United States Government Accountability Office

Report to the Chairman, Committee on the Budget, House of Representatives

October 2015

2013 SEQUESTRATION AND SHUTDOWN

Selected Agencies Generally Managed Unobligated Balances in Reviewed Accounts, but Balances Exceeded Target Levels in Two Accounts

GAO-16-26

GAO Highlights

Highlights of GAO-16-26, a report to the Chairman, Committee on the Budget, House of Representatives

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Why GAO Did This Study

Both the 2013 sequestration and government shutdown highlighted the importance of actively managing public funds. Effective management of unobligated balances that are carried over for use in the next fiscal year presents agencies with an opportunity to better respond to unexpected events in the future. GAO was asked to review how balances have changed since 2012. This report evaluates how selected agencies managed and used unobligated balances in reviewed accounts, focusing on fiscal years 2012 through 2014, which covers the 2013 sequestration and shutdown.

GAO selected a nongeneralizable sample of eight accounts from four agencies for this review—Commerce, Energy, NASA, and State—based on their use of balances to address sequestration and large or significant changes in the balances. GAO analyzed data on the size and composition of unobligated balances, reviewed agency documentation on managing the balances, and interviewed budget officials responsible for the accounts.

What GAO Recommends

GAO is recommending that Energy finalize and implement a strategy and that State finalize its strategy and continue efforts to ensure more effective management of unobligated balances in the WAPA CROM account and CBSP within the D&CP account, respectively. Energy and State concurred with GAO's recommendations. Commerce, Energy, and State provided technical comments which GAO incorporated; NASA had no comments.

View GAO-16-26. For more information, contact Susan J. Irving, Director for Federal Budget Analysis at (202) 512-6806 or irvings@gao.gov.

What GAO Found

GAO found that the selected agencies—the Departments of Commerce, Energy, and State, and the National Aeronautics and Space Administration (NASA)—generally managed and tracked unobligated balances to ensure the effective use of program resources in the eight reviewed accounts. Agency estimation and management of unobligated balances in the reviewed accounts involved the following activities:

- **Regular review of unobligated balances**. Agency officials for all of the eight reviewed accounts reported having a process for managing unobligated balances throughout the year. For example, officials managing NASA's Science account reported that they monitor unobligated balances monthly by considering obligations from the prior months.
- **Tracking the appropriation year of unobligated balances**. Officials reported that agencies tracked the year of appropriation for the five reviewed accounts that receive multi-year budget authority. This action is important to help ensure that the agency obligates the authority in the order appropriated to maximize resources. All five accounts had balances that expired during fiscal years 2012 through 2014; however, there can be various reasons for an agency to not obligate funds late in the fiscal year, and in some cases, special authority expands the use of certain budget authority. For example, for State's Diplomatic and Consular Programs (D&CP) and International Narcotics Control and Law Enforcement accounts, State has the authority to use expired funds beyond their initial period of availability for specific purposes and to extend the availability of certain funds.
- **Estimating and identifying needed unobligated balances**. Officials managing three of the eight reviewed accounts identified a need to retain unobligated balances to sustain agency operations and manage financial risk. For example, officials responsible for managing Energy's Western Area Power Administration (WAPA) Construction, Rehabilitation, Operation and Maintenance (CROM) account said that two of the account's four use categories have a target to carryover equal to or up to 25 percent of funds against unexpected environmental factors that could introduce financial risk to their mission of marketing hydroelectric power. However, in fiscal year 2014, the balance for one category exceeded its target by approximately $40 million. WAPA officials reported that they have drafted a strategy to manage excess balances, but the strategy has not been fully implemented. Similarly, in fiscal year 2014, within State's D&CP account, officials reported exceeding the target to carryover about 25 percent of projected program expenditures for the next year to manage complex global visa and passport operations for the Consular and Border Security Programs (CBSP) by approximately $440 million. State officials said that they have developed a draft strategy for reducing excess unobligated balances. Officials said that they plan to finalize the strategy by June 2016. In the meantime, they reported taking steps to reduce unobligated balances for CBSP. These steps include decreasing fees or delaying fee increases when unobligated balances were adequate to cover costs.

In accordance with Office of Management and Budget guidance, the selected agencies used unobligated balances in four of the reviewed accounts to mitigate the effects of the 2013 sequestration. The agencies also used unobligated balances to fund operations in six of the accounts during the October 2013 government shutdown.

Contents

Figures

Abbreviations

BBEDCA	Balanced Budget and Emergency Deficit Control Act of 1985
BEA	Budget Enforcement Act
CBSP	Consular and Border Security Programs
CFO	Chief Financial Officer
Commerce	Department of Commerce
CR	continuing resolution
CROM	Construction, Rehabilitation, Operation and Maintenance
DEC	Defense Environmental Cleanup
DOD	Department of Defense
D&CP	Diplomatic and Consular Programs
EDA	Economic Development Administration
EDAP	Economic Development Assistance Programs
EERE	Energy Efficiency and Renewable Energy
EM	Office of Environmental Management
Energy	Department of Energy
INCLE	International Narcotics Control and Law Enforcement
INL	Bureau of International Narcotics and Law Enforcement Affairs
NASA	National Aeronautics and Space Administration
OCO	Overseas Contingency Operations
OIG	Office of the Inspector General
OMB	Office of Management and Budget
S&E	Salaries and Expenses
State	Department of State
USPTO	United States Patent and Trademark Office
WAPA	Western Area Power Administration
WSP	Worldwide Security Protection

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
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October 30, 2015

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

Dear Mr. Chairman:

During two recent events—the fiscal year 2013 sequestration and government shutdown at the beginning of fiscal year 2014—federal agencies faced significant challenges related to managing and executing their budgets. Sequestration—the cancellation of budgetary resources under a presidential order—required agencies to carefully scrutinize spending on nonexempt programs, projects, and activities to manage these budget reductions. The government shutdown in October 2013 required agencies to make multiple, complex decisions about whether and how to continue funding mission-critical activities. In the months following sequestration, agencies were faced with reduced budgets and reduced capacity for carrying out regular activities, which continued after the shutdown. This resulted in altered priorities and the need to consider reallocating available funds between and within budget accounts. Both sequestration and the government shutdown highlighted the importance of active management of public funds, as well as the importance of using available resources effectively. In addition, effective management of unexpended account balances that carryover for use in the next fiscal year—and especially, unobligated balances—present agencies with an opportunity to better respond to unexpected events in the future.[1] An unexpended balance is the sum of obligated and unobligated balances. An obligated balance is the amount of obligations already incurred for which payment has not yet been made. This could include obligations through a contract for which payment may be made as services are rendered over time or milestones met. An unobligated balance is the portion of available budget authority that has not yet been obligated. This

[1]For the purposes of this report, we focused on unobligated balances from multi-year and no-year appropriations, which remain available for new obligations. Unless otherwise specified, balances reported are derived from the "Unexpired unobligated balance, end of year" line associated with the budget account in the Appendix to the President's Budget.

could include a balance in a multi-year appropriation or held in a business-like account to help mitigate the risk of environmental factors that may affect collections.

In fiscal year 2014, unexpended balances in federal budget accounts were about $2.3 trillion, of which about $870 billion had not yet been obligated. In 2014, we reported that agencies used unobligated balances to help manage the effects of sequestration and the government shutdown on their operations and services, and to protect mission-critical activities by providing funding for the continuation of such activities.[2] In our September 2013 report on unexpended balances carried forward in federal budget accounts, we concluded that answering key questions during a review of unexpended balances would provide insights into why a balance exists, what size balance is appropriate, and what opportunities (if any) for savings exist.[3] We also noted that a review of unexpended balances may provide opportunities for enhanced oversight of agencies' management of federal funds, and for the identification of areas where the federal government can improve and maximize its use of resources. Further, we stressed that, given the complexity of the federal budget, a case-by-case analysis at either the account or program level is necessary to better understand opportunities for achieving budgetary savings or redirecting resources to other priorities.

You asked us to build on our prior work on unexpended balances by reviewing how such balances have changed since our 2013 report and by evaluating how agencies are managing unexpended balances. Our objective was to evaluate how selected agencies managed and used unobligated balances in reviewed accounts, focusing on fiscal years 2012 through 2014, which covers the fiscal year 2013 sequestration and fiscal year 2014 government shutdown. In addition, we analyzed the size and composition of unexpended balances in the federal budget from fiscal

[2] GAO, *2013 Government Shutdown: Three Departments Reported Varying Degrees of Impacts on Operations, Grants, and Contracts,* GAO-15-86 (Washington, D.C.: Oct. 15, 2014), and *2013 Sequestration: Agencies Reduced Some Services and Investments, While Taking Certain Actions to Mitigate Effects,* GAO-14-244 (Washington, D.C.: Mar. 6, 2014).

[3] GAO, *Budget Issues: Key Questions to Consider When Evaluating Balances in Federal Accounts,* GAO-13-798 (Washington, D.C.: Sept. 30, 2013).

years 2012 through 2014, and compared those balances to previously reported balances for fiscal years 2007 through 2012.[4]

To address this objective, we examined selected agencies' management of unobligated balances in reviewed accounts both during fiscal years 2012 through 2014 and the current management of the reviewed accounts. For this review, we selected a nongeneralizable sample of four agencies—the National Aeronautics and Space Administration (NASA) and the Departments of State (State), Commerce (Commerce) and Energy (Energy).[5] To select these four agencies, we first identified all budget accounts having unobligated balances in fiscal years 2012, 2013, or 2014 in the Office of Management and Budget (OMB) MAX database.[6] We found the data to be sufficiently reliable for the purpose of our report.[7] We selected the four agencies based upon whether they had accounts with significant unobligated balances as well as whether they used or were planning to use reprogramming of funds, transfers among accounts, and/or multi-year funding to mitigate the effects of sequestration, as reported in our previous work on the 2013 sequestration.[8]

Within the four selected agencies, we identified a nongeneralizable sample of eight budget accounts. To select the eight accounts, we reviewed OMB MAX data for every budget account in the four agencies

[4]GAO-13-798.

[5]For the purposes of this report, we will refer to the three selected departments and one agency as "agencies." We excluded the Department of Defense (DOD) from our review because of recent work on sequestration in DOD. See GAO, *Sequestration: Documenting and Assessing Lessons Learned Would Assist DOD in Planning for Future Budget Uncertainty,* GAO-15-470 (Washington, D.C.: May 27, 2015).

[6]OMB MAX database is a computer system used to collect and process most of the information required for preparing the budget. OMB uses MAX to collect, validate, analyze, model, collaborate with agencies on, and publish information relating to its government-wide management and budgeting activities. According to OMB, perhaps the most visible end product of the MAX system is the "Budget of the United States Government," also known as the President's Budget, which is to be produced no later than the first Monday in February of each year.

[7]To determine the reliability of the data, the team cross-checked the MAX data against the numbers reported in the corresponding President's Budget Appendixes. Data reported in MAX and the Budget Appendix are subject to rigorous review and checks through OMB to help ensure data consistency. Accordingly, such data were considered reliable for the purpose of this report.

[8]GAO-14-244. We consider "significant" to mean millions of dollars.

for fiscal years 2012 through 2014. From these accounts, we selected eight accounts for in-depth review based on whether the agencies reprogrammed funds within accounts, transferred funds among accounts, and/or used multi-year funds to mitigate the effects of the 2013 sequestration. We also selected accounts that had particularly large unobligated balances or significant changes in unobligated balances during fiscal years 2012 through 2014. We selected only accounts with discretionary appropriations and split authority—a combination of discretionary appropriations and mandatory budget authority—and excluded mandatory accounts from our review to avoid duplication with our concurrent review of mandatory accounts. See table 1 for a list of accounts selected.

Table 1: Select Budget Accounts and Unexpired, Unobligated Balances at Four Agencies, End of Fiscal Years 2012 through 2014

		Unexpired, Unobligated Balance, End of Fiscal Year (dollars in millions)			
Agency Name	**Account Name (BEA category)[a]**	**2012**	**2013**	**2014**	**Percentage Change from 2012 to 2014**
Department of Commerce	Economic Development Assistance Programs, Economic Development Administration (Discretionary)	185	51	65	-65
	Salaries and Expenses, US Patent and Trademark Office (Discretionary)	238	442	503	+111
Department of Energy	Construction, Rehabilitation, Operation and Maintenance, Western Area Power Administration (Split)	369	496	556	+51
	Defense Environmental Cleanup (Discretionary)	80	32	60	-25
	Energy Efficiency and Renewable Energy (Discretionary)	335	119	408	+22
National Aeronautics and Space Administration	Science (Discretionary)	64	172	275	+330
Department of State	Diplomatic and Consular Programs (Split)	4,421	4,446	2,525	-43
	International Narcotics Control and Law Enforcement (Discretionary)	1,422	1,888	1,217	-14

Source: GAO analysis of data from President's Budget Appendixes. | GAO-16-26

[a]The Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), as amended defines the terms direct spending, which is also known as mandatory spending, and discretionary appropriations. OMB applies these definitions for budget enforcement purposes prescribed by law. These categories of spending are commonly referred to as BEA (Budget Enforcement Act) categories, after legislation that incorporated the definitions into BBEDCA. Split accounts contain both mandatory budget authority and discretionary appropriations.

To evaluate how the selected agencies managed and used unobligated balances in the reviewed accounts, we reviewed agency budget reports and guidance, congressional budget justifications, congressional notifications, and financial and annual reports. We interviewed agency officials at the department (or agency), the bureau, and account levels about account management policy and practice with regards to unobligated balances, using analysis from our prior work (described in detail below) as criteria.

We conducted our review from December 2014 to October 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. For more detailed information on scope and methodology, see appendix I.

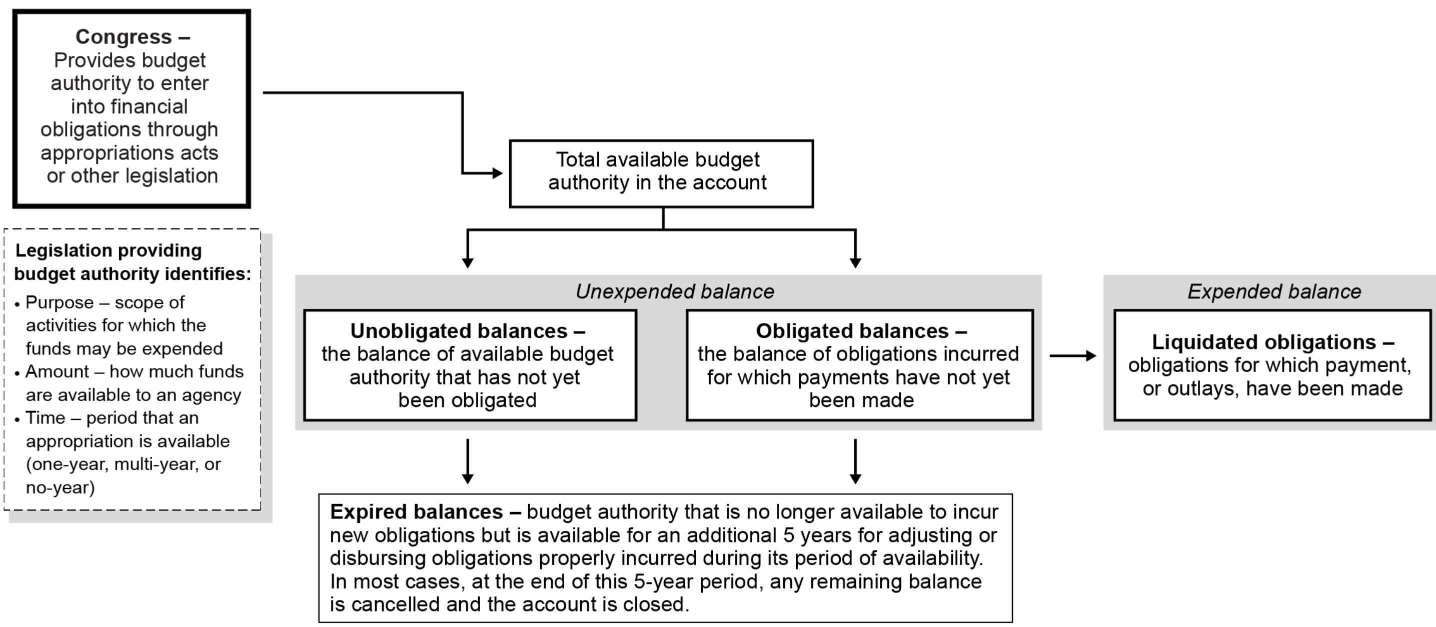
Background

Congress provides budget authority to federal agencies to incur financial obligations through annual appropriations acts or other legislation.[9] 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 virtue of actions that are beyond the control of the United States. Based on the authority provided in legislation, agencies obligate and expend funds.[10] For example, an agency incurs an obligation when it places an order, signs a contract, awards a grant, or purchases a service. *Expenditures or outlays* occur when funds that have been obligated are transferred for payment. See figure 1 for an overview of this process.

[9]Fundamental to Congress's constitutional spending power is that federal programs may only expend federal funds to the extent appropriated by an act of Congress. U.S. Const. art I, § 9, cl.7. For a discussion and history of the congressional "power of the purse" see GAO, Principles of Federal Appropriations Law, 3 ed., vol. 1, ch. 1 (GAO-04-261SP, January 2004).

[10]Laws providing appropriations govern the amount, purpose, and time period availability of funds.

Figure 1: Federal Budget and Obligation Process Leading to Unexpended Balances



Source: GAO analysis. | GAO-16-26

Note: Not all steps in the federal budget and obligation process are identified in this figure.

One of the limits set by appropriations acts is the period of availability of budget authority: periods of availability include one-year, multi-year, and no-year.[11] Although federal funding may be available to obligate for one year, multiple years, or until expended (no-year), only accounts with multi-year or no-year funds may carry forward amounts that remain legally available for new obligations from one fiscal year to the next. Such amounts are referred to as *unobligated balances*. Agencies may also carry forward obligated balances. As shown in figure 1 and previously described, *obligated balances* are the amount of obligations already incurred for which payment has not yet been made while an unobligated balance is the portion of available budget authority that has not yet been obligated.[12] If the agency does not obligate one-year or multi-year funds

[11]Multi-year budget authority is available for obligation for a fixed period of time in excess of 1 fiscal year. No-year budget authority is available for obligation until expended.

