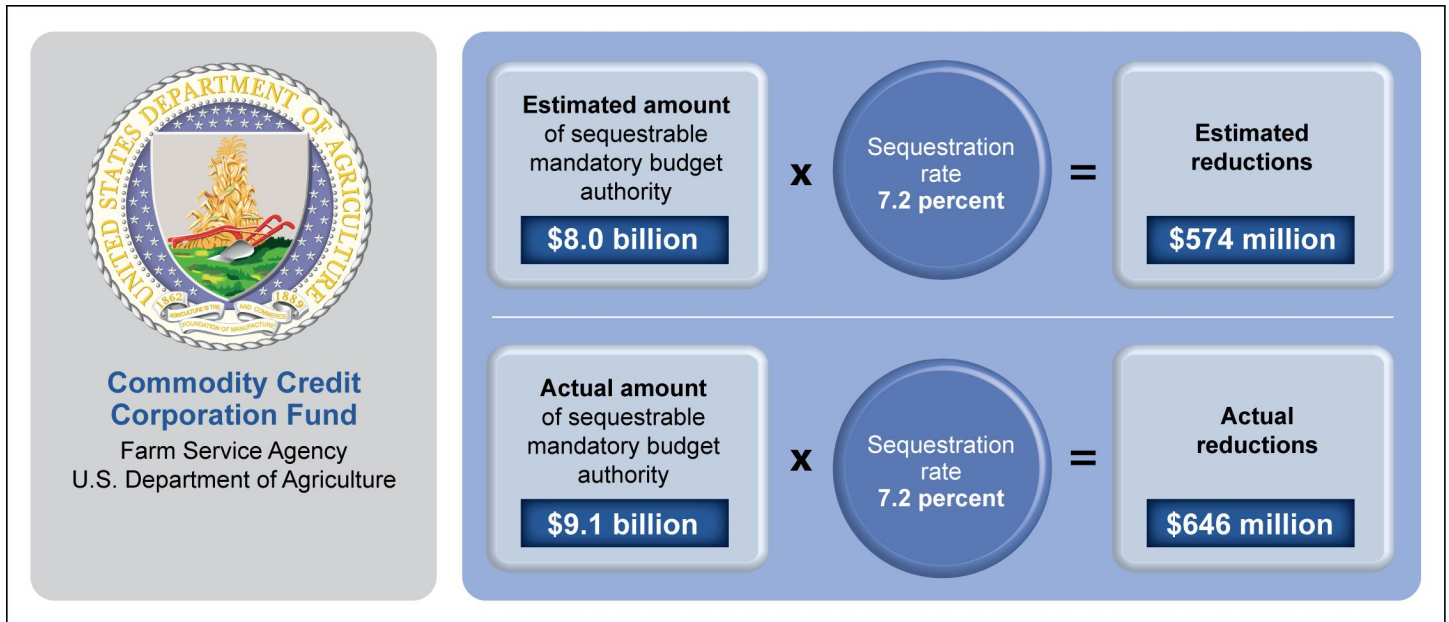
## Effects of the Fiscal Year 2014 Sequestration

Sequestration reduced the amount of the subsidy that bond issuers received, thus increasing borrowing costs for state and local infrastructure projects. According to one official, the reduced borrowing subsidy, along with other factors such as market interest rates changing, may have contributed to some bond issuers prepaying their BABs. Officials from Treasury's Office of Tax Analysis (OTA) estimated that some of the infrastructure projects funded by these prepaid BABs may have been refinanced at a lower cost and some projects may have been canceled, but IRS staff said they cannot report how many projects were canceled because issuers are not required by law to report the reason for early prepayment of bonds.

On a higher level, one OTA official said that sequestration of BABs reduced the credibility of federally subsidized municipal bond programs. This presented a challenge for this program since direct payment bonds were a new type of municipal financing tool. As a result, OTA officials said that the proposal for a new municipal bond program called Fast Forward Bonds, which uses a similar type of direct payment mechanism, was crafted to assure potential bond issuers and holders that sequestration will not affect the level of subsidies provided by the federal government.

According to officials, implementing sequestration for BABs was administratively challenging for IRS since the reductions had to be applied to each payment manually until programming changes could be made. IRS individually notified payment recipients of the sequestration rate and total reduction applied to their payment. During the transition between fiscal year 2013 and fiscal year 2014, IRS staff said they also encountered ambiguity determining which sequestration rate to apply to payments. For example, if a tax return was received toward the end of fiscal year 2013 but was not fully processed until fiscal year 2014 had already begun, it was often unclear if the 2013 or 2014 sequestration rate should be applied to the return. As a result of this confusion, IRS developed and issued guidance about which cases to apply the current or previous year's sequestration rate. After issuing the guidance, IRS determined that 262 payments had been made using the wrong sequestration rate, and those payments had to be corrected and re-issued.

