United States Government Accountability Office

Report to Congressional Committees

May 2021

FEDERAL BUDGET

A Few Agencies and Program-Specific Factors Explain Most Unused Funds

A Century of Non-Partisan Fact-Based Work

GAO-21-432

GAO@100 Highlights

Highlights of GAO-21-432, a report to congressional committees

Why GAO Did This Study

Laws limit the time that agencies have available to use fixed-term appropriations for obligations and expenditures. However, agencies do not always obligate and outlay these funds in time, which ultimately results in cancelled appropriations. Efforts to limit the amount of cancelled appropriations result in more accurate budget estimation and fiscal projections, a more efficient appropriations process, and better service to the public.

The National Defense Authorization Act for Fiscal Year 2020 includes a provision for GAO to review the status of cancelled appropriations. This report addresses (1) the extent of appropriations that were cancelled in fiscal years 2009 through 2019 and how the rate of cancelled appropriations and other characteristics differ across agencies, (2) factors that contribute to the level of cancelled appropriations in selected accounts at agencies, and (3) efforts selected agencies make to prevent the cancellation of funds.

To provide government-wide trends, GAO analyzed Department of the Treasury and Office of Management and Budget data. GAO also analyzed related documents from six case study accounts at DOD, HHS, and the U.S. Department of Agriculture; and interviewed officials at these agencies. The selected accounts included the three with the most cancelled appropriations government-wide and three additional accounts to represent the major categories of federal spending: personnel, acquisitions, grants, and contracts.

View GAO-21-432. For more information, contact Jeff Arkin at (202) 512-6806 or arkinj@gao.gov.

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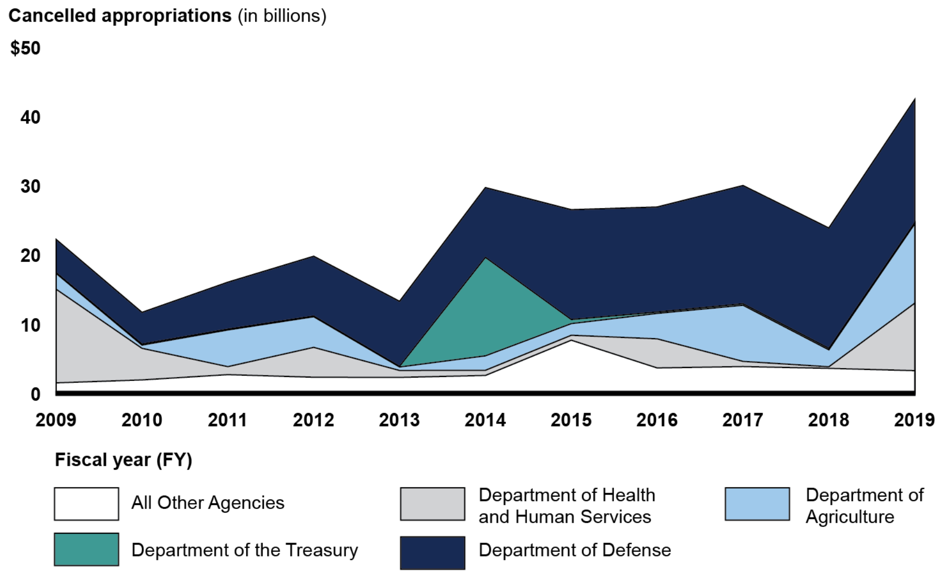
FEDERAL BUDGET

A Few Agencies and Program-Specific Factors Explain Most Unused Funds

What GAO Found

About 1.6 percent of the total available budget authority government-wide was cancelled from fiscal year 2009 to fiscal year 2019, averaging $23.9 billion per year. The variations in cancelled appropriations from year to year can be explained largely by trends in four departments. Together they represent 86 percent of the total government-wide cancelled appropriations, but their rate of cancellations were within a few percentage points of the government-wide rate.