[12]Obligated balances may be drawn down over a period of years. Unobligated balances may be available for 2 or more years, and some are available until expended.

by the end of the period of availability, the budget authority will expire. The agency may not incur new obligations using expired budget authority, unless otherwise provided by law.[13] The sum of unobligated and obligated balances is referred to as *unexpended balances*.

Federal spending is categorized as *discretionary* or *mandatory*. This distinction refers to the way budget authority is provided. Discretionary spending is controlled through annual appropriations acts (plus, in some cases, supplemental appropriations acts). In contrast, mandatory spending accounts, which include "entitlement authority," receive budget authority through laws other than appropriations acts. This distinction affects the management of unobligated balances because mandatory funding may require programmatic changes to authorizing legislation to affect unobligated balances, while discretionary accounts are controlled through the annual appropriation process.

In 2013, we reported that reviewing unexpended balances—and in particular, unobligated balances—may provide an opportunity to identify potential budgetary savings and direct those resources towards other programs or priorities.[14] We identified four key questions that agencies and decision makers should answer during a review of unexpended balances, and used those questions for this review to evaluate unobligated balances at selected agencies. These questions can provide insights into why a balance exists, what size balance is appropriate, and what opportunities (if any) for savings exist (see text box).

[13]Expired balances remain available for 5 fiscal years for recording, adjusting, and liquidating obligations properly incurred during the budget authority's period of availability. Amounts not used within this 5-year period are permanently cancelled. Congress may provide exceptions to these procedures.

[14]GAO-13-798.

Evaluating Unexpended Balances: A Framework for Understanding

In 2013, we identified the following questions for agencies and decision makers to consider when evaluating unexpended balances in federal budget accounts. Findings based on these questions can provide managers with important information about financial challenges and opportunities which may exist; in turn, this information may help guide more effective account and program management.

1) What mission and goals is the account or program supporting?

Understanding the mission activities, goals, and programs the account supports provides insight into whether a program needs to maintain a balance to operate smoothly, what size balance is appropriate, and whether opportunities for savings exist.

2) What are the sources and fiscal characteristics of the funding?

The sources and fiscal characteristics of the funds influence what opportunities may exist for savings. If funds are primarily mandatory, opportunities are more limited as programmatic changes would generally be required to reduce balances. In such cases, reducing an account's balance may have no economic benefit and instead would impose unnecessary administrative costs. If funds are discretionary, balances can be controlled by the annual appropriations process.

3) What factors affect the size or composition of the carryover balances?

It is important to consider which factors were within the agency's control and which were not. Agencies or programs may operate in a way that contributes to a faster or slower spendout rate for a particular account. In addition, external events beyond agencies' control—such as natural disasters or economic crises—can dramatically increase carryover balances.

4) How does the agency estimate and manage carryover balances?

Understanding an agency's processes for estimating and managing carryover balances provides information to assess how effective agencies are in anticipating program needs and ensuring the most efficient use of resources. If an agency does not have a robust strategy in place to manage carryover balances or is unable to adequately explain or support the reported carryover balance, then a more in-depth review is warranted with the potential to identify opportunities for budgetary savings.

Note: A "carryover balance" is another term for unexpended balances and is the sum of obligated and unobligated balances.

Source: GAO-13-798. | GAO-16-26

Unobligated balances can provide agencies with flexibility when responding to unexpected budget events. For example, agencies faced with reduced budget authority—such as during a sequestration—or with a lapse in annual appropriations may choose to use unobligated balances from prior year appropriations that remain available for new obligations to ensure continuity of agency activities. In 2014, we reported that unobligated balances that remain legally available from prior year appropriations could provide agencies with funding flexibility to respond to sequestration.[15] Similarly, in September 2013, OMB issued guidance to agencies that said unobligated balances could be used to fund activities during the government shutdown.[16]

Sequestration. On March 1, 2013 the President ordered a sequestration of $85.3 billion across federal government accounts.[17] Final appropriations enacted on March 26, 2013 had the effect of reducing this amount to $80.5 billion.[18] The reductions were to be split evenly between defense and nondefense functions. Under current law, a sequestration of mandatory spending will occur through fiscal year 2024, and another sequestration of discretionary appropriations could occur in any fiscal year through 2021.[19] The fiscal year 2013 sequestration reduced funding to selected components of federal agencies and their program partners—such as state and local governments—that assist in carrying out agency missions. As a result, the selected components and their partners reduced or delayed some services to the public and operations in 2013. As we found in March 2014, agencies reported that sequestration

[15]GAO-14-244.

[16]OMB, *Memorandum for the Heads of Executive Departments and Agencies: Planning for Agency Operations during a Potential Lapse in Appropriations*, (Washington, D.C.: Sept. 17, 2013).

[17]The Budget Control Act of 2011, which amended the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), established the Joint Committee on Deficit Reduction (Joint Committee), which was tasked with proposing legislation to reduce the deficit by at least an additional $1.2 trillion through fiscal year 2021. The Joint Committee did not report a proposal and legislation was not enacted. This triggered the sequestration process in section 251A of BBEDCA, known as the Joint Committee Sequestration. Under the Joint Committee Sequestration, BBEDCA required an annual reduction of $109.3 billion, which was reduced to $85.3 billion for fiscal year 2013 in January 2013 due to savings achieved under the American Taxpayer Relief Act of 2012.

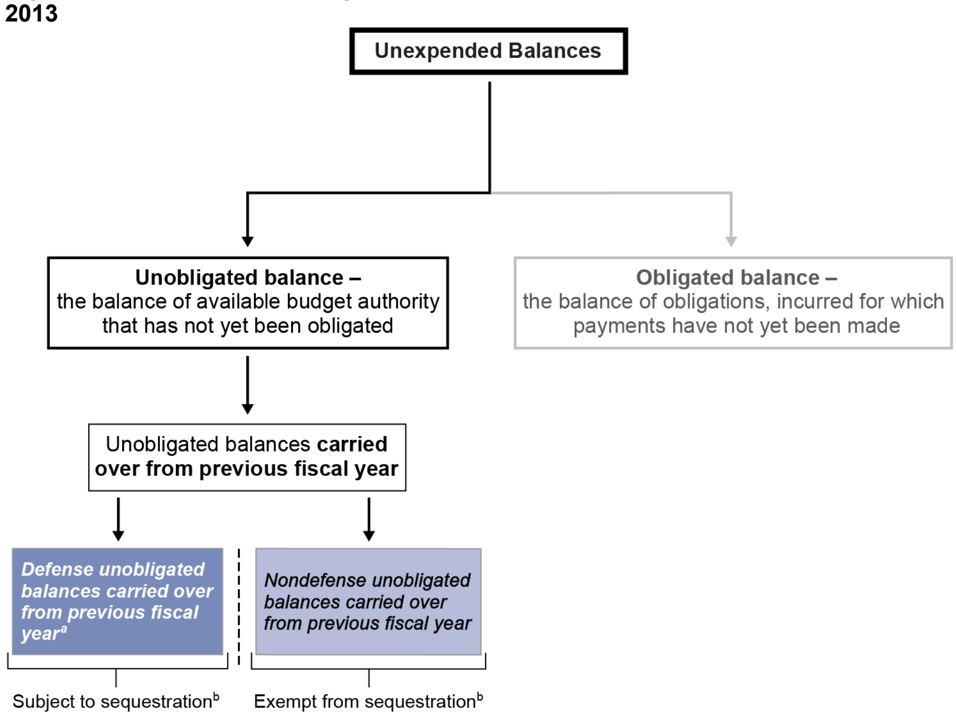
[18]See 2 U.S.C. § 903(f).

[19]If discretionary spending caps established by BBEDCA are breached in any given fiscal year through 2021, they will be enforced by an “after session sequestration” within 15 days after the end of a congressional session. This report focuses on the Joint Committee Sequestration. Mandatory, otherwise called direct spending, is budget authority that is provided in laws other than appropriation acts and the outlays that result from such budget authority.

reduced assistance for education, housing, and nutrition, as well as health and science research and development grants.[20] We also found that agencies delayed investments such as information technology and facilities projects.

In 2013, both mandatory spending and discretionary appropriations were subject to sequestration. In accounts with budgetary resources classified as defense spending, prior year unobligated balances were also subject to sequestration. Prior year unobligated balances in nondefense accounts were exempt. This means that only prior year balances for some agencies' accounts were affected by sequestration, while others were not. Figure 2 shows the breakdown of unobligated balances by different types of accounts and how these different balances were treated under sequestration in fiscal year 2013.

Figure 2: Treatment of Unobligated Balances under Sequestration in Fiscal Year 2013



Source: GAO analysis. | GAO-16-26

[20]GAO-14-244.

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

[b]On March 1, 2013, pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, the President ordered an across-the-board cancellation of budgetary resources—known as sequestration—to achieve $85.3 billion in reductions across federal government accounts. When the Consolidated and Further Continuing Appropriations Act, 2013, was enacted on March 26, 2013, it had the effect of reducing the sequestered amount for fiscal year 2013 to $80.5 billion. In fiscal year 2014, sequestration continued to be in effect for mandatory spending.

In fiscal year 2013, agencies had the ability to reprogram funds and had various transfer authorities to respond to sequestration. Reprogramming is the shifting of funds from one program activity to another within an appropriation account for purposes other than those contemplated at the time of appropriation. Generally, no statutory authority is necessary for agencies to reprogram funds, but in some instances the ability to reprogram funds may be limited by law for certain purposes or amounts. A transfer is the shifting of funds between appropriation accounts. Agencies must have statutory authority to transfer funds, and that authority may also be limited by purpose or amount.

Government Shutdown. The federal government partially shut down for 16 days in October 2013 because of a lapse in appropriations. According to OMB, about 850,000 federal employees were furloughed for part of this time, and agencies furloughed federal employees for a combined 6.6 million work days. Over the past 20 years, there have occasionally been federal lapses in appropriations that led to government shutdowns.[21]

During a government shutdown, one of the key issues OMB and agencies must determine is what activities and programs an agency is permitted or required to continue when faced with a funding gap. The Antideficiency Act generally restricts agencies from continuing operations funded by annual appropriations during a government shutdown.[22] However, there are some categories of activities that are permitted to continue during an appropriations lapse. This includes activities funded through multi-year

[21]For the purposes of this report, we will refer to the appropriations lapse in October 2013 as the “government shutdown.”

[22]31 U.S.C. §§1341-42.

appropriations that did not expire at the end of the fiscal year or no-year appropriations.[23]

Selected Agencies Vary in Their Management of Unobligated Balances, Including Use of Balances to Mitigate Effects of the 2013 Sequestration and Government Shutdown

In Reviewed Accounts, Agencies Generally Addressed Key Questions for Evaluating Unobligated Balances

As described earlier in this report, in September 2013 we identified four key questions for evaluating balances in budget accounts, including unobligated balances or the portion of the available budget authority that has not yet been obligated, to help agencies more effectively manage public funds.[24] For the eight accounts we reviewed across the four agencies, the agencies generally addressed the key questions in their

[23] GAO-15-86. The activities which may continue during a shutdown fall into two broad categories. The first category is obligations authorized by law. Within this category, exceptions include: (1) activities funded through multi-year or no-year appropriations, which do not expire at the end of the fiscal year; (2) activities authorized by statutes that expressly permit obligations in advance of appropriations; (3) activities “authorized by necessary implication from the specific terms of duties that have been imposed on, or of authorities that have been invested in, the agency”; and (4) obligations “necessarily incident to presidential initiatives undertaken within his constitutional powers,” for example, the power to grant pardons and reprieves. The second broad category reflects the exceptions authorized under the Antideficiency Act (31 U.S.C. § 1342)—emergencies involving the safety of human life or the protection of property.

[24] GAO-13-798.

management and ongoing review of unobligated balances.[25] We describe the four key questions below and provide examples of how the selected agencies applied the questions to the reviewed accounts (see text boxes).[26]

What Mission and Goals is the Account or Program Supporting?

Understanding the mission activities, goals, and programs the account supports provides information about whether a program needs to maintain an unobligated balance to operate smoothly, what size balance is appropriate, and whether opportunities for savings exist. Such context can inform assessments of whether, and how, to reduce unobligated balances and what effect a reduction would have on the agency's ability to carry out its mission. The text box below describes two examples from the reviewed accounts.

Mission Activities and Goals and Unobligated Balances

Western Area Power Administration (WAPA) Construction, Rehabilitation, Operation and Maintenance (CROM). Energy's WAPA CROM account supports critical energy function across the central and western region of the United States. The agency holds unobligated balances in the account from one year to the next to maintain operations in case unexpected events, such as a droughts or economic downturns, lead to lower than expected power sales.

Economic Development Assistance Programs (EDAP). Among its missions, Commerce's Economic Development Administration (EDA) provides grants to public and private non-profit organizations to mitigate sudden and severe economic impacts, such as natural disasters, through the EDAP account. According to EDA officials, funding in this account that is appropriated for specific disaster relief programs cannot be spent for other activities. A delay in assistance applications for EDA's grants could result in unobligated balances for those program funds. For example, EDA officials attributed the majority of the $185 million unobligated balance at the end of fiscal year 2012 to the additional $200 million appropriated by Congress in fiscal year 2012 to fund disaster relief efforts in areas with major disaster designations in 2011, which included areas affected by Hurricane Irene. According to officials, communities eligible to apply for this relief were focused on short-term recovery in 2012 and were not in a position to

[25] For this review, the eight accounts selected across four agencies include: Economic Development Assistance Programs (Commerce); Salaries and Expenses at the U.S. Patent and Trademark Office (Commerce); Defense Environmental Cleanup (Energy); Energy Efficiency and Renewable Energy (Energy); Construction, Rehabilitation, Operation and Maintenance at the Western Area Power Administration (Energy); Diplomatic and Consular Programs (State); International Narcotics Control and Law Enforcement (State); and Science (NASA).

[26] For additional details on how the selected agencies addressed the key questions for each of the eight reviewed accounts, see appendix II.

apply for EDAP funds until long-term recovery plans were in place, generally after the end of fiscal year 2012.

Source: GAO analysis of agency information. | GAO-16-26

What Are the Sources and Fiscal Characteristics of the Funding?

The sources and fiscal characteristics of the funding influence what opportunities may exist for budgetary savings. Sources of funding include appropriations acts (i.e. discretionary spending) and laws other than appropriations acts (i.e. mandatory spending). Budget accounts can have both discretionary and mandatory amounts: these are known as split accounts. Discretionary and mandatory budget authority presents different issues for Congress in its oversight of the size of any balance. Specifically, if amounts are mandatory, Congress must make programmatic changes to authorizing legislation in order to begin to affect the size of any unobligated balance.[27] Fiscal characteristics include the period of availability for new obligations and are also important to evaluating unobligated balances. If an account receives multi-year or no-year appropriations, an unobligated balance can be expected in some accounts or programs. Accounts that receive funding primarily from outside sources, such as fees, have their own unique considerations when evaluating unobligated balances. The text box below describes three examples from the reviewed accounts.

Sources and Fiscal Characteristics of Funding and Unobligated Balances

Diplomatic and Consular Programs (D&CP). State's D&CP account is composed of both discretionary and mandatory authority that come from various sources including annual appropriations, Overseas Contingency Operations appropriations, offsetting collections derived from services to the public for visas and passports, and reimbursements from other agencies. Almost all of the unobligated balances support activities funded by discretionary appropriations. The account includes no-year, multi-year, and one-year appropriations. In fiscal year 2014, D&CP's appropriation did not provide multi-year authority as in previous years, but rather, permitted the extension of up to about 15 percent of new one-year authority to two-year authority. State officials reported that this change led to greater scrutiny of the balances, as well as closer work with the Department of the Treasury to transfer funds into the two-year portion of the account.

International Narcotics Control and Law Enforcement (INCLE). State's INCLE account receives two-year appropriations. Therefore, these funds must be obligated within the two-year period or they will expire. INCLE officials said that they strive to obligate all funds within this period of availability.

[27]If Congress desires to immediately affect the size of an unobligated balance, it could enact a rescission.

United States Patent and Trademark Office (USPTO) Salaries and Expenses (S&E). The USPTO S&E account at Commerce is composed of receipts from patent and trademark fees. USPTO receives congressional authority in annual appropriations acts to spend a fixed amount of these receipts. Funds are obligated in this account as salaries are earned and expenses incurred. The unobligated balance in this account therefore depends on the volume of fee collections going in and salaries and expenses going out.

Source: GAO analysis of agency information. | GAO-16-26

What Factors Affect the Size or Composition of the Carryover Balances?

It is important to consider which factors affecting unobligated balances are within the agency's control and which are not. The rate at which obligations are incurred and subsequently liquidated in a fiscal year can vary with the nature of the activity. External events beyond agencies' control—such as natural disasters or economic crises—can also affect unobligated balances. The text box below describes two examples from the reviewed accounts.

Factors Affecting Size and Composition of Unobligated Balances

Science. NASA officials said that while they attempt to obligate funds during the first year of appropriation within the Science account, a delayed project may result in an unobligated balance in the account. For example, in fiscal year 2014, the Europa mission funding for the Jet Propulsion Laboratory was delayed while officials conducted a July progress review, resulting in a delay of obligations and an unobligated balance at the end of the year.

Defense Environmental Cleanup (DEC). Officials managing Energy's DEC account said that unobligated balances in fiscal year 2014 resulted from a variety of reasons, including contracts that could not be awarded before the end of the fiscal year, delays in hiring employees, and funding allocated for a finished construction project.

Source: GAO analysis of agency information. | GAO-16-26

How Does the Agency Estimate and Manage Carryover Balances?

Understanding an agency's processes for estimating and managing carryover balances provides information to assess how effectively agencies anticipate program needs, and ensure the most efficient use of resources. Agency management and estimation of unobligated balances also helps to ensure that any amounts carried over into the next year meet the targets the agency has determined are necessary to continue activities. The text box below describes three examples from the reviewed accounts.