Figure 8: Commodity Credit Corporation Fund



Source: GAO analysis of Office of Management and Budget and USDA data. | GAO-16-263

Note: The totals shown above do not reflect this product due to rounding.

## Account Overview

The Commodity Credit Corporation (CCC) is a government-owned and government-operated entity that was created in 1933 to stabilize, support, and protect farm incomes and prices. CCC also helps maintain balanced and adequate supplies of agricultural commodities and aids their orderly distribution. The CCC has an authorized capital stock of \$100 million held by the United States and the authority to have outstanding borrowings of up to \$30 billion at any one time. Funds are borrowed from the U.S. Treasury. The U.S. Department of Agriculture’s (USDA) Farm Service Agency (FSA) is responsible for providing management and oversight of the CCC Fund, which supports the national priority of farm income stabilization (budget subfunction 351).

## Implementation of the Fiscal Year 2014 Sequestration

FSA applied the 7.2 percent sequestration rate to the CCC Fund’s actual mandatory budget authority of \$9.1 billion in fiscal year 2014. The OMB estimate of the account’s mandatory budget authority was based on the estimated program participation for that year, whereas the final reduction was based on actual program participation. An estimated \$574 million was to be sequestered, but the actual amount was approximately \$646 million. While approximately \$646 million was reduced from the account

in fiscal year 2014 and not available for obligation during that year, this reduction was designated as temporary, meaning that funds were not canceled nor reverted to the General Fund of the Treasury. Instead, these amounts remain in the fund or account and may be available in subsequent years only to the extent provided in appropriations or authorizing language. FSA officials said the sequestered amounts did not “pop up” the next year nor have they been made available to the agency for obligation.

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## Effects of the Fiscal Year 2014 Sequestration

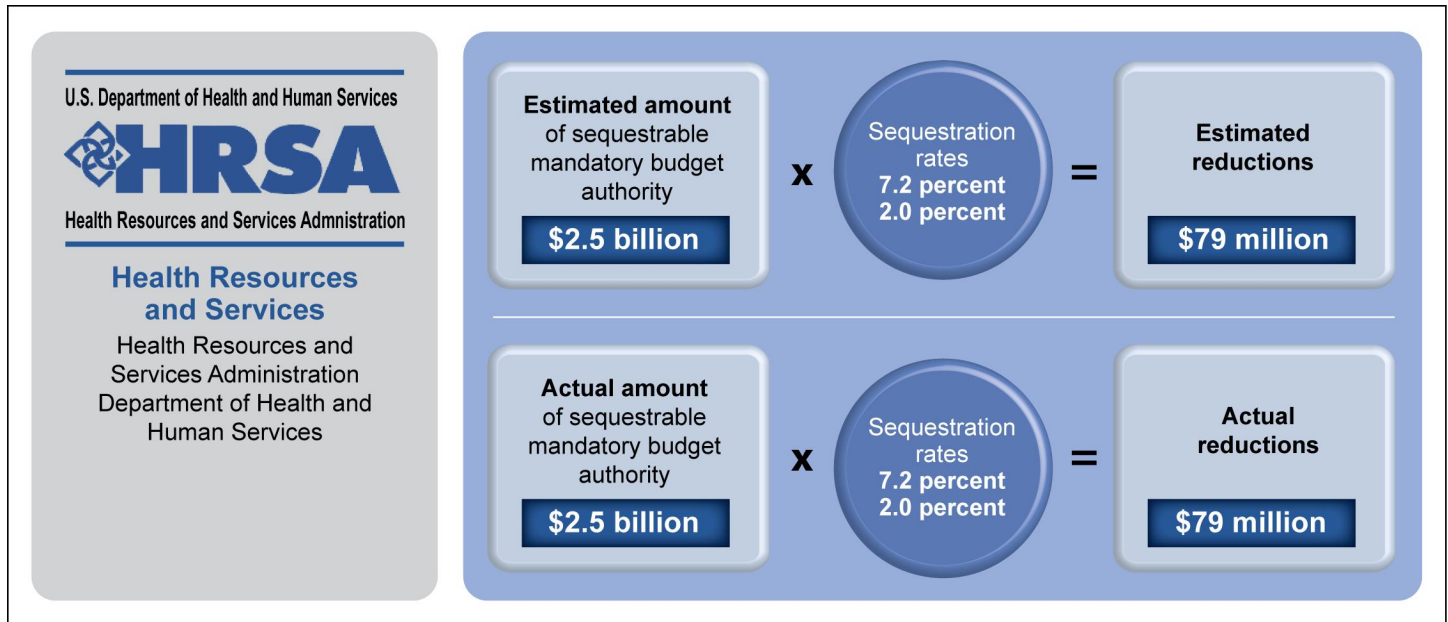
The required spending reductions affected a range of program areas supported by the CCC Fund, according to officials. For example, under the Crop Direct Payments program, 1.7 million farmers received reduced payments. Under the Emerging Market program, fewer grants were funded. Agency officials reported that their software had to be modified to apply the sequestration rate to reduce each obligation or payment for 13 different programs and activities. In addition, FSA officials said it took some time to determine which sequestration rate to apply since the crop year for certain programs does not coincide with the federal fiscal year. For example, FSA officials said two neighboring farmers who participate in the same program might be subject to different sequestration reduction rates depending on which fiscal year the payment was obligated to the program participant.<sup>1</sup>