Four Agencies Represent the Majority of Total Cancellations from FY2009–FY2019



Source: GAO analysis of U.S. Department of the Treasury Data. | GAO-21-432

Cancelled appropriations for the six case study accounts GAO reviewed largely resulted from program-specific factors:

- **Actual program needs were less than estimated.** For example, actual versus projected troop levels and warfront movements can contribute to cancelled appropriations at the Department of Defense (DOD).
- **Some program funds are only for specific purposes.** For example, Department of Health and Human Services (HHS), Administration for Children and Families officials reported that some states declined funding for a teen sex and pregnancy prevention program, and the agency did not have the authority to redirect those funds for other purposes.
- **Some programs' costs are more unpredictable than others.** Contract and acquisition costs can be unpredictable. When final costs are less than originally estimated, agencies may have to cancel the difference. In contrast, agencies with a higher proportion of personnel expenses, which are relatively predictable, can more easily avoid cancelled appropriations.

All of GAO's case study agencies have procedures in place to help limit discretionary cancelled appropriations. For example, the Army established a program that helps reduce cancelled appropriations by providing management with metrics and tools to help prevent them.

Contents

Abbreviations

ACF	Administration for Children and Families
CAER	Command Accountability and Execution Review
CFO Act	Chief Financial Officers Act
CMS	Centers for Medicare and Medicaid Services
CRs	Continuing Resolutions
DOD	Department of Defense
FSA	Farm Service Agency
FY	Fiscal Year
HHS	Department of Health and Human Services
O&M	Operation and Maintenance
OCO	Overseas Contingency Operations
SNAP	Supplemental Nutrition Assistance Program
USDA	U.S. Department of Agriculture

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May 25, 2021

Congressional Committees

> **Obligation**
>
> A definite commitment that creates a legal liability of the government for the payment of goods and services ordered or received. Payment may be made immediately or in the future. An agency incurs an obligation, for example, when it places an order, signs a contract, awards a grant, purchases a service, or takes other actions that require the government to make payments.
>
> **Outlay**
>
> The issuance of checks, disbursement of cash, or electronic transfer of funds made to liquidate a federal obligation. Outlays during a fiscal year may be for payment of obligations incurred in prior years (prior-year obligations) or in the same year. Outlays, therefore, flow in part from unexpended balances of prior-year budgetary resources and in part from budgetary resources provided for the year in which the money is spent.
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> Source: GAO Budget Glossary. | GAO-21-432

The nation faces serious economic, security, and social challenges that require Congress and the administration to make difficult policy choices in setting national priorities and charting a path for economic growth.

Appropriations decisions made by Congress play a major part in allocating resources and setting national priorities over time. Congress generally appropriates funding to an agency for use during a specific period of availability, such as 1 year. During this period of availability, the agency may make new obligations. At the end of the period of availability, agencies generally have 5 more years to outlay the funds.

However, not all of these appropriated funds are obligated and outlayed in time by agencies, which ultimately results in cancelled appropriations. Efforts to limit the amount of cancelled appropriations result in more accurate budget estimation and fiscal projections, a more efficient appropriations process, and better service to the public.[1]

The National Defense Authorization Act for Fiscal Year 2020 includes a provision for us to review the status of cancelled appropriations. This report addresses (1) the extent of appropriations that were cancelled in fiscal years 2009 through 2019 and how the rate of cancelled appropriations and other characteristics differ across agencies, (2) factors that contribute to the level of cancelled appropriations in selected accounts at agencies, and (3) efforts selected agencies make to prevent the cancellation of funds.

To determine the amount and rate of cancelled appropriations, we analyzed data from the Department of the Treasury's Central Accounting Reporting System. We also ran statistical tests to determine if there is any

[1]In April 29, 2021, testimony before the House Committee on the Budget, we recommended that Congress require the President to report to Congress when appropriated funds are cancelled or expire unobligated. GAO, *Testimony before the House Committee on the Budget—Proposals to Reinforce Congress's Constitutional Power of the Purse*, GAO-21-538T, at 12 (Washington, D.C.: Apr. 29, 2021). Legislation introduced during the previous Congress included similar requirements. Congressional Power of the Purse Act, H.R. 6628, 116th Cong., §§ 201, 202 (2020).

correlation between cancelled appropriations and the timing and type of appropriations.