Management and Estimation of Unobligated Balances
Economic Development Assistance Programs (EDAP). In managing the EDAP account, EDA tracks expended, obligated, and unobligated balances, and reports weekly on these fund balances to program staff. The budget office estimates the likelihood of the remaining unobligated funds being obligated during the fiscal year, and continually revises these estimates, putting forward a final estimate of the unobligated balance that is expected to be carried over at the end of the fiscal year.
Energy Efficiency and Renewable Energy (EERE). EERE officials monitor unobligated balances monthly, with a more thorough analysis at the end of the fiscal year. According to officials, there is no set formula for estimating unobligated balances in future years; project managers are asked in the fourth quarter for their expected level of obligations which helps the agency estimate current year unobligated balances.
Science. Unobligated balances for NASA's Science account are monitored monthly. Specifically, budget analysts compare actual and planned spending, and monitor the level of unobligated balances. If an analyst believes that there is a significant difference between expected and actual unobligated balances, then he or she can flag those balances for further review.

Source: GAO analysis of agency information. | GAO-16-26

For Reviewed Accounts, Agencies Actively Estimate and Manage Unobligated Balances; However, for Two of the Accounts, Balances Exceeded Target Levels

Of the four key questions, agency management of balances is especially important in that it highlights how ongoing, routine estimation, and agency management of unobligated balances throughout the year is critical to help ensure the effective use of program resources. Our work shows that actively managing unobligated balances involves (1) regular review of unobligated balances, including ongoing monitoring and tracking, throughout the year; (2) tracking the appropriation year of the balances; (3) estimating projected annual unobligated balances and identifying the amount of unobligated balances that may be necessary to retain the following year; and (4) recognizing how unobligated balances may result from, or be affected by, events outside of an agency's control.

If an agency does not have a robust strategy in place to manage unobligated balances, or is unable to adequately explain or support the reported unobligated balances, then a more in-depth review is warranted. In those cases, balances may either fall too low to efficiently manage operations, or rise to unnecessarily high levels. This produces potential opportunities for those funds to be used more efficiently elsewhere.

For Reviewed Accounts, Officials Reported Having a Process to Regularly Review Unobligated Balances throughout the Year

For all of the eight accounts we reviewed, agency officials reported having a process for managing unobligated balances throughout the year, including ongoing monitoring and tracking of the balances. Having a process to regularly review unobligated balances throughout the year allows agencies and decision makers to better understand the size and nature of their balances and determine if actions should be taken to increase or reduce these balances. Specific examples include the following:

- Officials for State's D&CP account reported that they monitor unobligated balances monthly to ensure that program spending is on track, with more frequent monitoring of some subaccounts with large balances, such as the Overseas Contingency Operations (OCO) subaccount. Frequent monitoring may make it easier to identify whether unobligated balances will meet program needs.
- Officials managing NASA's Science account said their monthly monitoring of unobligated balances begins the first day of each month when obligations are transferred from the agency's accounting system into a project management system, which is used to compare planned and actual expenditures. Budget analysts monitor the level of unobligated balances, taking into account obligations from the prior month. NASA officials said it is the responsibility of the budget analyst for the account to raise significant differences between planned and actual levels of unobligated balances for further review by the Budget Director, the Deputy Chief Financial Officer, and the Chief Financial Officer.
- Commerce's USPTO finalized an operating reserve policy on September 25, 2015. This policy includes a regular process for monitoring unobligated balances within the S&E account. In the S&E account, which is funded through fees that are paid by customers to obtain and renew patents and trademarks, USPTO sets aside its unobligated balances as an operating reserve. In April 2012, we recommended that the Secretary of Commerce direct the USPTO Director to finalize an operating reserve policy, including the expected level of reserves, to smooth economic downturns on operations and to ensure its use aligns with agency goals.[28] The finalized policy was developed in response to our recommendation. The policy requires

[28]GAO, *Patent and Trademark Office: New User Fee Design Presents Opportunities to Build on Transparency and Communication Success*, GAO-12-514R (Washington, D.C.: Apr. 25, 2012).

monthly monitoring of the operating reserve balance compared to the established minimum level, among other things.

Although Agencies Tracked the Appropriation Year of Unobligated Balances for Reviewed Accounts with Multi-Year Funds, Some Funds Expired in All Such Accounts during Fiscal Years 2012 through 2014

We have previously reported that the time limits imposed upon the budget authority are important when evaluating unobligated balances.[29] If an account receives multi-year or no-year appropriations, an unobligated balance can be expected in some cases. Similarly, if an account receives multi-year supplemental appropriations late in the fiscal year or for long-term projects, there is an increased likelihood of, and perhaps expectation for, an unobligated balance in the account. It is important to track the year of appropriation for accounts with multi-year budget authority to obligate the authority in the order appropriated to maximize resources for program implementation and prevent budget authority that otherwise could have been used from expiring. There may be different periods of availability for funds within the same agency, program, or account. As shown in table 2 below, six of the eight accounts we reviewed received no-year funds, which do not expire, and two of the accounts received only multi-year funds. One account received no-year, multi-year, and one-year funds.

Table 2: Period of Availability of Funding in Reviewed Accounts from Fiscal Years 2012 through 2014

		Period of Availability		
Agency	**Account**	**One-year**	**Multi-year**	**No-year**
Department of Commerce	Economic Development Assistance Programs (EDAP)			✓
	United States Patent and Trademark Office, Salaries and Expenses (USPTO S&E)			✓
Department of Energy	Defense Environmental Cleanup (DEC)		✓	✓
	Energy Efficiency and Renewable Energy (EERE)		✓	✓
	Western Area Power Administration, Construction Rehabilitation, Operation and Maintenance (WAPA CROM)			✓
National Aeronautics and Space Administration	Science		✓	
Department of State	Diplomatic and Consular Programs (D&CP)	✓	✓	✓
	International Narcotics Control and Law Enforcement (INCLE)		✓	

Source: GAO analysis of appropriation laws. | GAO-16-26

[29] GAO-13-798.

Multi-year Funds. Five of the accounts we reviewed receive multi-year funds in the form of 2-year funds—NASA's Science account, State's INCLE and D&CP accounts, and Energy's EERE and DEC accounts. Officials managing each of these five accounts reported tracking the appropriation year of the funds to help ensure that the agency incurs new obligations only during the appropriation's period of availability. Since funds are available for only 2 years, in most cases they will expire at the end of the 2-year period.[30] For example, officials managing State's INCLE account said that they divide responsibility for tracking funds between budget execution analysts and program staff. While the budget execution analysts are responsible for tracking funds in the accounting system and highlighting any problems as they arise, it is ultimately the responsibility of program staff to ensure that the agency incurs new obligations only during the appropriation's period of availability.

Although officials in the five reviewed accounts with two-year funds said they track the appropriation year of funds to help ensure effective use of current budget authority within the appropriation's period of availability, all of the accounts had unobligated balances that expired during fiscal years 2012 through 2014. Expiration of funds can occur for a variety of reasons including contract adjustments, delays in entering contracts because of continuing resolutions, or poor management. See table 3 for the amounts of expired funds in five reviewed accounts and an explanation of the expiration, according to agency officials.

[30]Expired budget authority is no longer available to incur new obligations but is available for an additional 5 fiscal years for recording, adjusting, and disbursing obligations properly incurred during the budget authority's period of availability. For INCLE, however, if funds are obligated during the initial period of availability, those funds become available for obligation for another 4 years.

Table 3: Expired, Unobligated Balances in Reviewed Accounts Receiving Multi-Year Funds, Fiscal Years 2012 through 2014

Account (Department or Agency)	Expired, Unobligated Balances (dollars in millions) 2012	2013	2014	Agency Reported Explanation for Expired, Unobligated Balances
Defense Environmental Cleanup (DEC) (Energy)	0	1	0	Officials managing the DEC account said that the actual expired amount was approximately $574,000, and that the majority of these funds were associated with a service contract that cost less than anticipated.
Energy Efficiency and Renewable Energy (EERE) (Energy)	0	1	0	Energy officials said the funds marked as expired, unobligated funds for fiscal year 2013 were actually no-year appropriations that were rescinded by Congress.
Science (NASA)	0	7	6	NASA officials said that the expiration of these funds was due to the closeout of contracts for less than the obligated amount. NASA deobligated amounts when, for example, the contractor did not meet certain performance goals. The expired balances for these years represent the sum of small amounts of funds from many contracts.
Diplomatic and Consular Programs (D&CP) (State)	82	144	369	Officials managing the D&CP account said the expired, unobligated balances were the result of a variety of circumstances including exchange rate fluctuations; adjustments of obligated, but unexpended balances; and delayed contract and grant activities. Officials said that they exercised specific statutory authority to transfer expired balances for other specific purposes and used the funds.
International Narcotics Control and Law Enforcement (INCLE) (State)	55	25	14	Officials managing the INCLE account said that for fiscal years 2012 through 2014, some balances that were listed as expired in the President's Budget Appendix were available to be reobligated pursuant to specific statutory authority. Officials explained that in some cases, funds were nearing the end of their extended period of availability when they were deobligated from programs that had ended. For example, of the $14 million in fiscal year 2014 that expired, officials said that only $587,000 was cancelled that year.

Source: GAO analysis of the President's Budget Appendix and agency information. | GAO-16-26

State officials managing the D&CP account told us that they attempt to avoid cancellation of expired funds and their unavailability for future use by using four separate authorities to transfer expired funds for specific uses such as offsetting overseas price inflation for projects and wages paid to local employees, making reward payments for captured terrorists, and reimbursing New York City for the protection of foreign missions and officials at the United Nations.[31] According to officials, State notifies OMB

[31]See Pub. L. No. 113-76, div. K, title VII, §§ 7034(j), 7082(d), 128 Stat. 5, 514-15,567 (Jan. 17, 2014); Pub. L. No. 110-252, § 1408, 122 Stat. 2323, 2341-42 (June 30, 2008); Pub. L. No. 110-161, div. J, title I, 121 Stat. 1844, 2278 (Dec. 26, 2007).

and Congress regarding the Department's intent to transfer expired funds for such purposes. Officials said they transfer the oldest expired funds first, such as those nearing the end of their expiration period, which would be the first to be cancelled, before obligating the more recently expired funds. In fiscal year 2014, D&CP's appropriation consisted of primarily one-year authority, of which State could extend up to about 15 percent for an additional year, versus the primarily two-year authority generally appropriated to D&CP.[32] Officials said that all expired fiscal year 2014 funds ($369 million) were transferred to the two-year portion of the account because the $369 million fell within the 15 percent limit.

For the INCLE account, State has the authority to extend the availability of certain balances that would have otherwise expired after 2 years.[33] When funds are obligated during their initial period of availability, those funds remain available to incur new obligations for an additional 4 years from the date on which the availability of such funds would have otherwise expired. To enter into new obligations during this extended period of availability, State officials must deobligate previously obligated funds. State reported that deobligated amounts are moved from an expired account into what officials call an "extended account" and are available to be reobligated. State officials said that expired funds reflected in the President's budget may actually be in a holding status awaiting coordination, including coordination with Congress. However, State's Office of the Inspector General (OIG) also identified issues with the process of tracking obligations within the INCLE account. State's OIG recommended that the agency should develop a list of bureaus' requirements related to tracking and reporting foreign assistance funds by program, project, and country, among other things, and develop and implement a comprehensive plan with target completion dates to address foreign assistance tracking and reporting requirements.[34] State agreed and initiated a working group to address the recommendation.

[32]See Pub. L. No. 113-76. 128 Stat. 465.

[33]See Pub. L. No. 113-76, § 7011, 128 Stat. 496. An identical or similar provision is generally enacted in the Department of State, Foreign Operations, and Related Programs Appropriations Act each year.

[34]Department of State, Office of the Inspector General, *Management Assistance Report – Department Financial Systems Are Insufficient to Track and Report on Foreign Assistance Funds* (ISP-I-15-14) (Washington, D.C.: Feb. 26, 2015).

No-year Funds. In accounts with no-year funds, agencies may choose to track the year in which such funds were appropriated, but such funds do not expire.[35] Officials managing the three reviewed accounts at Energy—DEC, EERE, and WAPA CROM—each reported tracking no-year funds by the year of appropriation. In contrast, officials from the other three reviewed accounts with no-year funds reported that they did not do this. For example, at Commerce, officials managing EDA's EDAP account reported that the agency does not track the appropriation year of the unobligated balances. Officials managing the EDAP account said they track the funds by program, such as Economic Adjustment Assistance or Public Works, but do not track funds by year because these are no-year funds. When a grant funded from the account is completed, officials said any remaining funds tied to that grant are deobligated, and may be used to fund a new grant that would qualify under the parameters of the original activity or subprogram.

Three Agencies Identified a Need to Retain Unobligated Balances in Three of the Reviewed Accounts, but Unobligated Balances Exceeded Target Levels in Two of These Accounts

As we have previously reported, both the necessity for and appropriate size of minimum unobligated balances varies among agencies and within agencies.[36] It is important for agencies to estimate the projected unobligated balances for the fiscal year and identify the amount of the balances, if any, which may be necessary to carryover into the following year to sustain agency operations. For five of our reviewed accounts—Energy's DEC and EERE, Commerce's EDAP, State's INCLE, and NASA's Science—agency officials said a minimum level or consistent target of unobligated funds was not necessary to maintain operations across fiscal years. For example, Energy officials managing the DEC account told us that a minimum level of unobligated funds was not necessary for their operations and that their goal is to obligate all of their funds in the first year. Energy officials reported they obligate more than 99 percent of DEC funds, on average, within the first year of appropriations. Similarly, officials managing the INCLE account said they would obligate all funds in the first year if possible. However, planning and reporting requirements often delay obligations leading to significant unobligated balances each year.

[35]No-year appropriations may be canceled if the head of the agency or the President determines that the purposes for which the appropriation was made have been carried out and if no disbursement has been made for 2 consecutive years. 31 U.S.C. § 1555.

[36]GAO-13-798.

We have previously reported that unobligated balances in some instances support an agency's ability to carry out its mission by providing flexibility for the agency to respond to contingencies or emergencies.[37] In three of the eight accounts we reviewed—USPTO's S&E, State's D&CP, and Energy's WAPA CROM—officials reported that a certain level of unobligated balances was necessary to properly execute activities and manage financial risk for certain programs within the accounts.

- In our prior work, USPTO officials reported that maintaining an operating reserve is important for the user fee funded agency because, without an unobligated balance, its businesslike operations would leave the agency vulnerable to financial risk and threaten long-term operational stability.[38] All unobligated balances within USPTO's S&E account are considered part of this operating reserve. In response to our 2012 recommendation, USPTO drafted and, as of September 25, 2015, has finalized a policy to guide its management of this operating reserve. The policy describes a method for determining an acceptable minimum size for the operating reserve as well as a model for determining its optimal size. This model takes into account the likelihood and consequence of seven different spending and fee collection risk factors such as economic uncertainty and climate, unexpected costs, and fee and workload projection uncertainties. Depending on the levels of risk and consequence, the model calls for maintaining, in addition to the established minimum reserve requirement, between 0- and 4-months of operating expenses in its reserve.
- Additionally, for the Consular and Border Security Programs (CBSP) within the D&CP account, State officials said they have a target to carryover approximately 25 percent of projected program expenditures for the next year to manage complex global visa and passport operations. CBSP is fully fee funded, which means that all appropriations for the program are offsetting collections from consular fees and surcharges. These fees and surcharges include the Passport Security Surcharge, the Diversity Visa Lottery fee, and the Machine Readable Visa fee. Congress has permanently appropriated these collections to State as no-year authority for CBSP's use. State set this target of 25 percent based on activity-specific analysis using historical data and projections. However, officials did not report using models or

[37] GAO-14-244.

[38] GAO-12-514R.

formulas to help anticipate how certain factors would impact the financial risk of the account. Our previous work has found that unobligated balances in fee-based accounts should be subject to the same scrutiny as unobligated balances in accounts funded by general revenues.[39] Based on our findings from this review, we continue to believe that agencies need to understand the vulnerabilities of user fees and to be deliberate in their design of a reserve fund to effectively manage them.

Specifically, we found that in fiscal year 2014 unobligated balances for CBSP accounted for 38 percent, or approximately $1.3 billion, of projected program expenditures for fiscal year 2015 for the program. This exceeded the 25 percent target of approximately $850 million by approximately $440 million. Similarly, in fiscal years 2012 and 2013, unobligated balances for CBSP accounted for approximately 40 percent of program expenditures for the next fiscal year. State officials reported that unobligated balances were higher than the predetermined target, in part, because of limitations on the purposes for which fees collected under CBSP may be used. In particular, fees collected for fraud prevention and detection on certain types of visas can only be spent on specific fraud activities. State officials reported that annual revenue from this fee is usually higher than the cost of these activities, resulting in an annual increase in unobligated balances. However, this limitation on how fees can be spent accounts for only a small proportion of the excess unobligated balances (approximately $97 million of the total excess unobligated balance of $440 million in fiscal year 2014).

State officials within the Bureau of Consular Affairs said that they began drafting a plan in 2013 for managing and monitoring funding for each program within CBSP. According to officials, this plan will include a strategy on how unobligated balances will be tracked and managed to reach the identified target of 25 percent. Officials said that the plan is awaiting clearance by leadership and they anticipate that it will be finalized by June 2016. While unobligated balances for CBSP were greater than the 25 percent target in recent years, State officials reported that they have taken steps to regulate and reduce unobligated balances. According to officials, these steps included decreasing fees or delaying fee increases when unobligated balances

[39] GAO, *Federal User Fees: Fee Design Options and Implications for Managing Revenue Instability*, GAO-13-820 (Washington, D.C.: Sept. 30, 2013).

were adequate to cover costs; realigning spending, consistent with authorities, to better coincide with actual costs; and improving internal coordination to better track and model revenues and obligations. For example, officials reported that since fiscal year 2012, the cost of the Passport Security Surcharge service was higher than the $40 fee charged. In 2015, State announced that it intended to raise the fee to $60. Officials said that this delay of the fee increase allowed them to spend down existing unobligated balances. According to data provided by State, unobligated balances for the Passport Security Surcharge decreased from 95 percent of next year's program expenditures in fiscal year 2012, to 72 percent in fiscal year 2014.