FSA officials characterized sequestration as a complicating factor on top of their broader existing budget constraints related to the reauthorization of the Farm Bill. In February 2014, halfway through the fiscal year, the Farm Bill was re-authorized and included the creation of new programs and the termination of others. Agency officials said it took some time to clarify whether any of the new programs were subject to sequestration and in which fiscal years.

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<sup>1</sup>The sequestration rate of CCC in fiscal year 2013 was 5.1 percent compared to 7.2 percent in fiscal year 2014.

Figure 9: Health Resources and Services



Source: GAO analysis of Office of Management and Budget and HRSA data. | GAO-16-263

## Account Overview

The Health Resources and Services account supports the Health Resources and Services Administration’s (HRSA) goal of increasing access to basic health care for those who are medically underserved. The Health Resources and Services account consists of both discretionary and mandatory budget authority and supports the national priorities of health care services (budget subfunction 551) and health research and training (budget subfunction 552).

The following programs are supported by mandatory budget authority:

- *Health Center Program*: Since 1965 this program has been delivering comprehensive preventive and primary health care to vulnerable populations regardless of their ability to pay. Mandatory budget authority provided funding for community health centers under the Affordable Care Act in 2010, which also established a Community Health Center Fund to provide for expanded and sustained national investment in community health centers.
- *National Health Service Corps (NHSC)*: Created in 1970, the NHSC is a clinician recruitment and retention program that Congress created to

reduce health workforce shortages in underserved areas. The NHSC provides scholarships and loan repayment opportunities to individuals in exchange for a commitment to serve in NHSC approved sites where there is a shortage of health professionals. In fiscal year 2014, the NHSC was fully funded by the Community Health Center Fund.

- *Federal Capital Contribution Loan programs:* HRSA administers the Health Professions and Nursing Federal Capital Contribution Loans.<sup>2</sup> Through these revolving fund accounts, funds are awarded to institutions that in turn provide loans to individual students. As the loans are repaid, the account is replenished by offsetting collections.

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## Implementation of the Fiscal Year 2014 Sequestration

HRSA grants awards to more than 3,000 grantees including community-based organizations; colleges and universities; hospitals; and state, local, and tribal governments that support the mission of the agency. To implement the sequestration reductions, officials reported that HRSA decreased the number of awards granted to recipients and made fewer loan repayments and scholarships to health professionals. These funds were permanently sequestered. Funds from the Health Resources and Services account related to loan programs were temporarily sequestered because they are financed through a revolving fund supported by collections. These funds became available again in fiscal year 2015 as a “pop up”.<sup>3</sup> Because the loan programs are financed through revolving fund accounts, they are subject to temporary sequestration under BBEDCA.

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<sup>2</sup>These are neither direct nor guaranteed loans, as defined by the Federal Credit Reform Act.

<sup>3</sup> “Pop ups” refer to mandatory budget authority sequestered in one fiscal year that may become available to the agency again in a subsequent fiscal year.

**Table 4: Fiscal Year 2014 Sequestration Rates Applied to Health Resources and Services Account**

Program	Funding amt. (before reductions)	Sequester rate	Sequester amount
National Health Service Corps	\$305 million	7.2% (permanent)	\$22 million
Health Centers: -homeless health care -public housing health centers	\$217 million	7.2% (permanent)	\$16 million
Health Centers: -community health -migrant health centers	\$1,983 million	2.0% (permanent)	\$40 million
Loan Programs: -Federal Capital Contribution Loans -Nursing Student Loans	\$16 million	7.2% (temporary)	\$1 million
<b>Totals</b>	<b>\$2,521 million</b>		<b>\$79 million</b>