To examine factors that contribute to the level of cancelled appropriations and what efforts selected agencies make to manage them, we selected six case study accounts across three agencies: the Department of Defense (DOD), the U.S. Department of Agriculture (USDA), and the Department of Health and Human Services (HHS).

We selected the three accounts with the most cancelled appropriations government-wide from fiscal years 2009 through 2018:

- Army Operation and Maintenance (DOD),
- the Supplemental Nutrition Assistance Program (USDA), and
- Payments to Health Care Trust Funds (HHS).

We then selected an additional account for the same time frame at each of the three selected departments to capture a broader diversity of programs:

- Air Force Aircraft Procurement,
- Farm Service Agency Salaries and Expenses, and
- Promoting Safe and Stable Families.

Within this selection, at least one account predominantly uses each of the major categories of federal spending: personnel, acquisitions, grants, and contracts. The six accounts in table 1 together represent 36 percent of total cancelled appropriations government-wide between fiscal years 2009 and 2018. For more information on our methodology, see appendix I.

Table 1: Selected Case Study Accounts

Department	Bureau or component	Account name	Purpose and activities	Predominant spending category
Defense	Army	Operation and Maintenance	Used to pay for day-to-day programs and activities, including operating support for installations, training and education, civilian personnel, maintenance, contracted services, and defense health. In addition, funds are provided in this account to be used to support overseas contingency and other operations.[a]	Contracts
	Air Force	Aircraft Procurement	Funds construction, procurement, and modification of aircraft and equipment, including armor and armament, specialized ground handling equipment and training devices, spare parts, and accessories.	Acquisitions
Agriculture	Food and Nutrition Service	Supplemental Nutrition Assistance Program	Provides eligible households with benefits to purchase approved food items and achieve a more nutritious diet.	Grants
	Farm Service Agency	Salaries and Expenses	Delivers programs and services to America's farmers and ranchers to support them in sustaining the agricultural economy and provides support for domestic food aid efforts. The Salaries and Expenses account covers personnel and operating costs for national, state, and county offices to administer its programs.	Personnel
Health and Human Services	Centers for Medicare and Medicaid Services	Payments to Health Care Trust Funds	Transfers payments from the General Fund of the U.S. Treasury in order to make the main components of Medicare, the Supplementary Medical Insurance Trust Fund and the Hospital Insurance Trust Fund, whole for certain costs. The General Fund of the U.S. Treasury accounts for all federal money not allocated by law to any other fund account.	Grants
	Administration for Children and Families	Promoting Safe and Stable Families	Funds (1) family preservation services, which are designed to help families alleviate crises; (2) family support services, which are primarily community-based prevention activities designed to promote the safety and well-being of children and families; (3) family reunification services, which are provided to a child who is removed from home and placed in a foster care setting; and (4) adoption promotion and support services.	Grants

Source: GAO and Departments of Defense, Health and Human Services, and Agriculture. | GAO-21-432

[a]The Department of Defense defines contingency operations as campaign-level military operations—including but not limited to support for peacekeeping operations, foreign disaster relief efforts, and noncombatant evacuation operations—and international disaster relief efforts.

We conducted this performance audit from January 2020 to May 2021 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.

Background

Period of Availability

All budget authority is appropriated with a specified duration. Time-limited authority can be provided for one or multiple years, while some budget authority never expires.

One-Year Authority. Budget authority available for obligation only during a specific fiscal year that expires at the end of that fiscal year.

Multiple-Year Authority (Multiyear). Budget authority available for a fixed period of time in excess of 1 fiscal year.

No-Year Authority. Budget authority that remains available for obligation for an indefinite period of time.

Source: GAO Budget Glossary. | GAO-21-432

Congress generally appropriates budget authority to an agency for use during a specific period, referred to as the period of availability. In this period, the agency may incur new obligations, or commitments to pay for goods and services, and charge them against the appropriation. At the end of the period of availability, the appropriation expires, meaning that the agency may not use it to incur new obligations.