- Similarly, the unobligated balances in WAPA's CROM account exceeded the level officials said was necessary to maintain certain activities and manage risk for those activities. Specifically, officials said that for two of the account's four use categories—the annual expense fund, and purchase power and wheeling—they set a target level of unobligated balances as contingency funds against unexpected events. For the annual expense fund, officials set a target to retain up to one quarter, or 25 percent, of the yearly budget requirement. For purchase power and wheeling, the target was equal to 25 percent of each region's maximum annual receipts.[40] WAPA officials explained that WAPA's mission to market hydroelectric power to multiple regions across the western United States can be affected by a number of environmental factors such as drought, animal breeding seasons, and flood prevention—all of which may affect the function of power generating dams and introduce financial risk. WAPA officials reported addressing these environmental factors and potential financial risks by carrying over unobligated funds. WAPA officials told us that while a carryover of up to or equal to 25 percent in unobligated balances is the current target for these two use categories, they are continuing to refine and evaluate the necessary level of unobligated balances. These officials added that they do not have a model or formula to estimate anticipated environmental factors, and how those factors would have a fiscal impact on the agency.

[40]For the other two account use categories—capital and reimbursables—officials said that the levels of unobligated balances varied across years. For capital, officials said that they use a 10-year capital investment plan to guide decisions on unobligated balances and that unobligated balances varied between 1 and 3 years of funding per project. For reimbursables, officials said that unobligated balances varied based on the number and amount of active contracts, which require funds to be held until expended.

For fiscal year 2014, unobligated balances for purchase power and wheeling fell below the 25 percent target. However, for the annual expense fund, unobligated balances were above this previously identified target. For the annual expense fund, officials estimated that the 25 percent target for the unobligated balance would be about $52 million for fiscal year 2014. The unobligated balance, however, for the annual expense fund was $92 million, or $40 million more than officials deemed necessary to avoid risk. According to WAPA officials, the annual expense fund's unobligated balance for fiscal year 2014 was higher than the predetermined target partially because they forecasted a 3 percent cost of living increase for personnel, which never occurred. WAPA officials reported that they developed a strategy in fiscal year 2013 for managing unobligated balances in the annual expense fund within the CROM account. According to officials, the draft strategy includes three alternatives for reducing unobligated balances in the annual expense fund, including one to decrease future budget requests and rely on existing unobligated balances to cover expenses. Officials said that this alternative was approved by WAPA senior management. However, officials acknowledged that this strategy would not be fully implemented until officials assess the outcomes of the strategy at the end of 2015. WAPA officials also reported that they are considering other strategies for reducing unobligated balances to required targets. As of October 2015, WAPA had not finalized or fully implemented a strategy to reduce unobligated balances.

Without a finalized and fully implemented strategy for reducing unobligated balances in excess of the agencies' predetermined targets for necessary balances for the identified programs or activities in these two accounts, Energy and State are missing opportunities to actively manage unobligated balances. Thus, they should consider whether actions such as reprogramming or transferring unobligated balances, reevaluating the necessary threshold of unobligated balances, or reducing funding requests in future appropriations for these accounts are appropriate courses of action for using their resources effectively.

Agency Officials Said Unobligated Balances May Result from, or Be Affected by, Events outside an Agency's Control

We have previously reported that the nature of some accounts may routinely cause unobligated balances that result from events outside of an agency's control.[41] Spending in some accounts may require processes to be completed by state, local, or private entities that receive funds from federal agencies. If these processes are not completed in a time frame necessary to obligate the funds in the current fiscal year, funds may remain unobligated at the end of the fiscal year and be carried over. These events are separate from the active estimation of the necessary size of unobligated balances described above. Nevertheless, as we have previously noted, it is important for agencies to understand how these events may influence the level of their balances.

For example, in EDA's EDAP account, officials said that many of their programs are driven from the bottom up in that funding cannot be obligated until potential recipients apply for grants. Specifically, EDA officials told us that unobligated balances for the Reshoring program have been carried over for 3 years while the program waits to receive applications from eligible public and private non-profit organizations. The Reshoring program, a subprogram under EDA's Economic Adjustment Assistance program, provides aid to businesses bringing jobs from overseas to the U.S. It received approximately $5 million each year for fiscal years 2013 and 2014. However, funds cannot be obligated until eligible recipients take actions outlined in programmatic rules and regulations and these funds were carried over as unobligated balances.

As we have previously reported, for agencies that rely on user fees for funding, economic factors may impact the amount of fees collected and contribute to unobligated balances.[42] For example, officials at USPTO said that an economic downturn can decrease USPTO's collected fees. This would create an imbalance with planned spending, and lead to a decrease in its operating reserve of unobligated balances.

[41] GAO-13-798.

[42] GAO-13-820.

Continuing resolution (CR): an appropriation act that provides budget authority for federal agencies, specific activities, or both to continue operation when Congress and the President have not completed action on the regular appropriations acts by the beginning of the fiscal year. A CR may be enacted for a full year, up to a specified date, or until regular appropriations are enacted. CRs have been passed in all fiscal years since 1997, the most recent fiscal year that all regular appropriations bills were completed on time. During this time, CRs funded an average of 5 months each fiscal year.

Source: GAO and the Congressional Research Service. | GAO-16-26

Uncertain budget environments can also affect the level of unobligated balances. As we reported in March 2013, under a continuing resolution (CR) agencies may have difficulty making long-term decisions due to uncertainty about, both, when they will receive their final appropriation, and what level of funding ultimately will be available.[43] Agencies are directed to operate at a conservative rate of spending while CRs are in effect, thus compressing the time period to obligate funds once final appropriations decisions are made. State officials managing the D&CP account said that they will limit the obligation of funds until full-year appropriations are made. Officials said that higher obligation rates occur in the third and fourth quarters of the fiscal year as the agency obligates money for procurement purposes. On the other hand, obligations for salaries and personnel expenses remain relatively consistent across quarters. Depending on a number of factors, including the timing of appropriations for the rest of the year, agencies may not be able to obligate funds before the end of the fiscal year and so will carryover unobligated funds. For example, although Energy has a goal for its EERE account to obligate all funds in the first year of appropriations, in fiscal year 2014 it carried over unobligated balances of $408 million. Energy officials said that the majority of the unobligated balance resulted from delays in issuing funding opportunity announcements associated with EERE's research and development programs in the areas of solar energy, bioenergy, advanced manufacturing, and water power. Officials said that they delayed the issuance of funding announcements during the 3-month continuing resolution of fiscal year 2014 following the government shutdown.

[43] GAO, *Budget Issues: Effects of Budget Uncertainty from Continuing Resolutions on Agency Operations*, GAO-13-464T (Washington, D.C.: Mar. 13, 2013).

Four of Eight Reviewed Accounts Used Unobligated Balances to Mitigate the Effects of Sequestration in Fiscal Year 2013

According to guidance for the fiscal year 2013 sequestration, OMB recommended early budget planning to minimize the impact on essential activities tied to an agency's mission. These activities include identifying opportunities for reprogramming or transferring funds (including unobligated balances and new budget authority), and reviewing grants and contracts for possible cost savings and reviewing reductions in personnel costs, such as hiring freezes.[44]

Unobligated balances that remain legally available from prior year appropriations could provide agencies with funding flexibility to respond to sequestration. Agency officials for four of the eight reviewed accounts—Energy's EERE and WAPA CROM accounts, State's D&CP account, and USPTO's S&E account—reported using unobligated balances to mitigate the effects of sequestration in fiscal year 2013.

- Using prior year unobligated funds, Energy officials managing the EERE account reported reprogramming approximately $80 million of the unobligated balances. Officials reported deobligating previously obligated amounts that had not yet been expended from various projects and activities. They then reobligated these amounts for other activities, such as the Weatherization Assistance Program, which funds weatherization of homes through grants to states, territories and some Native American lands.
- Officials managing Energy's WAPA CROM account reported using unobligated balances to mitigate the effects of sequestration by reprogramming approximately $4.7 million in funds within the account. Reductions based on sequestration resulted in lower than needed funds for construction projects related to WAPA's delivery of cost-based federal hydroelectric power and related services across the western United States. As a result, officials said they reprogrammed approximately $4.7 million from the program direction portion of the account (which supports activities such as personnel salaries) to mitigate the effect of sequestration on the construction portion of the account.
- At State officials reported that they reprogrammed $64 million in unobligated balances from non-Overseas Contingency Operation

[44]Both transferring—moving funds from one account to another—and reprogramming—moving funds within an account from one activity or program to another—may be applied to both unobligated balances and new budget authority. Some agencies may have opted to transfer or reprogram unobligated balances in accounts, in accordance with their particular statutory authorities and limitations.

(OCO) Iraq funding within the non-OCO portion of the D&CP account to about 40 other activities within the account. These activities included personnel salaries and benefits, facility operating and maintenance costs, travel, and other operational requirements.[45] They said this decision was made because there was a reduction of needs in Iraq due to lower than anticipated costs. This resulted in higher than necessary unobligated balances that could be better used for other activities. State officials said they notified OMB and Congress of this reprogramming.

Officials managing other accounts we reviewed—State's INCLE, Energy's DEC, and NASA's Science accounts—reported that no unobligated balances were used to mitigate the effects of sequestration.

- For example, for State's INCLE account, officials reported that Foreign Assistance funds, including INCLE and other accounts, were not reprogrammed to mitigate the effects of sequestration to maintain fairness among the countries that receive assistance. As we previously reported, officials said it would be easier to explain to foreign partners that these cuts to programs and commitments were mandated by U.S. law, and that they were being applied equally.[46]
- Officials managing Energy's DEC account reported that they reprogrammed funds from new budget authority for fiscal year 2013, and did not use unobligated balances from previous years.[47] Unlike the other seven accounts we reviewed, the DEC account is categorized as a defense account with its unobligated balances subject to sequestration.[48] Officials reported that $1 million was sequestered from fiscal year 2012 unobligated balances in the DEC account during the 2013 sequestration.

The funds in Commerce's EDAP account were not subject to sequestration. Therefore, unobligated balances did not need to be used

[45]Overseas Contingency Operations funding is a category of federal funding for purposes of supporting overseas operations, including wartime and humanitarian efforts such as the Syria crisis and the Iraq war.

[46]GAO-14-244.

[47]New budget authority is the amount of budget authority that first becomes available in a given fiscal year.

[48]The unobligated balances in defense accounts that remained available for spending were subject to sequestration in fiscal year 2013; the unobligated balances in nondefense accounts were exempt.

to mitigate its effects. As previously reported in our work on sequestration, the account's funding was not sequestered in fiscal year 2013 due to a reduction in funding for the account.[49]

Six of Eight Reviewed Accounts Used Unobligated Balances to Fund Activities during the October 2013 Government Shutdown

In the event of a government shutdown, OMB is responsible for ensuring agencies have taken the essential actions needed to manage the shutdown effectively. It does so by providing policy guidance and shutdown-related instructions. For example, OMB guidance to agencies for the October 2013 government shutdown permitted them to use unobligated funds to continue operations on activities.

Six of the eight accounts we reviewed—State's INCLE and D&CP, USPTO's S&E, and Energy's EERE, DEC and WAPA's CROM accounts—used unobligated balances to fund activities during the October 2013 government shutdown. For these selected accounts, agency officials reported that having no-year or multi-year funds made it possible to continue to carry out agency missions, such as allowing WAPA to continue providing electrical energy to customers and USPTO to continue to review patent and trademark applications.

- Officials at Energy reported that, in anticipation of the shutdown, agency officials reviewed program data to assess how much of the unobligated balances would be available for specific activities for the next fiscal year. This would allow the funds to be obligated during the shutdown to ensure operations could continue. This is consistent with our prior work on the government shutdown in which we reported that Energy reevaluated its budget priorities to have funds available to meet payroll and to help ensure that the highest priority activities, such as providing electrical power to customers, could continue during the shutdown.[50]
- Officials from USPTO's S&E and WAPA's CROM accounts described continuing normal activity for their business-like accounts. Both

[49]GAO-14-244. The Consolidated and Further Continuing Appropriations Act, 2013 reduced funding for the EDAP account by about $37 million—from $220 million to $183 million. Under federal law, if sequestration goes into effect when there is only a part-year budget, when a full-year budget is enacted, any account receiving a reduction from the part-year budget to the full-year budget equal to or more than the calculated sequestered amount will not be reduced any further. 2 U.S.C § 903(f)(2).

[50]GAO-15-86.

accounts receive either all or most of their funding from customer receipts. All appropriated funds for USPTO's S&E account come from receipts, while approximately 90 percent of appropriated funds for CROM come from customer advances and receipts for services such as construction improvements and providing electrical energy to customers from federally owned dams and other infrastructure. For these accounts, agency officials reported that they were able to use unobligated balances to continue to operate and provide services directly to their customers during the shutdown.

- Two of our reviewed accounts, NASA's Science account and EDA's EDAP account, did not use unobligated balances to continue to fund activities or operations. For example, EDA officials reported that account balances are specifically appropriated to support grant funding, and, therefore, could not fund salaries and expenses for EDA employees.

Conclusions

Given the significant events during the last 2 years—sequestration and the government shutdown—and the potential for budget uncertainties in the future, effective management of unobligated balances is critical for agencies to ensure the most efficient use of resources and to effectively respond to budget uncertainties. Understanding the justification for or impact of unobligated balances requires a close look at individual accounts and agencies, and how they manage unobligated balances. We found that officials generally managed unobligated balances effectively by tracking balances, having a process to estimate balances, and identifying necessary balances to carryover each year to fulfill their missions. However, there are opportunities for improvement in the way agencies manage unobligated balances in two of the reviewed accounts. Specifically, agency officials managing Energy's WAPA CROM account and State's CBSP within the D&CP account are not taking sufficient steps to ensure that the accounts only carryover the necessary unobligated balances into the next year. Without proper management of unobligated balances, opportunities for budgetary savings or funding activities may be missed.

Recommendations for Executive Action

To ensure effective use of federal funds and management of unobligated balances, the Secretary of Energy should direct WAPA's Administrator and Chief Executive Officer to finalize and implement a strategy to reduce excess unobligated balances within the CROM account. Similarly, the Secretary of State should direct the Assistant Secretary of State for Consular Affairs to finalize Consular Affair's strategy for the management of its unobligated balances, and to continue efforts to reduce excess unobligated balances allocated to CBSP in the D&CP account. For both the CROM and D&CP accounts, as appropriate, these strategies may include

- reprogramming or transferring funds to other activities, as allowed by appropriation law,
- reevaluating fees to ensure fee revenues match program needs, or
- reducing budget authority requests in future years.

Agency Comments

We provided a draft of this report to the Secretaries of Commerce, Energy, and State; and the Administrator of NASA for comment. Energy and State concurred with our recommendations and provided written comments that are reproduced in appendixes IV and V, respectively. In its letter, Energy said that it agrees with the need to avoid excess unobligated balances and reported that WAPA is finalizing a plan to better manage unobligated balances in the CROM account.

After receiving the draft report, officials from State discussed our findings, conclusions, and recommendation with us and provided additional information on unobligated balances. Based on these discussions and information provided, we made minor revisions to the body of the report, including the recommendation, to reflect actions taken by Bureau of Consular Affairs officials to reduce unobligated balances. In its letter, while State concurred with the revised recommendation, officials noted that they disagreed with the use of the term "excess" to describe the unobligated balances in CBSP. State said it will continue efforts to better align unobligated balances and finalize the plan for CBSP to maintain balances at optimal levels. We maintain that the unobligated balances for CBSP are "excess" because they are above the agency's own target of 25 percent of projected program expenditures for the next year. We received technical comments from Commerce, Energy, and State, which we have incorporated into the final draft where appropriate. NASA did not have any comments on the draft report.

We are sending copies of this report to the appropriate congressional committees; the Secretaries of Commerce, Energy, and State; the Administrator of NASA; 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 Susan J. Irving at (202) 512-6806 or irvings@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 VII.

Sincerely yours,

Susan J. Irving
Director for Federal Budget Analysis
Strategic Issues

Appendix I: Objective, Scope, and Methodology

Our objective was to evaluate how selected agencies managed and used unobligated balances in reviewed accounts, focusing on fiscal years 2012 through 2014, which covers the fiscal year 2013 sequestration and fiscal year 2014 government shutdown. In addition, we analyzed the size and composition of unexpended balances in the federal budget from fiscal years 2012 through 2014, and compared those balances to previously reported balances for fiscal years 2007 through 2012.[1] To address this objective, we examined selected agencies' management of unobligated balances in reviewed accounts both during fiscal years 2012 through 2014, and the current management of the reviewed accounts. We focused on unobligated balances because our prior work has shown that agencies used unobligated balances to offset reductions from the 2013 sequestration and the government shutdown.[2] For this review, we selected a nongeneralizable sample of four agencies—the National Aeronautics and Space Administration (NASA) and the Departments of State (State), Commerce (Commerce) and Energy (Energy).[3] To select these four agencies, we identified all budget accounts having unobligated balances in fiscal years 2012, 2013, or 2014 in the Office of Management and Budget (OMB) MAX database.[4] We then reviewed the data for each of the 24 Chief Financial Officer Act agencies, as well as agency plans to use unobligated balances to offset sequestration, according to our previous work on the 2013 sequestration.[5] We selected the four agencies

[1]GAO, *Budget Issues: Key Questions to Consider When Evaluating Balances in Federal Accounts,* GAO-13-798 (Washington, D.C.: Sept. 30, 2013).

[2]GAO, *2013 Government Shutdown: Three Departments Reported Varying Degrees of Impacts on Operations, Grants, and Contracts*, GAO-15-86 (Washington, D.C.: Oct. 15, 2014); *2013 Sequestration: Agencies Reduced Some Services and Investments, While Taking Certain Actions to Mitigate Effects*, GAO-14-244 (Washington, D.C.: Mar. 6, 2014).

[3]We excluded the Department of Defense (DOD) from our review because of ongoing work on sequestration in DOD, which resulted in a report issued during this review. See GAO, *Sequestration: Documenting and Assessing Lessons Learned Would Assist DOD in Planning for Future Budget Uncertainty,* GAO-15-470 (Washington, D.C.: May 27, 2015).

[4]OMB MAX database is a computer system used to collect and process most of the information required for preparing the budget. OMB states that it uses MAX to collect, validate, analyze, model, collaborate with agencies on, and publish information relating to its government-wide management and budgeting activities. According to OMB, perhaps the most visible end product of the MAX system is the "Budget of the United States Government," also known as the President's Budget, which is to be produced no later than the first Monday in February of each year.

[5]GAO-14-244.

based upon whether they had accounts with significant unobligated balances, as well as whether they used or were planning to use reprogramming of funds, transfers among accounts, and/or multi-year funding to mitigate the effects of sequestration.