Source: HRSA data. | GAO-16-263

## Effects of the Fiscal Year 2014 Sequestration

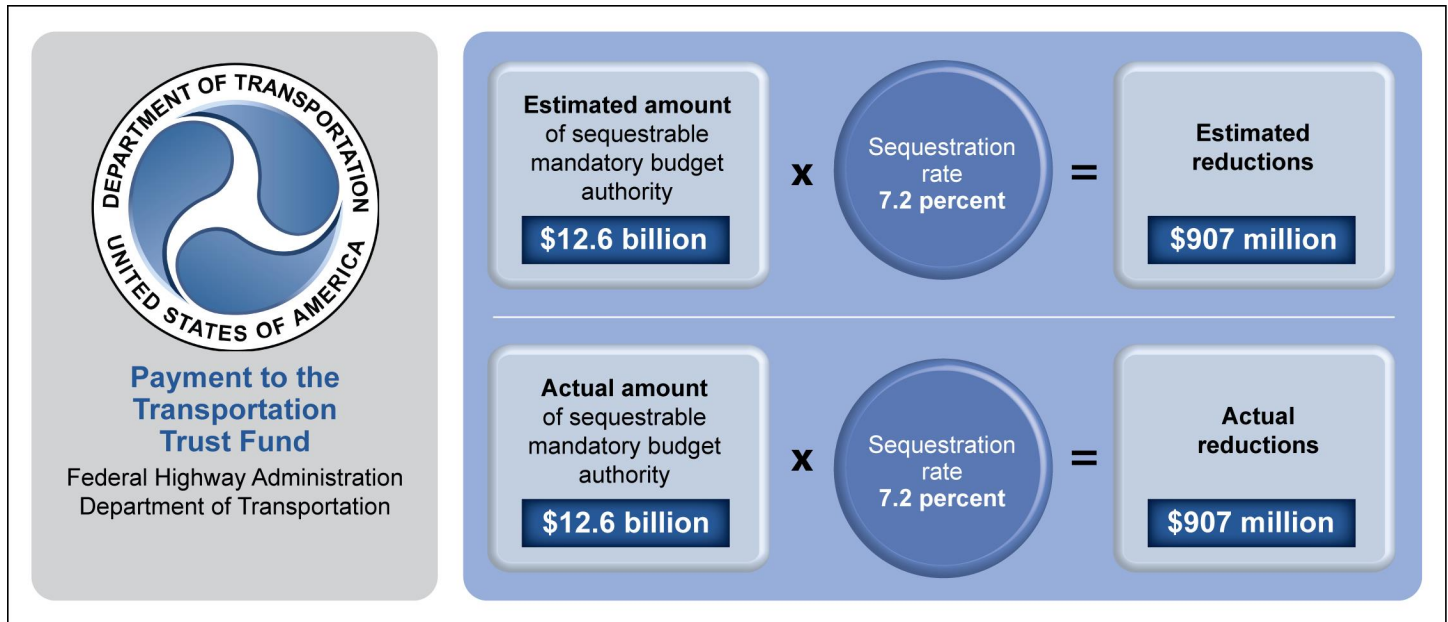
The Health Resources and Services Administration (HRSA) provides services to underserved and vulnerable communities in need of health care. According to HRSA, sequestration reductions in fiscal year 2014 to the health centers and workforce programs prevented an expansion of services to an estimated 365,000 new patients. In addition, HRSA officials reported that, in the absence of sequestration, the National Health Service Corps program would have been able to increase the number of practitioners providing primary care, dental, mental and behavioral health services in the field by 358—from 9,242 to 9,600. According to those officials, this additional staff would have been able to provide services to approximately 300,000 additional individuals in 2014.

Generally, institutions that have excess funds from loan repayments received from borrowers are required to return these funds to HRSA. The agency can then redistribute these funds to other institutions in need of additional funds. Agency officials said HRSA was not able to redistribute approximately \$1.2 million of these excess funds in fiscal year 2014 because they were subject to the sequestration reductions.<sup>4</sup>

<sup>4</sup> Unrequested funds, or excess cash, are returned from schools to HRSA for a number of reasons. For example, a school may identify that it has more cash than is needed due to it having as many qualified participants as it can approve.