An expired appropriation account generally remains available for 5 years, during which time the agency may use it to record, adjust, and make disbursements to liquidate obligations that were properly chargeable to the account. As shown in figure 1, a time-limited appropriation account closes at the end of the 5-year period, unless an exception is made in law, and any remaining obligated and unobligated balances are cancelled. The closed appropriation account may not be used for obligation or expenditure for any purpose.

Figure 1: Time-Limited Appropriations Are Cancelled at the End of the Expired Phase

Source: GAO. | GAO-21-432

Since no-year authority never expires, it follows a different procedure than time-limited authority. No-year authority can be cancelled if two conditions are met:

1. The head of the agency concerned or the president determines that the purposes for which the appropriation was made have been carried out;
2. No disbursement has been made against the appropriation for 2 consecutive fiscal years.

Cancelled Appropriations Are a Small Part of Government-wide Budget Authority

The Total Cancelled Appropriation Rate was 1.6 Percent from Fiscal Years 2009 through 2019

We found that about 1.6 percent of total available budget authority government-wide was cancelled from fiscal year 2009 through fiscal year 2019, averaging $23.9 billion per year, as shown in table 2.[2]

[2]In order to determine the amount and rate of cancelled appropriations, we used data on cancelled appropriations and available budget authority from the Department of the Treasury's (Treasury) Central Accounting Reporting System. For purposes of this report, we define the available budget authority as the appropriations available for obligation during the time period combined with the net transfers made between government accounts and any collections from the public that are available without further appropriation. This approximates the total resources available to the account from which the cancellation was made. We do not include no-year authority in our calculation of available budget authority since the budget authority for these accounts could have been made available prior to the period for which we began collecting data.

Table 2: Government-wide Cancelled Appropriations, Fiscal Years 2009–2019

Year cancelled	**Amount cancelled** (dollars in billions)	**Available budget authority for time limited appropriations** (dollars in billions)	**Percent cancelled**
2009	22.3	967.4	2.3
2010	11.7	1,219.0	1.0
2011	16.1	1,247.5	1.3
2012	19.9	1,560.6	1.3
2013	13.3	1,226.5	1.1
2014	29.8	1,716.3	1.7
2015	26.6	1,930.9	1.4
2016	27.0	1,754.7	1.5
2017	30.1	1,703.1	1.8
2018	23.9	1,675.6	1.4
2019	42.5	1,713.8	2.5
Total	**263.2**	**16,715.2**	**1.6**
Average	23.9	1,519.6	1.6