Within the four selected agencies, we identified a nongeneralizable sample of eight accounts. To select the eight accounts, we reviewed OMB MAX data for every budget account in the four agencies for fiscal years 2012 through 2014. In 2013, the most recent end of year data available at that time of our initial selection, these four agencies had a total of 157 budget accounts. From these accounts, we selected eight accounts for in-depth review based on whether the agencies reprogrammed funds within accounts, transferred funds among accounts, and/or used multi-year funds to mitigate the effects of the 2013 sequestration. We also selected accounts that had particularly large unobligated balances or significant changes in unobligated balances during fiscal years 2012 through 2014. We selected only accounts with discretionary appropriations and split authority—a combination of discretionary appropriations and mandatory budget authority—and excluded mandatory accounts from our review to avoid duplication with our ongoing review of mandatory accounts. See table 4 for a list of accounts selected.

Table 4: Select Budget Accounts and Unexpired, Unobligated Balances at Four Agencies, End of Fiscal Years 2012 through 2014

		Unexpired, Unobligated Balance, End of Fiscal Year (dollars in millions)			
Agency Name	**Account Name (BEA category)**[a]	**2012**	**2013**	**2014**	**Percentage Change from 2012 to 2014**
Department of Commerce	Economic Development Assistance Programs, Economic Development Administration (Discretionary)	185	51	65	-65
	Salaries and Expenses, US Patent and Trademark Office (Discretionary)	238	442	503	+111
Department of Energy	Construction, Rehabilitation, Operation and Maintenance, Western Area Power Administration (Split)	369	496	556	+51
	Defense Environmental Cleanup (Discretionary)	80	32	60	-25
	Energy Efficiency and Renewable Energy (Discretionary)	335	119	408	+22

Agency Name	Account Name (BEA category)[a]	Unexpired, Unobligated Balance, End of Fiscal Year (dollars in millions) 2012	2013	2014	Percentage Change from 2012 to 2014
National Aeronautics and Space Administration	Science (Discretionary)	64	172	275	+330
Department of State	Diplomatic and Consular Programs (Split)	4,421	4,446	2,525	-43
	International Narcotics Control and Law Enforcement (Discretionary)	1,422	1,888	1,217	-14

Source: GAO analysis of data from the President's Budget Appendixes. | GAO-16-26

[a]The Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), as amended, defines the terms direct spending, which is also known as mandatory spending, and discretionary appropriations. OMB applies these definitions for budget enforcement purposes prescribed by law. These categories of spending are commonly referred to as BEA (Budget Enforcement Act) categories, after the legislation that incorporated the definitions into BBEDCA. Split accounts contain both mandatory budget authority and discretionary appropriations.

To evaluate how the selected agencies managed and used unobligated balances in the reviewed accounts, we reviewed agency budget reports and guidance, congressional budget justifications, and congressional notifications. We interviewed agency officials at the department (or agency), the bureau, and the account levels about account management policy and practice, especially with regard to unobligated balances, using the four key questions from our prior work as criteria. To analyze agency budget data from fiscal years 2012 through 2014, we asked agency officials to explain the size of the balances, any balance changes, how and whether balances were used to mitigate the effects of the 2013 sequestration and the government shutdown, discuss any expired funds, and whether any transfers or reprogramming occurred during this time. We discussed with agencies the four key questions described earlier from our prior work, including the mission and goals of programs supporting the accounts, sources and fiscal characteristics of the funding, factors that affect the size and composition of unobligated balances, and agency estimation and management of balances.

To describe unexpended balances—including unobligated balances—in appendix III, we analyzed data on government-wide unexpended balances across all federal budget accounts for fiscal years 2007 through 2014. For our analysis, we obtained government-wide data on obligated and unobligated balances. We queried OMB's MAX database for data by account on obligated and unobligated balances, including budget function, and composition of the account (e.g., mandatory, discretionary, split), for fiscal years 2012 through 2014. We found the data to be sufficiently reliable for the purpose of our report.[6] We also drew from data reported in our previous report on unexpended balances from fiscal years 2007 through 2012 to add context to the new analysis.[7] Although we did not attempt to identify causal links, two significant events occurred during fiscal years 2013 through 2014—sequestration and the government shutdown—which may have affected unexpended balances, possibly causing agencies to use unobligated balances to mitigate effects of the budget events.

We conducted our review from December 2014 to October 2015 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.

[6]To determine the reliability of the data, the team cross-checked the MAX data against the numbers reported in the corresponding President's Budget Appendices. Data reported in MAX and the Budget Appendix are subject to rigorous review and checks through OMB to help ensure consistency of the data. Accordingly, such data were considered reliable for the purpose of this report.

[7]GAO-13-798.

Appendix II: Key Budget Questions Applied to Reviewed Budget Accounts

In this appendix, we summarized how the selected agencies are managing and using unobligated balances in the eight reviewed accounts according to the four key questions from our prior work.[1]

- What Mission and Goals Is the Account or Program Supporting?
- What are the Sources and Fiscal Characteristics of the Funding?
- What Factors Affect the Size or Composition of the Carryover Balance?
- How Does the Agency Estimate and Manage Carryover Balances?

We also included analysis of the ways agencies used unobligated balances to mitigate the effects of the 2013 sequestration and government shutdown. Each template includes a graphic which shows the unobligated balance as a percentage of budgetary resources.[2]

[1] GAO-13-798. While the key questions refer to carryover—or unexpended—balances, for the purposes of this review, we focused analysis on the unobligated portion of unexpended balances.

[2] For this analysis, budgetary resources are the sum of new obligations incurred against current budget authority and unobligated balances. Unless otherwise specified, unobligated balances reported are derived from the "Unexpired unobligated balance, end of year" line associated with the budget account in the Appendix to the President's Budget.

Department of Commerce

Economic Development Administration (EDA)

Overview of Account

Mission and Goals of Account

With funds from the EDAP account, EDA provides grants through several programs, including Public Works and Trade Adjustment Assistance. These investments are intended to generate or retain jobs, attract new industry and private sector investment, and encourage business expansion. They are also intended to serve as a backstop to sudden and severe economic impacts. These investments assist communities characterized by substantial and persistent unemployment levels, low income and population growth, loss of jobs, out-migration, and long-term economic deterioration.

Account Name: Economic Development Assistance Programs (EDAP)

National Priority: 452 (Area and regional development)

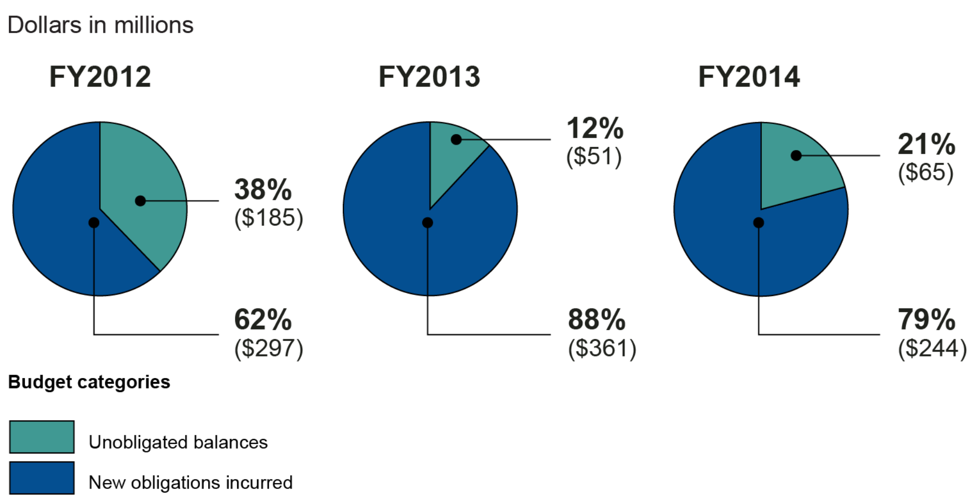
Unobligated Balances

Factors Affecting the Size or Composition of Unobligated Balances

EDA officials said their goal is to obligate all funds in the year that they are appropriated. However, several circumstances have led to unobligated balances remaining at the end of fiscal years 2012 through 2014. These included the fact that the rate of obligation for some grants is dependent on the recipient taking action, which is sometimes delayed. Disaster-specific appropriations that may no longer be needed may also result in an unobligated balance. In addition, because the agency waits for full-year appropriations before initiating grant cycles, continuing resolutions delay obligation to recipients.

EDA officials attributed the majority of the $185 million unobligated balance at the end of fiscal year 2012 to the additional $200 million appropriated by Congress in fiscal year 2012. The latter amount funded disaster relief efforts in areas with major disaster designations in 2011, including areas affected by Hurricane Irene. These funds could not be obligated until affected communities applied for grants, which, according to EDA officials, generally occurred after fiscal year 2012, resulting in unobligated balances. Unobligated balances for the account decreased in fiscal year 2013, followed by a slight increase in fiscal year 2014.

Figure 3: Unobligated Balances as a Percent of Budgetary Resources in the Economic Development and Assistance Programs Account, Fiscal Years 2012-2014



Source: GAO analysis of the President's Budget Appendix, fiscal years 2014 through 2016. | GAO-16-26

Agency Estimation and Management of Unobligated Balances

The EDA budget office produces and issues a weekly report to all regions and headquarters programs; this report provides an update of unobligated, obligated, and expended funds, as well as information on expected

Department of Commerce

Economic Development Administration (EDA)

Overview of Account (continued)

Sources of Funding

EDAP is funded through annual appropriations. Funds in the account are discretionary.

Characteristics of Funding

Funds are available until expended.

Account Name: Economic Development Assistance Programs (EDAP)

National Priority: 452 (Area and regional development)

Unobligated Balances (continued)

time frames for grant awards. Officials reported that, as part of this process, EDA estimates the likelihood that unobligated funds will be obligated. Unobligated balance estimates are revised throughout the year, and a final estimate is produced at the end of the fiscal year.

Agency Use of Unobligated Balances to Mitigate the Effects of Fiscal Year 2013 Sequestration or the Fiscal Year 2014 Government Shutdown

The account's funding was not sequestered in fiscal year 2013 due to a reduction in account funding during the fiscal year, which was a result of the Consolidated and Further Continuing Appropriations Act of 2013. According to EDA officials, since the EDAP account supports grant activities, not salaries and expenses, unobligated balances in the account could not be used to pay operating costs, and therefore could not be used to offset the government shutdown.

Department of Commerce

United States Patent and Trademark Office (USPTO)

Overview of Account

Mission and Goals of Account

USPTO issues patents and registers trademarks, which provide protection to inventors and businesses for their inventions and their corporate and product identifications. USPTO also advises other U.S. government agencies on intellectual property issues and promotes stronger intellectual property protections in other countries. Funds collected for patents are used for examining patent applications, granting patents, and improving patent practices worldwide. Funds collected for trademarks provide resources for examining trademark applications, registering trademarks, and improving trademark practices worldwide. The largest portion of the account provides compensation and benefits for examiners and staff; the remainder is for equipment and other expenses.

Appendix II

Account Name: Salaries and Expenses (S&E)

National Priority: 376 (Other advancement of commerce)

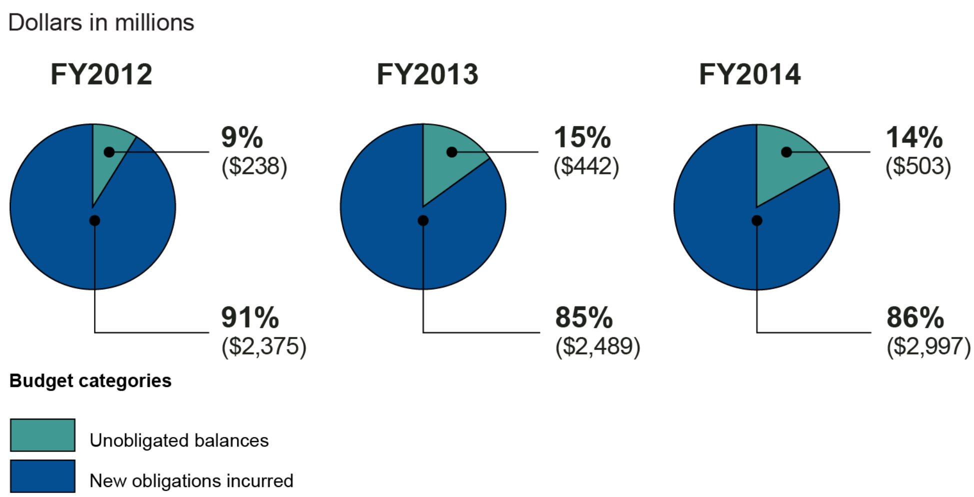
Unobligated Balances

Factors Affecting the Size or Composition of Unobligated Balances

The major factors affecting the size of USPTO's unobligated balance are the varying costs of agency operations and patent and trademark fee operations, which are sensitive to changes in the economy. Changes in the economy may also affect the volume of patent and trademark applications. The volume of application fees received may also affect the size of unobligated balances. According to USPTO officials, fees are collected and obligated throughout the year as they are earned for activities such as paying salaries and expenses. From 2012 through 2014, the size of the unobligated balance steadily increased. Officials said that unobligated balances are necessary to respond to unanticipated events, such as a continuing resolution or an economic downturn resulting in a reduction of applications.

Fees collected and held in the account are available only as appropriated by Congress. Beginning in 2012, fees collected above the amount appropriated in the S&E account are transferred to the Patent and Trademark Fee Reserve Fund.

Figure 4: Unobligated Balances as a Percent of Budgetary Resources in the United States Patent and Trademark Office Salaries and Expenses Account, Fiscal Years 2012-2014



Source: GAO analysis of the President's Budget Appendix, fiscal years 2014 through 2016. | GAO-16-26

Agency Estimation and Management of Unobligated Balances

USPTO officials reported that while receipt collections can be fairly volatile for both the patent side and trademark side of business, estimates are derived from historical trends as well as forward-looking indicators, such as global and national economic forecasts. According to a USPTO official, it is important to retain some unobligated balances in the form of operating reserve funds to mitigate risks for business operations, such as government-related or economic impacts on revenue generation.

Department of Commerce

United States Patent and Trademark Office (USPTO)

Overview of Account (continued)

Sources of Funding

USPTO's S&E account is funded through fees that are paid to obtain and maintain patents and register trademarks. Patent fees must be used only for patents, and trademark fees must be used only for trademarks. Congress enacts an annual appropriation for USPTO; however, the appropriation is offset by fee collections. Funds in the account are discretionary.

Characteristics of Funding

Since passage of the America Invents Act in 2011, USPTO has set its own patent and trademark fee schedule by regulation. Appropriations are available until expended.

Account Name: Salaries and Expenses (S&E)

National Priority: 376 (Other advancement of commerce)

Unobligated Balances (continued)

On September 25, 2015, USPTO finalized a policy for estimating and managing operating reserves. The policy includes a methodology for determining the minimum and optimal level of reserves for both patent and trademark operations. In April 2012, we recommended that the Secretary of Commerce direct the USPTO Director to finalize an operating reserve policy, including the expected level of reserves, to smooth the impact of economic downturns on operations and to ensure its use aligns with agency goals.[1] The finalized policy was developed in response to our recommendation. The policy requires monthly monitoring of the operating reserve balance compared to the established minimum level, among other things.

Agency Use of Unobligated Balances to Mitigate the Effects of Fiscal Year 2013 Sequestration or the Fiscal Year 2014 Government Shutdown

USPTO officials reported that unobligated balances were used to mitigate the effects of sequestration; however, the agency's spending during sequestration was cautious given the high variability in patent fee collections in 2013 resulting from the implementation of a new patent fee schedule in March 2013. USPTO's unobligated balance grew in fiscal year 2013 as a result of stronger-than-expected collections late in the fiscal year. According to a USPTO official, USPTO decided not to reprogram funds within its S&E account to mitigate the effects of sequestration. Prior to the government shutdown, USPTO held discussions with the Office of Management and Budget and received permission to continue operating with fee collections from the preceding year that had not been obligated. As a result, USPTO did not shut down during the lapse in appropriations.

[1]GAO, *Patent and Trademark Office: New User Fee Design Presents Opportunities to Build on Transparency and Communication Success*, GAO-12-514R (Washington, D.C.: Apr. 25, 2012).

Department of Energy

Western Area Power Administration (WAPA)

Overview of Account

Mission and Goals of Account

WAPA, which receives funds from the CROM account, markets electric power in 15 central and western states from federally-owned power plants operated primarily by the Bureau of Reclamation, the Army Corps of Engineers, and the International Boundary and Water Commission. WAPA serves a diverse group of nearly 700 wholesale customers, including municipalities, cooperatives, public utility and irrigation districts, federal and state agencies, and Native American tribes. In turn, WAPA's customers provide service to millions of retail consumers.

WAPA's CROM account is composed of four sub-programs: (1) Operation and Maintenance; (2) Construction and Rehabilitation; (3) Purchase Power and Wheeling; and (4) Program Direction. Officials also reported that the account supports four use categories: (1) annual expense fund; (2) capital; (3) purchase power and wheeling; and (4) reimbursables (or advances tied to specific projects contracted with customers). There is not a one-to-one match between the sub-programs and use categories as some categories apply to more than one sub-program.

Account Name: Construction, Rehabilitation, Operation and Maintenance (CROM)

National Priority: 271 (Energy supply)

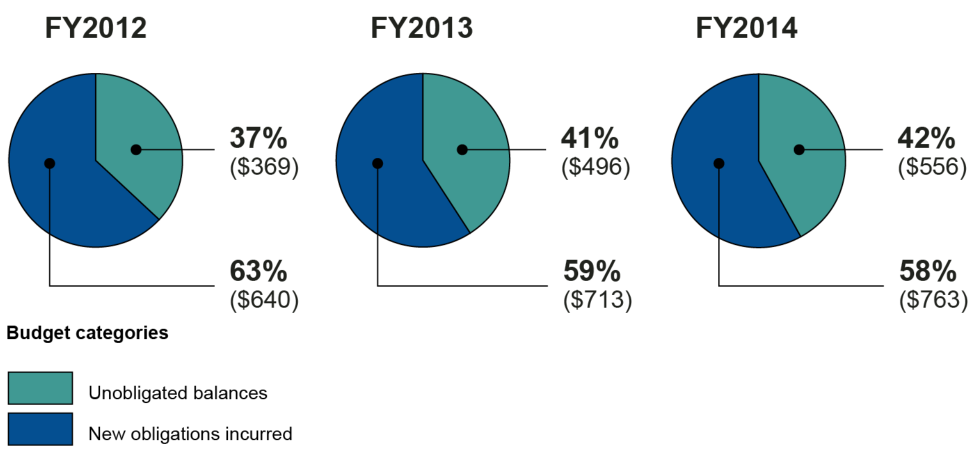
Unobligated Balances

Factors Affecting the Size or Composition of Unobligated Balances

According to officials, WAPA has an unobligated balance to respond to unforeseen contingencies, such as droughts or economic downturns which may lead to lagging power sales or unusually high purchases of power, or to carry forward funds designated for specific project needs that were not completed as anticipated during the budget year. The amount of unobligated balances varies by the four use categories. Among the use categories, WAPA officials attributed approximately 70 percent of the fiscal year 2014 unobligated balance of $556 million to advances for specific projects contracted with customers. According to officials, these projects are subject to external factors, such as land disputes, which may delay projects and result in unobligated balances. Officials also reported that these advances drove the increases in unobligated balances from fiscal years 2012 through 2014.