Figure 10: Payment to the Transportation Trust Fund



Source: GAO analysis of Office of Management and Budget and DOT data. | GAO-16-263

## Account Overview

This account functions as a mechanism to transfer appropriated funds from the General Revenue Fund of the Treasury into the Highway Trust Fund<sup>5</sup> as a result of legislative action. In recent years, the Administration has proposed to rename the Highway Trust Fund to the Transportation Trust Fund.<sup>6</sup>

The primary funding sources for the Highway Trust Fund are federal excise taxes on motor fuels (gasoline, diesel, and special fuels taxes) and truck-related taxes (truck and trailer sales, truck tire, and heavy-vehicle use taxes). The purpose of the transfer of funds from the General Revenue Fund of the Treasury to the Highway Trust Fund is to maintain the solvency of the Highway Trust Fund throughout the reauthorization period and cover the structural deficit created by the demands of new

<sup>5</sup>The Highway Trust Fund is an accounting mechanism in the federal budget that comprises two separate accounts, one for highways and one for mass transit.

<sup>6</sup>As such, OMB records any such transfers in the Payment to the Transportation Trust Fund account.

transportation programs. The Highway Trust Fund, administered by the Department of Transportation (DOT), is the major source of funding for federal surface transportation; however the fund's revenues are eroding while outlays have outpaced these revenues since 2001. To maintain authorized spending levels for highway and transit programs and to cover revenue shortfalls, Congress transferred a total of about \$63 billion (before sequestration) in general revenues to the Highway Trust Fund on six occasions between fiscal years 2008 and 2014.

The Highway Trust Fund primarily supports surface transportation programs administered by four DOT operating administrations: the Federal Highway Administration, Federal Transit Administration, Federal Motor Carrier Safety Administration, and the National Highway Traffic Safety Administration.

For fiscal year 2014, Section 40251 of the Moving Ahead for Progress in the 21st Century Act (MAP-21) appropriated \$12.6 billion from general revenues to the Highway Trust Fund. This appropriation was recorded on the Payment to the Transportation Trust Fund account. This account supports our national priority on ground transportation (budget subfunction 401).

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### Implementation of the Fiscal Year 2014 Sequestration

This appropriation was subject to sequestration in fiscal year 2014, which resulted in a total appropriation of approximately \$11.7 billion. A subsequent appropriation in the amount of approximately \$9.8 billion was provided in August 2014, under the MAP-21 extension that was not subject to the 2014 sequestration because the extension was enacted after the sequestration order was issued for the applicable year. The sequestered amount of \$907 million was permanently canceled in fiscal year 2014 in accordance with sequestration procedures.

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### Effects of the Fiscal Year 2014 Sequestration

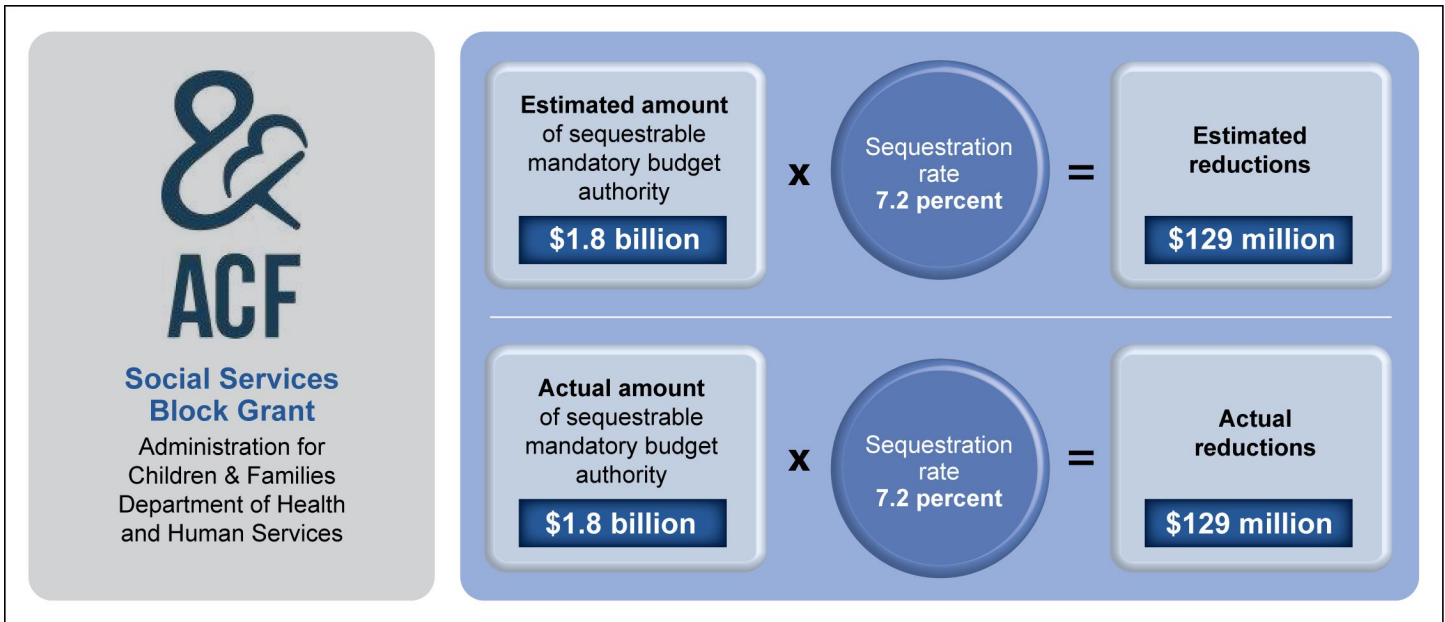
DOT officials indicated that sequestration did not reduce spending; instead, it only reduced the general revenue amounts initially transferred into the Highway Trust Fund. They said this reduction had the effect of hastening the eventual cash shortfall; however, Congress acted in time to infuse additional funds and thus further postpone this situation. As a result, the Federal Highway Administration did not have to reduce any payments.