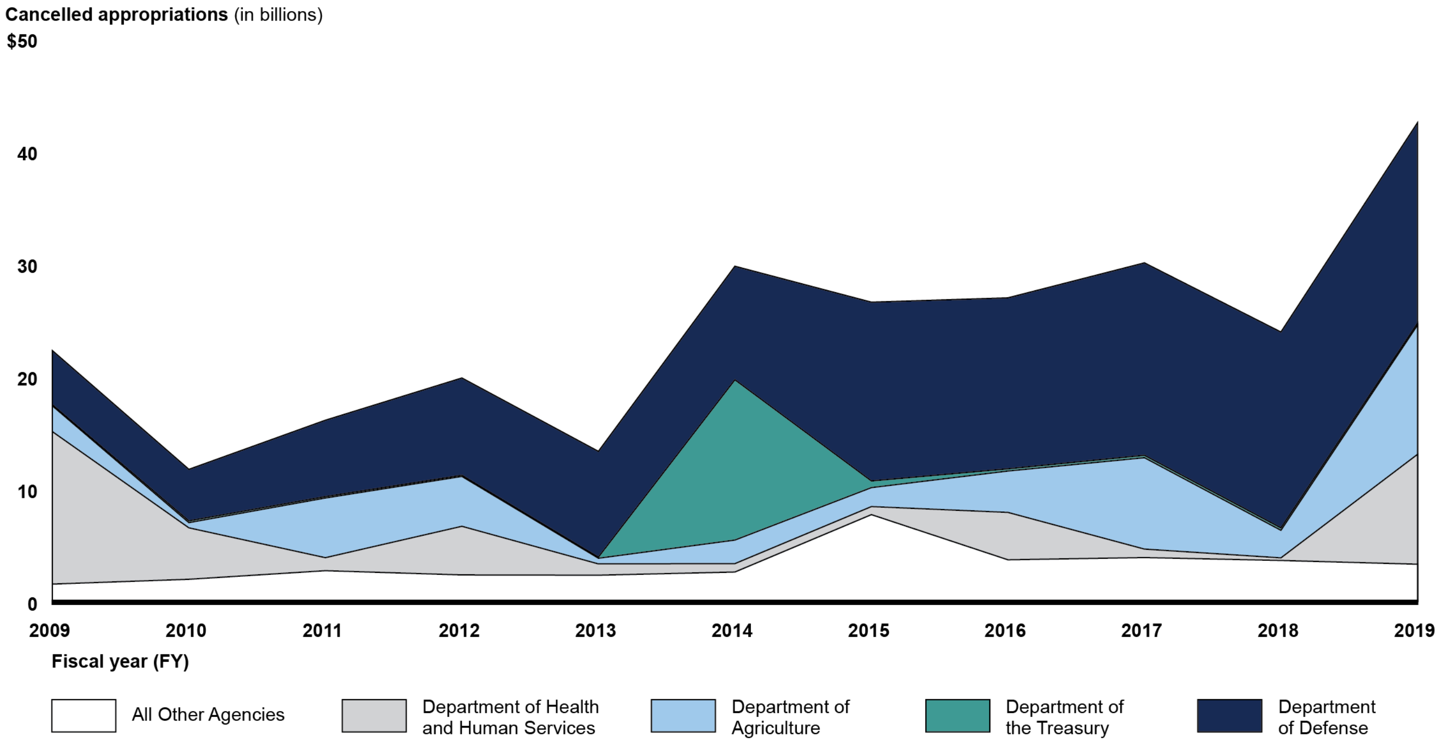
Source: GAO analysis of Department of the Treasury data. | GAO-21-432

Note: Totals may not add due to rounding. Available budget authority excludes no-year budget authority, but includes all time-limited mandatory and discretionary budget authority. Multi-year budget authority is included in the year its period of availability ends. The amounts of available budget authority, which are needed to calculate the percent cancelled, were not available prior to fiscal year 2004.Therefore, this analysis excludes any cancelled appropriations resulting from funds that were originally made available in fiscal year 2003 or earlier.

Government-wide Cancelled Appropriations Trends Are Driven by a Few Accounts

The variations in cancelled appropriations from year to year can mostly be explained by trends at DOD, USDA, HHS, and Treasury, which together represent 86 percent of the total government-wide cancelled appropriations from fiscal year 2009 through fiscal year 2019, as shown in figure 2.

Figure 2: Four Agencies Represent the Majority of Total Cancellations from FY2009–FY2019



Source: GAO analysis of U.S. Department of the Treasury Data. | GAO-21-432

Note: The spike in cancelled appropriations under the Department of the Treasury in fiscal year 2014 was due to the closing of accounts related to the Troubled Asset Relief Program. The Emergency Economic Stabilization Act of 2008, which was passed during fiscal year 2009, authorized this account. Pub. L. No. 110-343, 122 Stat. 3765, 3767 (Oct. 3, 2008). Unused funds that remained in the account were cancelled in fiscal year 2014. Treasury reported that most of the cancelled funds from this account came from Troubled Asset Relief Program equity programs. These programs cost much less than expected in part because of subsequent improved performance of financial markets and the economy, which allowed the banks and industry recipients to return the invested federal funds at a higher rate than initially anticipated. The amounts of available budget authority, which are needed to calculate the percent cancelled, were not available prior to fiscal year 2004.Therefore any cancelled appropriations resulting from funds that were originally made available in fiscal year 2003 or earlier are excluded from this analysis.