Figure 5: Unobligated Balances as a Percent of Budgetary Resources in Western Area Power Administration's Construction, Rehabilitation, Operation and Maintenance Account, Fiscal Years 2012-2014

Dollars in millions



Source: GAO analysis of the President's Budget Appendix, fiscal years 2014 through 2016. | GAO-16-26

For two use categories, the annual expense fund and purchase power and wheeling, WAPA officials said that they set a target level of unobligated balances to maintain as contingency funds against unexpected events. For the annual expense fund officials set a target to retain up to one quarter, or 25 percent, of the yearly budget requirement. For purchase power and wheeling, the target was equal to 25 percent of each region's maximum annual receipts. The other two categories also may retain balances; however, officials did not have a specific goal for unobligated balances for these use categories. Instead, they reported that unobligated balances will vary depending on the need to retain funds for things such as multi-year construction projects.

Department of Energy

Western Area Power Administration (WAPA)

Overview of Account (continued)

Sources of Funding

WAPA's CROM account receives an annual appropriation derived in part from a special fund account belonging to the Department of Interior's Bureau of Reclamation—the Reclamation Fund. WAPA also has offsetting collections authority to obligate certain collections from businesslike operations (described above) without further congressional approval. WAPA's CROM account receives both discretionary and mandatory funds.

Characteristics of Funding

WAPA's appropriations, including offsetting collections, are available until expended.

Account Name: Construction, Rehabilitation, Operation and Maintenance (CROM)

National Priority: 271 (Energy supply)

Unobligated Balances (continued)

For fiscal year 2014, unobligated balances for purchase power and wheeling fell below the 25 percent target. For the annual expense fund, officials estimated that the 25 percent target for the unobligated balance would be about $52 million for fiscal year 2014. However, the unobligated balance for the annual expense fund was $92 million, or $40 million more than officials deemed necessary to avoid risk. According to WAPA officials, the annual expense fund unobligated balance for fiscal year 2014 was higher than the established threshold partially because they forecasted a 3 percent cost of living increase for personnel, which never occurred. WAPA officials reported that they developed a strategy in fiscal year 2013 for managing unobligated balances in the annual expense fund within the CROM account. According to officials, the draft strategy includes three alternatives for reducing unobligated balances in the annual expense fund, including one to decrease future budget requests and rely on existing unobligated balances to cover expenses. However, officials acknowledged that this strategy would not be fully implemented until officials assess the strategy's outcomes at the end of 2015.

Agency Estimation and Management of Unobligated Balances

According to officials, twice a year, WAPA managers obtain information from regional project directors on actual and planned obligations through the end of the fiscal year. They also collect information on any projects which will not be completed at year-end, and estimate the resulting unobligated balances.

Agency Use of Unobligated Balances to Mitigate the Effects of Fiscal Year 2013 Sequestration or the Fiscal Year 2014 Government Shutdown

WAPA officials reported that sequestration reductions resulted in lower than necessary funds in the CROM account for construction projects. Therefore, officials decided to reprogram approximately $4.7 million in unobligated balances within the CROM account to mitigate the effect of sequestration on the construction portion of the account. According to WAPA officials, WAPA used unobligated funds in the CROM account to continue operations during the government shutdown.

Department of Energy

Office of Environmental Management (EM)

Overview of Account

Mission and Goals of Account

The mission of EM and the DEC account is to complete the safe cleanup of sites where the Department of Energy carried out defense-related nuclear research and production activities. Those activities resulted in radioactive, hazardous, and mixed-waste contamination requiring remediation, stabilization, decontamination, and decommissioning, or some other type of cleanup action.

EM aims to reduce risk and environmental liability while working towards its goals. For example, EM remediates soil and ground water contaminated with the radioactive and hazardous constituents, secures and stores nuclear material in a stable, safe configuration in secure locations to protect national security, and constructs and operates facilities to treat radioactive liquid tank waste.

Account Name: Defense Environmental Cleanup (DEC)

National Priority: 053 (Atomic energy defense activities)

Unobligated Balances

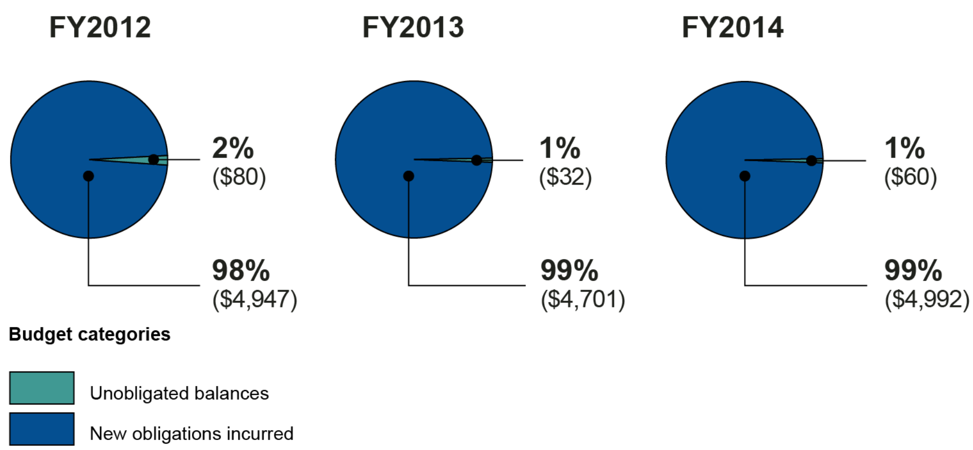
Factors Affecting the Size or Composition of Unobligated Balances

According to EM officials, a majority of the unobligated balances in fiscal years 2012 through 2014 were directly related to project funds that were not spent or reprogrammed, and had to be placed in reserve. For example, officials reported that an unobligated balance of $12.2 million in the account for each fiscal year from 2012 to 2014 was associated with old construction projects at Savannah River that had been completed and closed out. According to EM, in fiscal year 2014, an unobligated balance of $1.1 million supported the Natural Resource Damages Assessment contracts for the Los Alamos National Laboratory. These contracts could not be set up before the year-end, thus delaying obligation and resulting in an unobligated balance.

Unobligated balances in the DEC account decreased in 2013 and increased again in 2014. Officials reported that the decrease in fiscal year 2013 was due, in part, to sequestration. They also said that the increase in fiscal year 2014 was influenced by the Office of Management and Budget directing EM to set aside funds to be used for new hires in early fiscal year 2015.

Figure 6: Unobligated Balances as a Percent of Budgetary Resources in the Defense Environmental Cleanup Account, Fiscal Years 2012-2014

Dollars in millions



Source: GAO analysis of the President's Budget Appendix, fiscal years 2014 through 2016. | GAO-16-26

Agency Estimation and Management of Unobligated Balances

According to EM officials, field budget offices—which are responsible for obligating funds and estimating unobligated balances—submit a spend plan to EM management containing estimated costs and obligations for each fiscal year. EM's budget office compares actual and estimated

Department of Energy

Office of Environmental Management (EM)

Account Name: Defense Environmental Cleanup (DEC)

National Priority: 053 (Atomic energy defense activities)

Overview of Account (continued)

Sources of Funding

DEC is funded through annual appropriations and all funds are discretionary.

Characteristics of Funding

Most of DEC's appropriation is available until expended; a small portion is available for obligation in the first 2 years for program direction, which funds the federal workforce responsible for the overall direction and administrative support of the EM program.

Unobligated Balances (continued)

spending and obligations each month; if estimated and actual spending vary considerably, the budget office reviews plan execution with field officials in June or July.

Agency Use of Unobligated Balances to Mitigate the Effects of Fiscal Year 2013 Sequestration or the Fiscal Year 2014 Government Shutdown

According to EM officials, prior year unobligated balances were not used to mitigate the effects of sequestration, but new budget authority was reprogrammed from current year appropriations. Sequestration affected the size of DEC's unobligated balances because the DEC account is classified under the national defense budget function and unobligated balances that remained available for spending in accounts within the defense spending category were subject to sequestration. For the 2013 sequestration, EM officials reported that $1 million was sequestered from fiscal year 2012 unobligated balances in the DEC account.

EM officials said they used unobligated balances from the DEC account to mitigate the effects of the government shutdown. EM was able to avoid total shutdown by using unobligated program direction funds under the guidance of the Department of Energy Chief Financial Officer to pay staff and avoid furloughs. Officials reported using obligated balances to fund ongoing projects, with the exception of Los Alamos National Laboratory (where operations were suspended), which receives funds from the DEC account.

Department of Energy

Office of Energy Efficiency and Renewable Energy

Overview of Account

Mission and Goals of Account

The Office of Energy Efficiency and Renewable Energy, which receives funds from the EERE account, is the federal government's primary clean energy technology organization. This office works with many innovators and businesses to support applied research, development, demonstration, and deployment activities in sustainable transportation, renewable power, and end-use energy efficiency. It implements a range of strategies aimed at reducing reliance on oil, creating jobs, and reducing pollution.

The EERE account funds clean energy technology through competitive funding opportunities, cooperative research and development agreements, formula grants for state and local governments, procurements, and technology investment agreements.

Account Name: Energy Efficiency and Renewable Energy (EERE)

National Priority: 270 (Energy)

Unobligated Balances

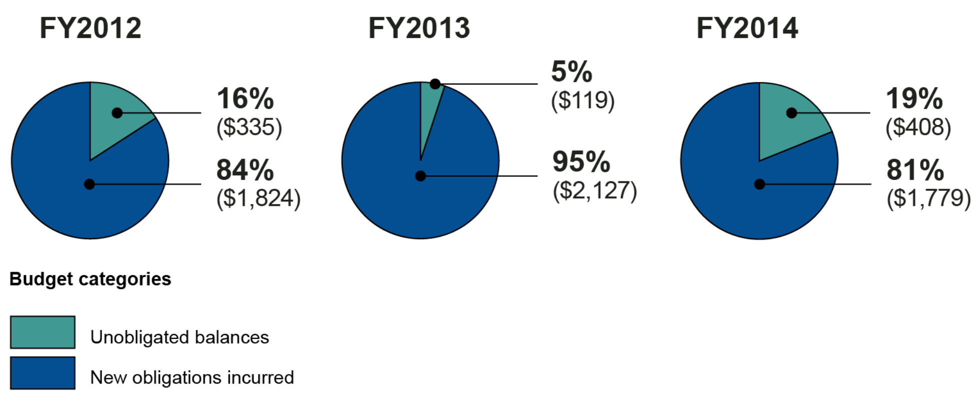
Factors Affecting the Size or Composition of Unobligated Balances

Because the EERE account funds clean energy technology through funding opportunities such as grants and agreements, the timing of the awards cycle affects the obligation of funds. According to Energy officials managing the EERE account, a delay in final appropriations (such as a continuing resolution) will result in a delay in the award cycle. The award cycle may then cross fiscal years, resulting in unobligated balances. Officials also reported that the Office of Management and Budget's apportionment of EERE funds for 30-day periods at a time during a continuing resolution also leads to delays in EERE obligations.

In fiscal year 2012, delays in the award cycle contributed to a large proportion of the year-end unobligated balance of $335 million. In fiscal year 2013, despite a 6-month delay in receiving a full-year appropriation, officials said they streamlined the award process to allow for a more efficient disbursement of funds and a reduction of the year-end unobligated balance to $119 million. However, in fiscal year 2014 a 3-month continuing resolution following the government shutdown caused officials to delay the initiation of that year's award cycle and unobligated balances increased to $408 million at year-end.

Figure 7: Unobligated Balances as a Percent of Budgetary Resources in the Energy Efficiency and Renewable Energy Account, Fiscal Years 2012-2014

Dollars in millions



Source: GAO analysis of the President's Budget Appendix, fiscal years 2014 through 2016. | GAO-16-26

Agency Estimation and Management of Unobligated Balances

Energy officials said that their goal in managing EERE funds is to obligate all funds within the first fiscal year of availability. However, as discussed above, this does not usually occur. When unobligated balances do occur, EERE managers will request permission from the agency Chief Financial Officer to allow reallotment of the funds in the following fiscal year.

Department of Energy

Office of Energy Efficiency and Renewable Energy

Overview of Account (continued)

Sources of Funding

EERE is funded through annual appropriations and all funds in the account are discretionary.

Characteristics of Funding

Most of EERE's appropriation is available until expended, but a small portion is available for obligation in the first 2 years for program direction, which supports the EERE workforce.

Account Name: Energy Efficiency and Renewable Energy (EERE)

National Priority: 270 (Energy)

Unobligated Balances (continued)

The Office of Energy Efficiency and Renewable Energy monitors unobligated balances monthly, with a more thorough analysis at the end of the fiscal year. According to officials, there is no set formula for estimating unobligated balances in future years; project managers are asked in the fourth quarter for their expected level of obligations which help the agency estimate current year unobligated balances.

Agency Use of Unobligated Balances to Mitigate the Effects of Fiscal Year 2013 Sequestration or the Fiscal Year 2014 Government Shutdown

To mitigate the effects of sequestration, Energy officials managing the EERE account reported reprogramming prior year unobligated balances and recovered prior year unpaid obligations from various projects and activities to other activities, such as the Weatherization Assistance Program. This program funds the weatherization of homes through grants to states, territories, and some Indian tribes. During the government shutdown, according to officials, the office used no-year funds from the EERE account to continue projects and, under the guidance of the Energy Chief Financial Officer, used unobligated program direction funds to pay staff and avoid furloughs.

National Aeronautics and Space Administration (NASA)

Overview of Account

Mission and Goals of Account

The Science account provides funds for NASA's science mission, which is composed of the agency's Earth and space science programs: Earth Science, Planetary Science, Heliophysics, the James Webb Space Telescope, and Astrophysics. The Science Mission Directorate manages these programs, which seek to answer fundamental questions concerning the ways in which Earth's climate is changing; the comparison of Earth with other planets in the solar system and around other stars; the connections among the Sun, Earth, and heliosphere; and the origin and evolution of planetary systems, the galaxy, and the universe, including the origin and distribution of life in the universe.

Account Name: Science

National Priority: 252 (Space flight, research, and supporting activities)

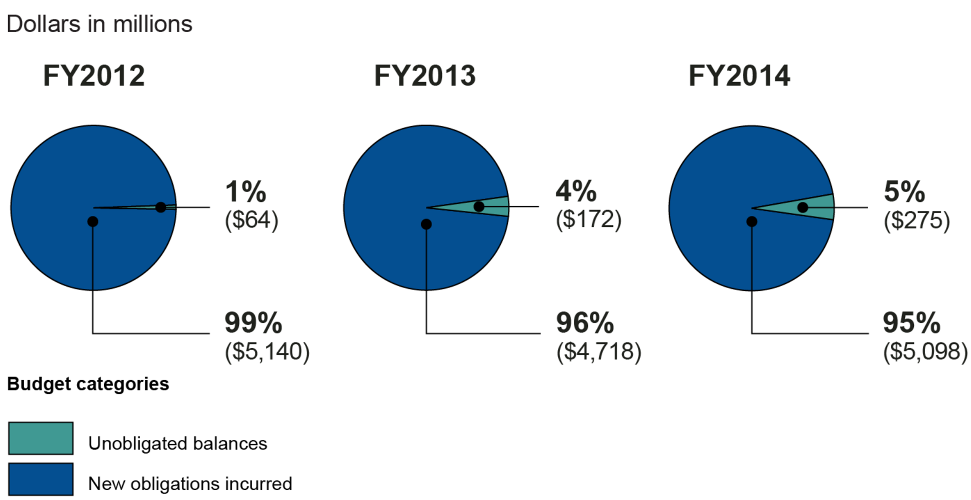
Unobligated Balances

Factors Affecting the Size or Composition of Unobligated Balances

Unobligated balances in the Science account steadily increased from fiscal years 2012 through 2014. NASA officials attributed the growth in unobligated balances to challenges in implementing projects—which resulted in delayed obligations. For example, for fiscal year 2014, $68 million of the $275 million in unobligated balances was for the Earth Venture project. NASA officials attributed delayed consideration of contract proposals, contract awards, and obligation of funds for this project to the government shutdown at the beginning of the fiscal year. Seven other projects accounted for $113 million in unobligated funds in fiscal year 2014. For example, appropriations for the Europa mission specified a funding increase to facilitate completing the project, but an unobligated balance occurred when the project was delayed pending a progress review.

Despite the 2014 increase in unobligated balances described above, unobligated balances remained a small proportion of budgetary resources for the Science account from fiscal years 2012 through 2014.

Figure 8: Unobligated Balances as a Percent of Budgetary Resources in NASA's Science Account, Fiscal Years 2012-2014



Source: GAO analysis of the President's Budget Appendix, fiscal years 2014 through 2016. | GAO-16-26

Agency Estimation and Management of Unobligated Balances

At the start of the fiscal year, agency management asks each mission director to develop a month-by-month plan for obligating funds. Unobligated balances are then monitored by managers at the program and project level, who report data to the Chief Financial Officer (CFO). The Office of the CFO provides information to the agency monthly performance review meetings led by an Assistant Administrator, who reviews each

National Aeronautics and Space Administration (NASA)

Account Name: Science

National Priority: 252 (Space flight, research, and supporting activities)

Overview of Account (continued)

Sources of Funding

The Science account is funded through annual appropriations and all funds are discretionary.

Characteristics of Funding

Funds are available for obligation for 2 years.