DOT officials characterized sequestration as a complicating factor on top of their broader existing budget constraints related to the revenue shortfalls in the Highway Trust Fund. They said that staff time and

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resources were focused on ensuring that there were sufficient funds available to cover obligations of the Highway Trust Fund, in addition to time spent to implement the sequestration reductions and attend high-level meetings with senior staff. The recurrence of sequestration adds to a broader concern, which is ensuring the long-term solvency of the Highway Trust Fund.

Figure 11: Social Services Block Grant



Source: GAO analysis of Office of Management and Budget and HHS data. | GAO-16-263

Note: The totals shown above do not reflect this product due to rounding.

## Account Overview

The Social Services Block Grant account (SSBG) is a federal block grant which provides funding directly to states to support a wide range of social policy goals such as promoting self-sufficiency, preventing child abuse, and supporting community-based care for the elderly and disabled. Social services activities supported with these funds include child care, foster care, protective services for adults, and special services for the disabled. SSBG funds are allocated to states according to the relative size of each state's population. States have total discretion to set their own eligibility criteria for program participants and have broad discretion over the use of the funds. The Office of Community Services within the Department of Health and Human Services' Administration for Children and Families (ACF) is responsible for providing management and oversight of the SSBG account, which supports the national priority on social services (budget subfunction 506).

## Implementation of the Fiscal Year 2014 Sequestration

ACF implemented the sequestration reductions to the SSBG's fiscal year 2014 mandatory budget authority of \$1.8 billion by applying the 7.2 percent sequestration rate to the statutory grant formula. Approximately \$129 million were reduced and permanently canceled from this account.

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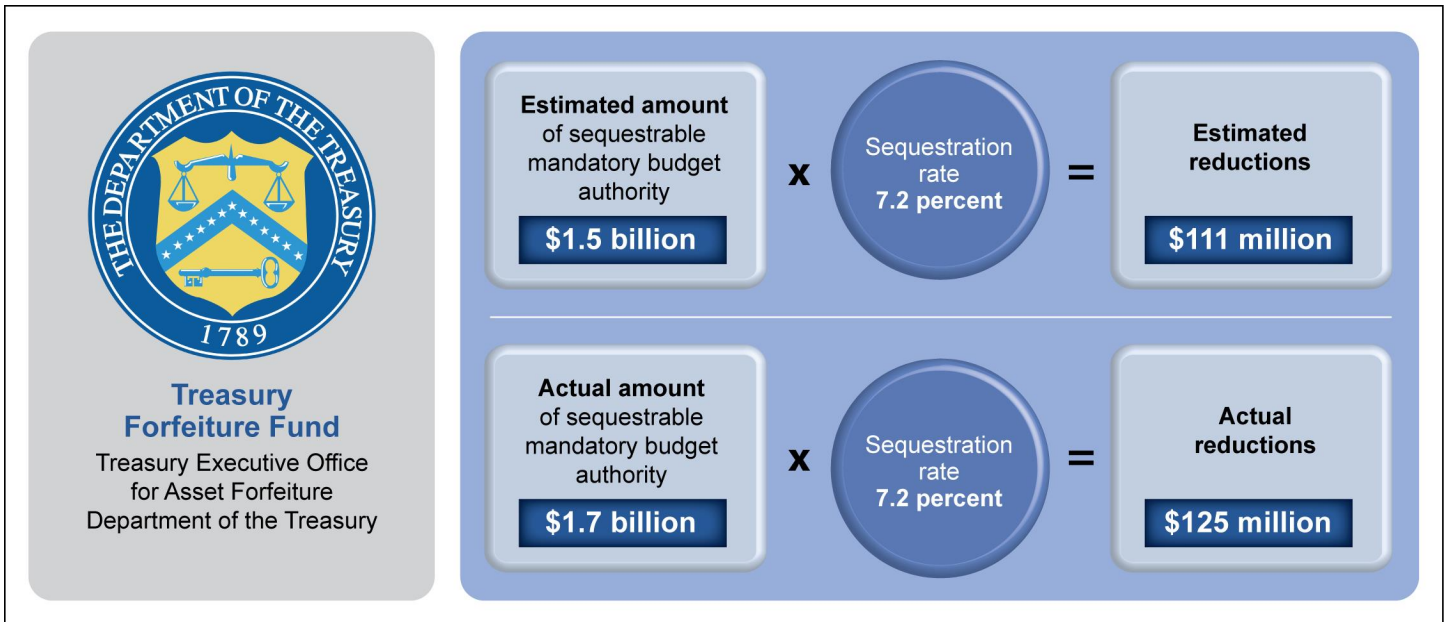
ACF officials said that the states bore the primary challenge because they were responsible for identifying areas for reductions in services.