These four departments represent the most cancelled appropriations government-wide in large part because they also have the largest amount of time-limited budget authority. Their rate of cancellations tend to be within a few percentage points of the government-wide rate and broadly consistent with the rate of cancellation for the 24 agencies named in the Chief Financial Officers Act, as amended (CFO Act), as shown in table 3.[3]

Table 3: Percent of Total Government-wide Cancellations and Cancellation Rate at the 24 Chief Financial Officers Act Agencies, Fiscal Years (FY) 2009–2019

Agency	Total amount of cancelled appropriations from FY2009–2019[a] (dollars in billions)	Percent of government-wide cancellations	Total available budget authority for time-limited appropriations from FY2004–2014[b] (dollars in billions)	Cancellation rate
Department of Defense	**127.61**	48.5	**7,206.84**	1.8
Department of Agriculture	**42.42**	16.1	**1,014.92**	4.2
Department of Health and Human Services	**40.10**	15.6	**3,845.18**	1.1
Department of the Treasury	**16.21**	6.2	**418.18**	3.9
Department of Homeland Security	**7.73**	2.9	**391.10**	2.0
Department of Veterans Affairs	**5.46**	2.1	**511.51**	1.1
Department of Labor	**4.40**	1.7	**149.01**	3.0
Department of Education	**3.78**	1.4	**949.24**	0.4
Department of Housing And Urban Development	**2.71**	1.0	**208.76**	1.3
Department of Energy[c]	**2.55**	1.0	**38.02**	6.7
Department of Transportation	**1.50**	0.6	**293.36**	0.5
Department of State	**1.17**	0.5	**140.38**	0.8
Agency for International Development	**0.72**	0.3	**74.95**	1.0
Department of Commerce	**0.69**	0.3	**70.42**	1.0
National Science Foundation	**0.58**	0.2	**61.00**	1.0
National Aeronautics and Space Administration	**0.38**	0.1	**182.51**	0.2
Department of The Interior	**0.37**	0.1	**82.74**	0.5
Small Business Administration	**0.33**	0.1	**30.56**	1.1
Department of Justice	**0.14**	0.1	**243.86**	0.1
Environmental Protection Agency	**0.13**	0.1	**42.97**	0.3

[3]31 U.S.C. § 901.

Agency	Total amount of cancelled appropriations from FY2009-2019[a] (dollars in billions)	Percent of government-wide cancellations	Total available budget authority for time-limited appropriations from FY2004-2014[b] (dollars in billions)	Cancellation rate
Social Security Administration	**0.13**	0.1	**111.80**	0.1
Office of Personnel Management	**0.08**	0.0	**342.02**	0.0
General Services Administration	**0.04**	0.0	**8.28**	0.4
Nuclear Regulatory Commission[d]	**0.00**	0.0	**0.00**	0.0
All Other	**3.11**	1.2	**297.62**	1.0
Total	**263.24**	**100**	**16,715.23**	**1.6**

Source: GAO analysis of Department of the Treasury data | GAO-21-432

[a]The amount of available budget authority, which is needed to calculate the percent cancelled, was not available prior to fiscal year 2004.Therefore any cancelled appropriations resulting from funds that were originally made available in fiscal year 2003 or earlier are excluded from this analysis.

[b]Available budget authority excludes no-year budget authority, but includes all time-limited mandatory and discretionary budget authority.

[c]Several large appropriations for Recovery Act energy programs provided through the American Recovery and Reinvestment Act of 2019 expired in fiscal year 2010, which account for 97 percent of the cancelled appropriations from the Department of Energy. Pub. L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009).

[d]The Nuclear Regulatory Commission received most of its appropriations in the form of no-year authority during our period of analysis, which is why there are no cancellations and less than $10 million in budget authority (which rounds to 0.00 billion) reported for that agency here.

The four agencies with the most cancelled appropriations each have a single account that represents a large portion of its total cancelled appropriations over fiscal years 2009 through 2019, as shown in table 4.