Unobligated Balances (continued)

account once a quarter. Officials reported that the Resource Management Division of each Mission Directorate (the Science Mission Directorate for the Science account) generates estimates for the current fiscal year based on past performance, plus known programmatic issues that may affect future performance.

Agency Use of Unobligated Balances to Mitigate the Effects of Fiscal Year 2013 Sequestration or the Fiscal Year 2014 Government Shutdown

According to NASA officials, no unobligated balances were reprogrammed or otherwise used to mitigate the effects of the 2013 sequestration. NASA did not use unobligated balances from the Science account to continue to fund activities or operations during the government shutdown at the beginning of fiscal year 2014.

Account Name: Diplomatic and Consular Programs (D&CP)

National Priority: 153 (Conduct of foreign affairs)

Department of State

Overview of Account

Mission and Goals of Account

D&CP is the Department of State's primary operating account. It funds a broad range of activities, including operational support for U.S. embassies, consulates, and other diplomatic posts worldwide. Funds are allocated to four main categories: human resources, overseas programs, diplomatic policy and support, and security programs. This includes funding for CBSP and WSP. D&CP's appropriation also includes fees collected for services to foreign audiences, such as library and motion pictures programs, educational advising and counseling programs, and other services.

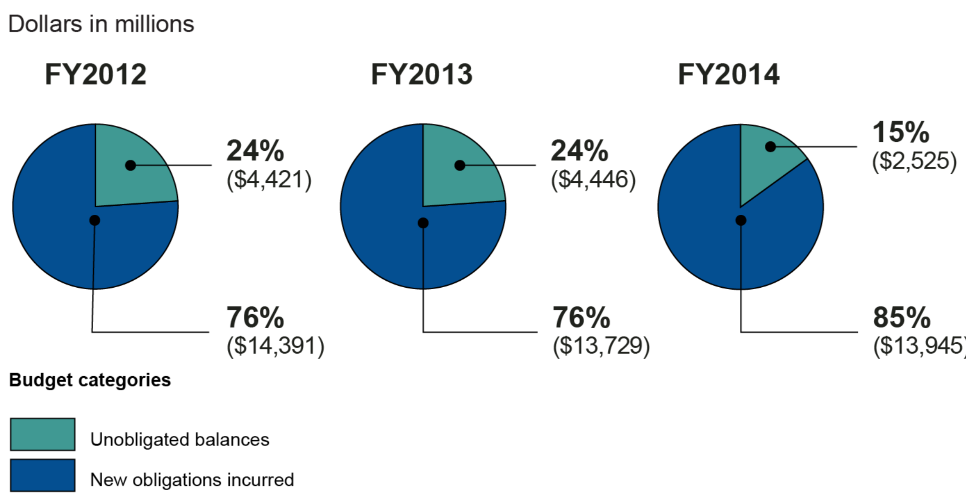
Unobligated Balances

Factors Affecting the Size or Composition of Unobligated Balances

According to State officials, unobligated balances in this account are driven by a number of factors, including delayed obligations resulting from the agency's decision to wait until a full year funding appropriation is passed before making many final obligation decisions. Additionally, complex actions planned for the fourth quarter—such as procurements, interagency agreements, grants, and wage increases for local embassy staff—may be beyond the agency's control, and may slip into the next fiscal year resulting in an unobligated balance**.** Officials also reported that another factor that affects unobligated balances is for the Worldwide Security Protection (WSP) program. For this program, a relatively large portion of funding is devoted to security contracts that have varying periods of performance. This funding can be subject to unexpected scope changes in response to overseas security threats.

Officials reported that Consular and Border Security Programs (CBSP), which relies on offsetting collections from visa and passport applicants, needs at least one quarter of funding to maintain operations. However, for fiscal year 2012, officials reported unobligated balances reached 42 percent; in fiscal year 2013, they were 41 percent; and for fiscal year 2014, 38 percent of the next year's program expenditures. Officials explained that balances were often affected by economic factors and policy changes, such as an extension in how long a Chinese visa is valid, which increased the number of applicants. Officials also said that some of the offsetting collections authorities have purpose restrictions, limiting the activities on which the fees may be spent. This, however, accounts for only a small proportion of the excess unobligated balances.

Figure 9: Unobligated Balances as a Percent of Budgetary Resources in the Diplomatic and Consular Programs Account, Fiscal Years 2012-2014



Source: GAO analysis of the President's Budget Appendix, fiscal years 2014 through 2016. | GAO-16-26

Department of State

Account Name: Diplomatic and Consular Programs (D&CP)

National Priority: 153 (Conduct of foreign affairs)

Overview of Account (continued)

Sources of Funding

The account receives annual appropriations, including appropriations for OCO, offsetting collections derived from services to the public for visas and passports, and reimbursements from other agencies. Virtually all of the funds in the account are discretionary; however the account does also include some mandatory funds.

Characteristics of Funding

The period of availability for funding in this account is no-year, multi-year and one-year. In fiscal year 2014, D&CP received primarily one-year authority in its appropriation, with the authority to extend up to about 15 percent of the funds for an additional year.

Unobligated Balances (continued)

State officials within the Bureau of Consular Affairs said that they began drafting a plan in 2013 for managing and monitoring funding for each program within CBSP. According to officials, this plan will include a strategy on how unobligated balances will be tracked and managed to reach the identified target of 25 percent. Officials said that the plan is awaiting clearance by leadership and they anticipate that it will be finalized by June 2016. State officials also reported that they have taken steps to regulate and reduce unobligated balances. For example, officials reported that they delayed an increase to the Passport Security Surcharge to spend down existing unobligated balances. According to data provided by State, unobligated balances for the Passport Security Surcharge decreased from 95 percent of next year’s program expenditures in fiscal year 2012, to 72 percent in fiscal year 2014.

Agency Estimation and Management of Unobligated Balances

According to officials, unobligated balances are reviewed at least monthly, and more frequently when needed. As part of this process, remaining unobligated balances are reviewed and plans for obligations are made based on those estimates. Officials said that some subaccounts may be monitored more frequently than others, such as the Overseas Contingency Operations (OCO) subaccount because of the sensitivity of the programs and activities it supports. Officials reported that future year unobligated balances are estimated using historical data and bureau projections based on planned activities.

Agency Use of Unobligated Balances to Mitigate the Effects of Fiscal Year 2013 Sequestration or the Fiscal Year 2014 Shutdown

State notified the Office of Management and Budget and Congress of its intent to reprogram $64 million from the non-OCO Iraq war funds to other account activities to mitigate the effects of the 2013 sequestration. According to officials, during the shutdown, State used unobligated balances from D&CP to continue to operate. However, no funds were reprogrammed to mitigate the effects of the government shutdown.

Department of State

Bureau of International Narcotics and Law Enforcement Affairs (INL)

Overview of Account

Mission and Goals of Account

The INCLE account supports foreign assistance programs. This includes activities in foreign countries and international organizations to develop and implement policies and programs that strengthen institutional law enforcement and judicial capabilities, counter drug flows, combat transnational crime, establish and maintain the rule of law, and provide capacity building to nations encountering instability. Funds are obligated through bulk obligations to programs and, when specific requirements are identified, subobligations are made.

Account Name: International Narcotics Control and Law Enforcement (INCLE)

National Priority: 151 (International development and humanitarian assistance)

Unobligated Balances

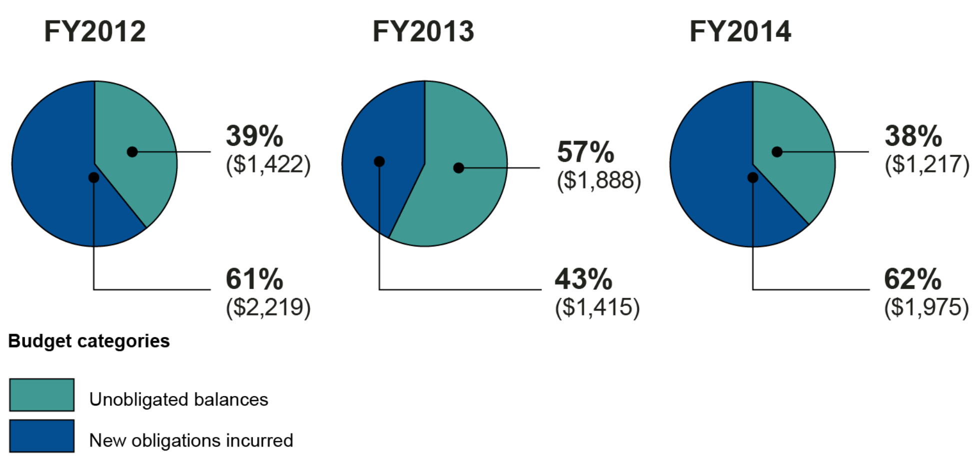
Factors Affecting the Size or Composition of Unobligated Balances

Although the goal is to obligate balances as soon as possible, officials explained that a number of factors affect the composition of unobligated balances resulting in the significant unobligated balances, including approximately 57 percent of available budget authority in 2013, as shown below. Those factors included the completion of agency processes that fulfill reporting requirements to both the Office of Management and Budget and Congress. For example, State must (according to the Foreign Assistance Act) present spending plans to congressional appropriators on assistance it proposes to provide to support international efforts to combat illicit narcotics production, including country specific information. Because officials said that it is agency policy to wait for confirmation before proceeding with those plans, as well as to wait for full-year appropriations before finalizing spend plans, they often are not able to obligate funds in the first fiscal year they are appropriated.

Agency officials also noted that unobligated balances are affected by the need to respond to uncertain outside events. For example, in 2014, INL officials decided to hold some unobligated balances as a reserve to address uncertainties in Syria and Ukraine.

Figure 10: Unobligated Balances as a Percent of Budgetary Resources in the International Narcotics Control and Law Enforcement Account, Fiscal Years 2012-2014

Dollars in millions



GAO analysis of the President's Budget Appendix, fiscal years 2014 through 2016. | GAO-16-26

Agency Estimation and Management of Unobligated Balances

According to officials, unobligated balances are managed through INL's 14 regional budget execution analysts who monitor budgets for specific countries and programs; this includes monitoring unobligated balances to ensure balances are not obligated before the agency has met all

Department of State

Bureau of International Narcotics and Law Enforcement Affairs (INL)

Overview of Account (continued)

Sources of Funding

Funds are available through annual appropriations, including appropriations for Overseas Contingency Operations (OCO). Funds in the account are discretionary.

Characteristics of Funding

Funding is available to be obligated for 2 years. Funds initially obligated within this 2-year period remain available for obligation for another 4 years pursuant to authority traditionally provided in the Department of State, Foreign Operations, and Related Programs Appropriations Act each year.

Account Name: International Narcotics Control and Law Enforcement

National Priority: 151 (International development and humanitarian assistance)

Unobligated Balances (continued)

congressional reporting requirements. Through this process, estimates of remaining unobligated balances are continually revised as new obligations are made.

Large balances, or ones that otherwise raise concern, are reviewed by the department at budget decision points such as enactment of appropriations. Officials said that future unobligated balance estimates are based on historical rates of obligation as well as on future plans for obligations.

Agency Use of Unobligated Balances to Mitigate the Effects of Fiscal Year 2013 Sequestration or the Fiscal Year 2014 Government Shutdown

Officials reported that to maintain fairness among the countries that receive assistance, no unobligated balances in the INCLE account were used to mitigate the effects of the 2013 sequestration. Officials reported that unobligated balances were used to continue operations and activities during the October 2013 government shutdown; however, no balances were reprogrammed within the account during this time.

Appendix III: Overview of Select Budget Information on Government-wide Unobligated Balances

We analyzed unobligated balances across all federal budget accounts from fiscal years 2012 through 2014 to help provide a broader context to the unobligated balances in the eight selected accounts within the four agencies discussed in this report. We drew from data reported in our previous report on unobligated balances from fiscal years 2007 through 2012 to supplement the new analysis conducted for this review.[1]

To describe the size and composition of unobligated balances government-wide, we analyzed the unobligated balances (1) as a proportion of total unexpended balances; (2) by category of spending—discretionary, mandatory, or split; (3) by budget function; and (4) by agency.

Unobligated Balances as a Proportion of Total Unexpended Balances

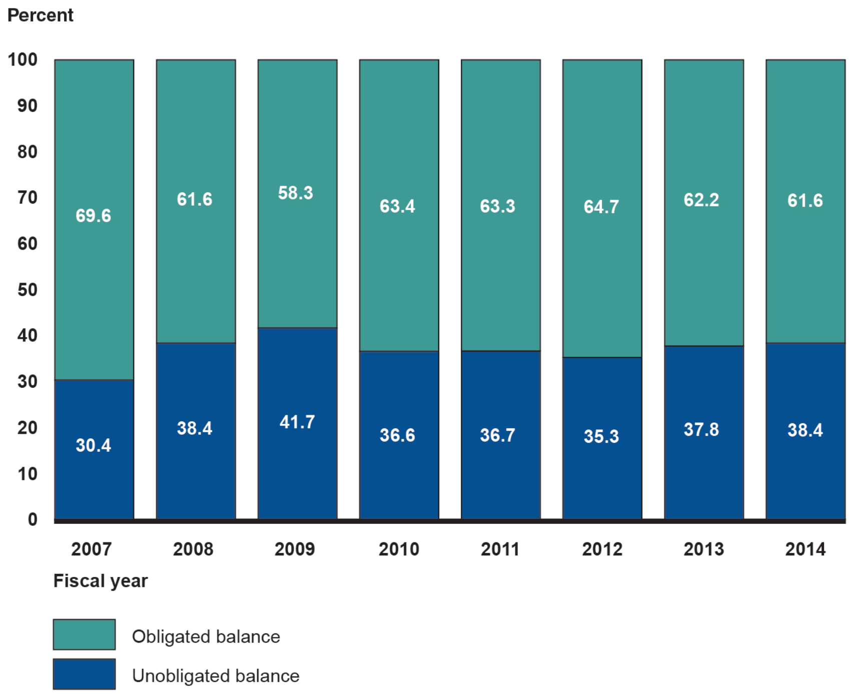
Federal agencies reported unexpended balances—the sum of obligated and unobligated balances—in 1,358 of 1,493 active budget accounts from fiscal year 2012 through 2014.[2] Total unexpended balances fluctuated from $2.23 trillion in fiscal year 2012 to $2.27 trillion in fiscal year 2014. This represents an overall increase of approximately $41 billion with a decrease in 2013. About 91 percent of active accounts carried unobligated balances with total unobligated balances increasing from $788 billion to $872 billion during this period.

As shown in figure 11, unobligated balances were more than one-third of total unexpended balances from fiscal year 2012 through 2014, which is generally consistent with data from fiscal years 2007 through 2011.

[1] GAO-13-798.

[2] Active accounts are accounts that, in any fiscal year during this period, had budget authority/outlays and/or unobligated balances. The total number of accounts listed includes accounts from all three branches of the federal government. Federal agencies reported these data through OMB MAX. A total of 135 active accounts did not report unexpended balances.

Figure 11: Unexpended Balances in Federal Budget Accounts, Fiscal Years 2007-2014



Source: GAO analysis of OMB MAX data. | GAO-16-26

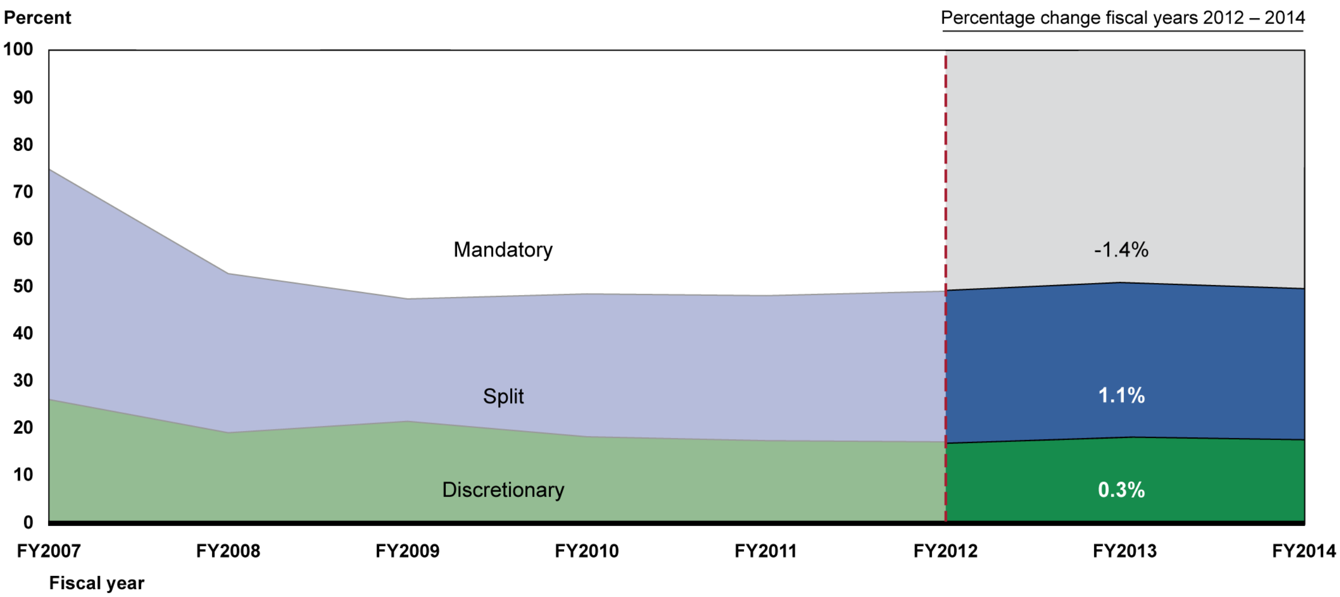
Unobligated Balances by Category of Spending

Each budget account is assigned a category of spending—discretionary, mandatory, or split, which is a combination of both discretionary and mandatory. As shown in figure 12, mandatory accounts represent about 50 percent of total unobligated balances in fiscal years 2012 through 2014. From fiscal year 2009 through 2011 the share of unobligated balances in mandatory accounts was relatively stable at about 52 percent of total unobligated balances. This comes after a growth in the mandatory share of the balances from about 25 percent in fiscal year 2007 to about 47 percent in fiscal year 2008.

The percentage of unobligated balances in split accounts remained at about 32 percent in fiscal years 2012 through 2014, which has been generally consistent since 2010.