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## Effects of the Fiscal Year 2014 Sequestration

In November 2013, ACF informed grant recipients of the sequestration reductions by announcing each state's allocation for the first quarter of fiscal year 2014 with the sequestration rate already applied. ACF officials said that all states and territories that received SSBG funds incurred a proportional reduction in their grant amount based on the statutory formula. Agency officials said that while they have not collected information on the effects of the sequestration reductions, they know that each state reduced funds for services and individually determined the specific service categories to be reduced. ACF officials said they do not have any information on any challenges that states may experience as a result of the continued sequestration in effect under current law.

Figure 12: Treasury Forfeiture Fund



Source: GAO analysis of Office of Management and Budget and Treasury data. | GAO-16-263

Note: The totals shown above do not reflect this product due to rounding.

## Account Overview

The Treasury Forfeiture Fund (TFF) is a multi-departmental fund and has four primary goals: to (1) deprive criminals of assets used in or acquired through illegal activities; (2) encourage joint operations among federal, state, and local law enforcement agencies, as well as foreign countries; (3) protect the rights of individuals; and (4) strengthen law enforcement. The Treasury Executive Office for Asset Forfeiture (TEOAF) is responsible for providing management and oversight of the TFF.

The funding for this account comes from non-tax forfeitures made pursuant to laws enforced or administered by participating agencies within the Department of the Treasury (Treasury) and the Department of Homeland Security.<sup>7</sup> TFF funds are used to cover expenses associated with its member agencies' forfeiture programs, including the storage and

<sup>7</sup>The TFF member agency from Treasury is the Internal Revenue Service Criminal Investigations unit, and the DHS TFF member agencies include U.S. Immigration and Customs Enforcement, the U.S. Customs and Border Protection, the U.S. Secret Service, and the U.S. Coast Guard.

maintenance of seized property; investigative costs leading to seizure; payments to financial victims and other third parties; and equitable sharing payments to law enforcement partners.<sup>8</sup>

If there is a remaining unobligated balance at the close of the fiscal year after an amount is reserved for Fund operations in the next fiscal year; Treasury may declare a “super surplus.” This balance can be used for any federal law enforcement purpose, whether or not it is related to forfeiture. Treasury officials report that super surplus is used to fund top priorities of TFF agencies, as well as initiatives supporting financial investigations. This account supports our national priority for the administration of justice (budget subfunction 751).

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### Implementation of the Fiscal Year 2014 Sequestration

Treasury applied the 7.2 percent sequestration rate for the TFF’s fiscal year 2014 budget authority of \$1.74 billion. The OMB estimate was based on anticipated forfeiture revenue for fiscal year 2014, whereas the final reduction was based on actual revenue. Although roughly \$125 million was sequestered in fiscal year 2014, the law allowed for this amount to become available again in fiscal year 2015 as a “pop up.”

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### Effects of the Fiscal Year 2014 Sequestration

In addition to sequestration, a portion of the TFF was rescinded and canceled during fiscal year 2014. Treasury officials emphasized that it is too difficult to parse out the effects of sequestration on the TFF separately from the rescissions and cancellation, but the combined effect of these reductions has impeded the TFF’s ability to support law enforcement. In fiscal year 2015, as a result of cumulating reductions on TFF balances, Treasury was unable to declare super surplus for the first time in the fund’s 22-year history. In fiscal year 2014, Treasury officials reported they were able to spare equitable sharing with state and local law enforcement partners and payments to victims from reductions, but this meant reducing the amount of budgetary resources available to support other forfeiture-related expenses and agencies’ priorities.