From fiscal years 2012 through 2014, unobligated balances in discretionary accounts were between approximately 16 and 19 percent of all unobligated balances. As shown in figure 12, this has been the case since 2010, before which discretionary balances represented higher proportions of unobligated balances, including nearly 26 percent in fiscal year 2007.

Figure 12: Mandatory, Split, and Discretionary Accounts as a Share of Unobligated Balances, Fiscal Years 2007-2014



Source: GAO analysis of OMB MAX data. | GAO-16-26

As shown in table 5, the three mandatory accounts with the largest amount of unobligated balances in fiscal year 2014 were more than 12 times larger than the top three discretionary account balances.

Table 5: The Top Three Mandatory, Split, and Discretionary Accounts with Unobligated Balances in Fiscal Year 2014 (Dollars in Millions)

Funding Type	Budget Account (Department/Agency)	Unobligated Balance	Sum of Top Three Accounts
Mandatory	GSE Preferred Stock Purchase Agreements (Department of the Treasury)	258,050	313,377
	Exchange Stabilization Fund (Department of the Treasury)	40,507	
	US Quota, International Monetary Fund (International Assistance Programs[a])	14,820	
Split	Deposit Insurance Fund (FDIC)	50,837	119,609
	Employees Life Insurance Fund (Office of Personnel Management)	42,623	

Funding Type	Budget Account (Department/Agency)	Unobligated Balance	Sum of Top Three Accounts
	Federal-aid Highways (Department of Transportation)	26,149	
Discretionary	Shipbuilding and Conversion, Navy (Department of Defense)	9,846	25,277
	Public Transportation Emergency Relief Program (Department of Transportation)	7,767	
	Contributions to International Bank for Reconstruction and Development (International Assistance Programs[a])	7,664	

Source: GAO analysis of Office of Management and Budget (OMB) MAX data. | GAO-16-26

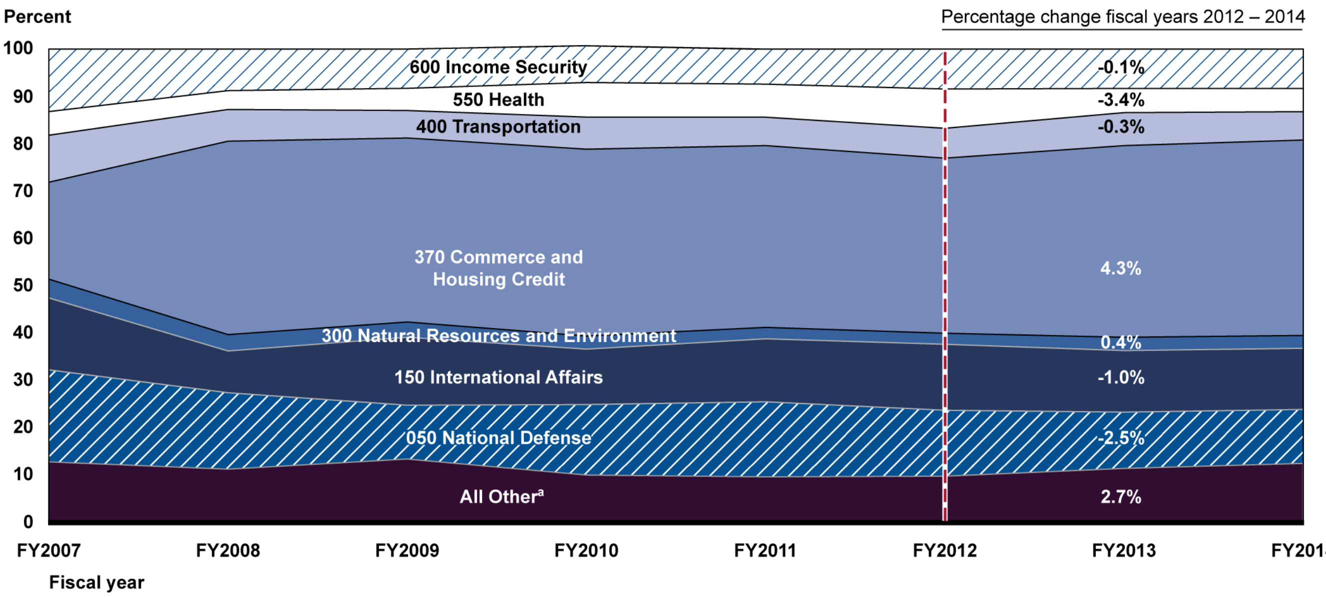
[a]International Assistance Programs accounts are denoted separately from an agency or department designation in OMB MAX; however the accounts are administered by the Department of State.

Unobligated Balances by Budget Function

Each budget account appears in 1 of the 19 budget functions that best reflects its major purpose or important national need. These functions include income security, national defense, and transportation. Accounts under a particular budget function may support programs and activities at multiple agencies. For example, accounts that are categorized as within the “national defense” budget function may support activities at multiple agencies such as operations and maintenance at the Department of Defense, infrastructure protection at the Department of Homeland Security, and defense environmental cleanup at the Department of Energy.

As shown in figure 13, the majority of unobligated balances were in accounts classified under three budget functions: (1) commerce and housing credit, (2) international affairs, and (3) national defense. These three functions combined accounted for around 65 percent of unobligated balances in all budget accounts from fiscal years 2012 through 2014. This is consistent with data from fiscal years 2008 through 2011.

Figure 13: Share of Unobligated Balances by Budget Function, Fiscal Years 2007-2014



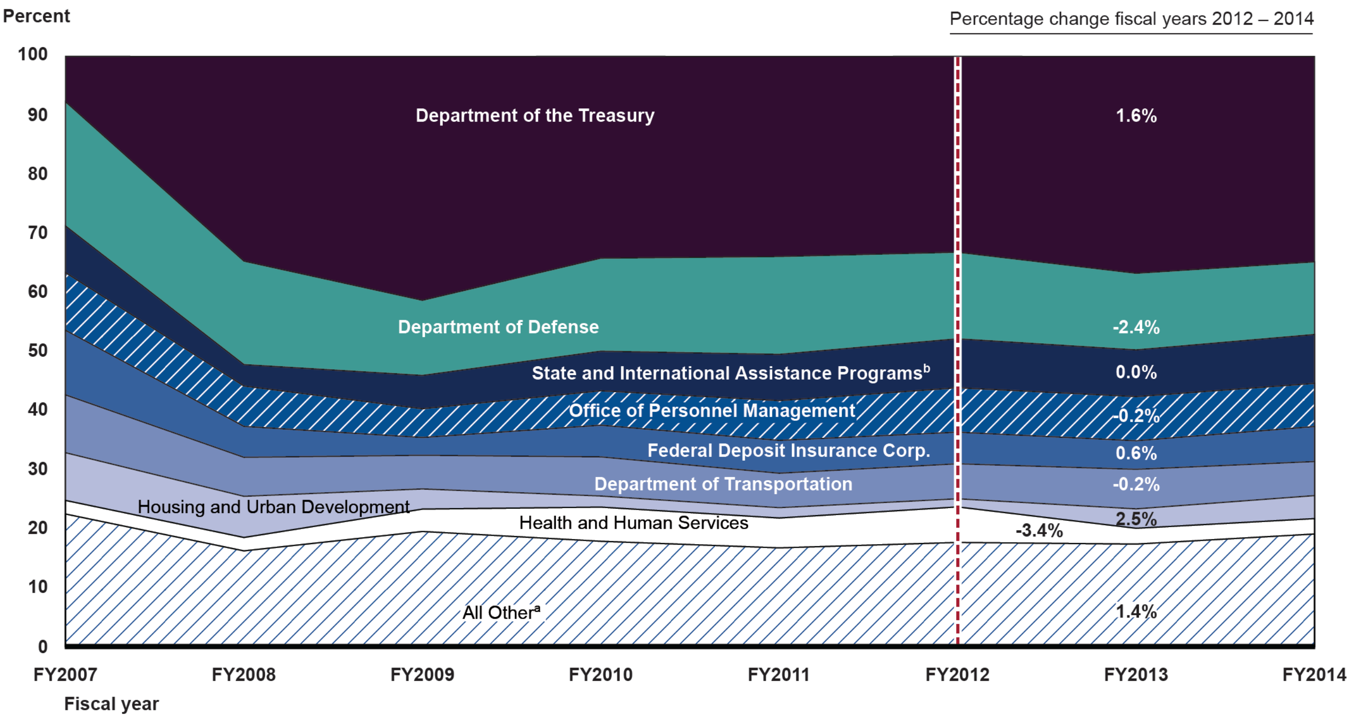
Source: GAO analysis of OMB MAX data. | GAO-16-26

[a]"All Other" is composed of 12 other budget functions. Budget functions are coded with a three-digit number that directly correlates to a specific national priority.

Unobligated Balances by the Top Eight Agencies

From fiscal years 2012 through 2014 and consistent with earlier years, the majority of unobligated balances were in eight agencies: Departments of Defense, Health and Human Services, Housing and Urban Development, State, Transportation, and the Treasury, and the Office of Personnel Management and the Federal Deposit Insurance Corporation (see figure 14). These eight agencies had between 81 and 83 percent of unobligated balances across all budget accounts from fiscal years 2012 through 2014—approximately the same percentages since 2008. From 2008 through 2014, the agencies combined together in the "all other" category represented between 16 percent and 20 percent of all unobligated balances.

Figure 14: Unobligated Balances by the Top Eight Agencies, Fiscal Years 2007- 2014



Source: GAO analysis of OMB MAX data. | GAO-16-26

[a]"All Other" is composed of more than 100 departments/agencies such as the Department of Homeland Security and Social Security Administration.

[b]The Department of State and International Assistance Programs category includes other entities, such as the U.S. Agency for International Development, the Millennium Challenge Corporation, and the Peace Corps.

Appendix IV: Comments from the Department of Energy

Department of Energy
Washington, DC 20585

OCT 19 2015

Ms. Susan J. Irving
Director
Federal Budget Analysis and Strategic Issues
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Ms. Irving,

Thank you for providing a draft copy of the Government Accountability Office (GAO) report entitled: "2013 Sequestration and Shutdown: Selected Agencies Generally Managed Unobligated Balances in Reviewed Accounts, but Balances Exceeded Target Levels in Two Accounts (GAO-16-26)."

The Department agrees with the need to avoid excess unobligated funds in its budgetary accounts. Regarding GAO's specific recommendation for the Western Area Power Administration's (WAPA) Construction, Rehabilitation, Operation, and Maintenance (CROM) account, Western has been developing and refining a plan to better manage unobligated balances for this account and is in the process of finalizing that plan.

If you have any questions, please contact Christopher Johns, Budget Director, at 202-586-4180.

Sincerely,

Joseph S. Hezir
Chief Financial Officer

Enclosure

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Appendix V: Comments from the Department of State

United States Department of State

Washington, D.C. 20520

OCT 15 2015

Dr. Loren Yager
Managing Director
International Affairs and Trade
Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548-0001

Dear Dr. Yager:

We appreciate the opportunity to review your draft report, "2013 SEQUESTRATION AND SHUTDOWN: Selected Agencies Generally Managed Unobligated Balances in Reviewed Accounts, but Balances Exceeded Target Levels in Two Accounts." GAO Job Code 451130.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact Noelle Rush, Management Analyst, Office of the Comptroller, Bureau of Consular Affairs at (202) 485-6697.

Sincerely,

Christopher H. Flaggs

Christopher H. Flaggs
Comptroller

Enclosure:
As stated.

cc: GAO – Susan J. Irving
CA – Michele T. Bond, Acting
State/OIG - Norman Brown

Department of State Comments on GAO Draft Report

2013 SEQUESTRATION AND SHUTDOWN: Selected Agencies Generally Managed Unobligated Balances in Reviewed Accounts, but Balances Exceeded Target Levels in Two Accounts
(GAO-16-26, GAO Code 451130)

The Department of State appreciates the opportunity to review and comment on the GAO's draft report "2013 SEQUESTRATION AND SHUTDOWN: Selected Agencies Generally Managed Unobligated Balances in Reviewed Accounts, but Balances Exceeded Target Levels in Two Accounts."

As noted by GAO, the Bureau of Consular Affairs (CA) has taken steps to better account for and manage funds retained from consular fee collections in support of the Consular and Border Security Programs (CBSP). While the Bureau did not reach the optimal average aggregate carryover balance for the CBSP during the time period examined by GAO, the Department's recent strategies are having the desired effect of regulating carryover balances in the CBSP account in a way that demonstrates progress toward the Department's goal of 25 percent. For example, aggregate year-end carryover of unobligated balances dropped from the 40 percent found by GAO to an estimated 32 percent in the FY 2016 President's Budget. Additionally, a number of other CBSP balances, including the critical Machine Readable Visa fee, are much closer to the Department's current stated goal, and CA continues to make progress in bringing all carryover balances closer to optimal levels.

Recommendation: The Secretary of State should direct the Assistant Secretary of State for Consular Affairs to finalize CA's strategy for the management of its unobligated balances, and to continue its efforts to reduce excess unobligated balances allocated to CBSP in the D&CP account.

Department Response: While the Department does not concur that these balances were "excess," it concurs with the recommendation and will continue its efforts to better align unobligated balances and finalize its plan for the CBSP account to maintain balances at optimal levels.

Appendix VI: Glossary of Budget Terms

Apportionment: The action by which the Office of Management and Budget distributes amounts available for obligation, including budgetary reserves established pursuant to law, in an appropriation or fund account. An apportionment divides amounts available for obligation by specific time periods (usually quarters), activities, projects, objects, or a combination thereof. The amounts so apportioned limit the amount of obligations that may be incurred. An apportionment may be further subdivided by an agency into allotments, suballotments, and allocations.

Appropriation: Budget authority to incur obligations and to make payments from the Treasury for specified purposes. An appropriation act is the most common means of providing appropriations; however, authorizing and other legislation itself may provide appropriations.

Availability: Budget authority that is available for incurring new obligations.

Budget authority: Authority provided by federal law to enter into financial obligations that will result in immediate or future outlays involving federal government funds.

Budget function: The functional classification system is a way of grouping budgetary resources so that all budget authority and outlays of on-budget and off-budget federal entities and tax expenditures can be presented according to the national needs being addressed. National needs are grouped in 17 broad areas to provide a coherent and comprehensive basis for analyzing and understanding the budget.

Discretionary spending: Budget authority that is provided in and controlled by appropriation acts other than those that fund mandatory programs.

Expenditure: The actual spending of money; an outlay.

Expired budget authority: Budget authority that is no longer available to incur new obligations but is available for an additional 5 fiscal years for disbursement of obligations properly incurred during the budget authority's period of availability. Unobligated balances of expired budget authority remain available for 5 years to cover legitimate obligation adjustments, or for obligations properly incurred during the budget authority's period of availability that the agency failed to record.

Obligated balance: The amount of obligations already incurred for which payment has not yet been made.

Obligation: A definite commitment that creates a legal liability of the government for the payment of goods and services ordered or received, or a legal duty that could mature into a legal liability by virtue of actions on the part of the other party beyond the control of the United States. For example, an agency incurs an obligation when it places an order, signs a contract, awards a grant, or purchases a service.

Mandatory (or direct) spending: Budget authority that is provided in laws other than appropriation acts and the outlays that result from such budget authority. Mandatory spending includes entitlement authority (for example, the Food Stamp, Medicare, and veterans' pension programs), payment of interest on the public debt, and nonentitlements such as payments to states from Forest Service receipts.

Multi-year funds: Budget authority available for a fixed period of time in excess of 1 fiscal year. This authority generally takes the form of 2-year, 3-year, and so forth availability, but may cover periods that do not coincide with the start or end of a fiscal year.

No-year funds: Budget authority that remains available for obligation for an indefinite period of time.

Reappropriation: Legislation permitting an agency to obligate, whether for the same or different purposes, all or part of the unobligated portion of budget authority that has expired or would otherwise expire if not reappropriated.

Reprogramming: Shifting funds within an appropriation or fund account to use them for purposes other than those contemplated at the time of appropriation; it is the shifting of funds from one object class to another within an appropriation or from one program activity to another.

Rescission: Legislation enacted by Congress that cancels the availability of budget authority previously enacted before the authority would otherwise expire.

Spendout rate: The rate at which budget authority becomes outlays in a fiscal year.

Transfer: Shifting of all or part of the budget authority in one appropriation or fund account to another. Agencies may transfer budget authority only as specifically authorized by law.

Unexpended balance: The sum of obligated and unobligated balances.

Unobligated balance: The portion of obligational authority that has not yet been obligated. For an appropriation account that is available for a fixed period, the budget authority expires after the period of availability ends. However, its unobligated balance remains available for 5 additional fiscal years for recording and adjusting obligations properly chargeable to the appropriations period of availability. For example, an expired, unobligated balance remains available until the account is closed to record previously unrecorded obligations, or to make upward adjustments in previously under recorded obligations (such as contract modifications properly within scope of the original contract). At the end of the fifth fiscal year, the account is closed and any remaining balance is canceled. For a no-year account, the unobligated balance is carried forward indefinitely until (1) specifically rescinded by law, or (2) the head of the agency concerned (or the President) determines that the purposes for which the appropriation was made have been carried out, and disbursements have not been made from the appropriation for 2 consecutive years.[1]

[1]For the purposes of this report, we focused on unobligated balances from multi-year and no-year appropriations, which remain available for new obligations. Unless otherwise specified, balances reported are derived from the "Unexpired unobligated balance, end of year" line associated with the budget account in the Appendix to the President's Budget.

Appendix VII: GAO Contact and Staff Acknowledgments

GAO Contact

Susan J. Irving, (202) 512-6806 or irvings@gao.gov.

Staff Acknowledgments

In addition to the contact named above, Janice Latimer, Assistant Director; Mary C. Diop; Steve Berke; and Shelby Kain made major contributions to this report. Also contributing to this report were Shari Brewster, Deirdre Duffy, John Mingus Jr., Robert Robinson, and Cynthia Saunders. In addition, the following individuals provided programmatic and subject matter expertise: Johana Ayers, Allison Bawden, Carol Henn, Jon Ludwigson, Christine Kehr, Farahnaaz Khakoo, Thomas James, Judith McCloskey, Leah Q. Nash, Shelby Oakley, Michelle Sager, Robert Sanchez, Roger Stoltz, and Matthew Ullengren.

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