Rescissions and sequestration resulted in a large portion of TFF’s budget authority being unavailable for obligation according to officials. As a result, Treasury officials reported that the TFF must rely almost solely on incoming monthly revenue from newly completed forfeiture cases to be

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<sup>8</sup>The allowable uses of this funding are defined in the TFF’s enabling legislation, 31 U.S.C. 9705.

able to allocate the funds. According to Treasury officials, every low revenue month causes cash flow problems and delays in funding allocations for various programs, resulting in interruption and delays in TFF's agencies' operations and the processing of equitable sharing payments and refunds, which they said results in victims and state and local agencies having to wait longer to receive their payments.

Administratively, the officials indicated that sequestration adds uncertainty to the TFF budget and reduces program flexibility to handle unexpected expenses. Though the sequestered funds may become available in the subsequent fiscal year, sequestration reduces the amount of funds available in the current year which makes it difficult to manage cash flows.



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# Appendix III: GAO Contact and Staff Acknowledgments

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## GAO Contact

Michelle Sager, (202) 512-6806, [sagerm@gao.gov](mailto:sagerm@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, Carol M. Henn, Assistant Director and Leah Q. Nash, Analyst-In-Charge made major contributions to this report. Also contributing to this report were Shari Brewster, Evelyn Calderon, Deirdre Duffy, Ellen Grady, Ricky Harrison, Donna Miller, John Mingus Jr., Katherine D. Morris, Kathleen Padulchick, Cindy Saunders, Timothy N. Shaw, Stewart Small, and Lou V.B. Smith.

# Appendix IV: Accessible Data

## Data Tables

**Data Table for Figure 1: Federal Outlays for Mandatory and Discretionary Programs**

	1994	2004	2014
Mandatory	49	54	60
Discretionary	37	39	34
Interest	14	7	7

**Data Table for Figure 2: Government-wide Estimated Mandatory Budget Authority Under FY 2014 Sequestration**

	Estimated mandatory budget authority	Percentage	Estimated reductions	Percentage	Percentage of total
Exempt	\$2,243,740,000,000	77.0	0	NA	NA
Sequestered at 2%	\$560,232,000,000	19.22	\$11,205,000,000	57.8	.34
Sequestered at 7.2%	\$102,752,000,000	3.52	\$7,398,000,000	38.2	.22
Sequestered at 9.8%	\$7,937,000,000	.27	\$778,000,000	4.0	.024
<b>Total</b>	<b>\$2,914,473,000,000</b>	<b>100%</b>	<b>\$19,377,000,000</b>	<b>100%</b>	<b>NA</b>

**Data Table for Figure 3: Share of the \$19.4 Billion Estimated Reductions in Fiscal Year 2014, By National Priority**

Priority	Percentage
Medicare	58.1
Administration of Justice	8.0
Transportation	5.2
Health	4.0
National Defense	4.0
Income Security	3.8
Education, Training, Employment, and Social Services	3.2
Natural Resources and Environment	3.1
Agriculture	2.7
General Government	2.6
Commerce and Housing Credit	2.2
Energy	2.1
Community and Regional Development	1.0
International Affairs	0.07
General Science, Space, and Technology	0.04

**Data Table for Figure 4: National Priorities Were Reduced at Different Rates and Varying Proportions under Fiscal Year 2014 Sequestration**

Budget Function	Exempt	2 percent	7.2 percent	9.8 percent
Social Security	100%	0%	0%	0%
Veterans Benefits and Services	100%	0%	0%	0%
Multiple Functions	100%	0%	0%	0%
International Affairs	99%	0%	1%	0%
Income Security	98%	0%	2%	0%
Health	97%	1%	2%	0%
Commerce and Housing Credit	96%	0%	4%	0%
Energy	90%	0%	10%	0%
Agriculture	76%	0%	24%	0%
General Government	75%	0%	25%	0%
Community and Regional Development	68%	0%	32%	0%
Education, Training, Employment, and Social Services	66%	0%	34%	0%
Natural Resources and Environment	56%	0%	44%	0%
National Defense	44%	0%	0%	56%
General Science, Space, and Technology	18%	0%	82%	0%
Transportation	10%	0%	90%	0%
Administration of Justice	9%	0%	91%	0%
Medicare	0%	100%	0%	0%

**Figure 5: Growth in Total Mandatory Budget Authority Driven by Areas Largely Exempt from Sequestration**

(amount in billions)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Sequestrable Budget Authority	487.214	531.657	580.288	616.890	765.289	822.821	836.242	778.611	811.274	812.096
Exempt Budget Authority	1,207.755	1,309.598	1,359.309	1,451.327	1,638.874	1,791.964	1,785.096	1,884.477	1,913.586	2,038.173

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