Table 4: USDA, Treasury, Defense, and HHS Accounts with the Most Cancelled Appropriations

Agency	Account name	Percent of total agency cancellations from this account
U.S. Department of Agriculture (USDA)	Supplemental Nutrition Assistance Program	87
Department of the Treasury (Treasury)	Troubled Asset Relief Program	76
U.S. Department of Health and Human Services (HHS)	Payments to the Health Care Trust Funds	57
Department of Defense (DOD)	Operation and Maintenance	26

Source: GAO analysis of Department of the Treasury data | GAO-21-432

Length of Availability Had No Effect on Cancelled Appropriations

We found the cancellation rates in accounts with 1 year and multi-year periods of availability to be nearly the same, as shown in table 5.

Table 5: Period of Availability Did Not Affect Cancellation Rates of Appropriations from Fiscal Years 2009–2019 (Dollars in billions)

Period of availability	Total cancellations	Number of accounts with cancellations	Percent cancelled of available budget authority
One year	**$194.4**	4,252	1.56
Multiple years	**$68.3**	2,736	1.61

Source: GAO analysis of Department of the Treasury data | GAO-21-432

Cancellations are far less common for no-year budget authority. For no-year budget authority to be cancelled, the head of the agency or the president must determine that the purposes of the appropriation was met and no disbursement can have been made for 2 consecutive fiscal years. From fiscal years 2009 through 2019, only 25 accounts with no-year authority had cancellations, totaling $508 million. This was 0.2 percent of the government-wide cancelled appropriations during that time. The no-year amounts are included in the cancelled appropriations figures presented throughout this report, though a rate of cancellation cannot be meaningfully calculated for this category since the budget authority for these accounts could have been made available prior to the period for which we began collecting data.

Accounts Granted Additional Time to Disburse Had Lower Cancellation Rates

Some accounts receive additional time to disburse funds beyond the statutory 5-year period. In total over fiscal years 2009 through 2019, these accounts had a lower cancellation rate than the government-wide average—0.6 percent versus 1.6 percent. Since extended disbursing authority is granted in law on a case-by-case basis, there are fewer accounts of this type. From fiscal years 2009 through 2019, there were 60 accounts with budget authority that was cancelled more than 5 years from the ending period of availability. These accounts represented about 0.1 percent of the total cancelled appropriations government-wide.

The Environmental Protection Agency and USDA had the largest number of accounts with extended disbursing authority with cancellations, (24 and 19, respectively). For example, each year in its annual appropriation, USDA's loan programs such as the Rural Development Loan Fund program, the Rural Electrification and Telecommunication Loans program, and the Rural Housing Insurance Fund program typically have an unlimited amount of time to disburse funds. Environmental Protection

Agency officials explained that the law grants them an extra 2 years to disburse funds from these accounts since they typically fund grants for long-term infrastructure projects.

Program-Specific Factors Explain Many Cancelled Appropriations in Case Study Accounts

Actual Program Needs Were Less than Estimated or Authorized for Some Case Study Accounts, Resulting in Unused Funds

For three of our six case study accounts, cancelled appropriations arose when actual program needs were less than initially estimated. This was often the result of evolving circumstances, such as a recovering economy or changes in military combat missions.

For example, funding estimates for the Supplemental Nutrition Assistance Program (SNAP) are based on factors that are tied to the economy, such as the number of qualifying beneficiaries and the level of unemployment. If the economy grows and the number of eligible recipients declines at a faster rate than estimated, program spending will be less than anticipated, leading to higher levels of cancelled appropriations.

For instance, the Food and Nutrition Service estimated that more than 40 million people would participate in SNAP during fiscal year 2019. However, actual 2019 participation was lower (approximately 38 million), resulting in $5 billion in program benefit funding that will eventually be cancelled.

Similarly, according to HHS officials, annual payments to the health care trust funds in the Centers for Medicare and Medicaid Services (CMS) are based largely on two factors: (1) the number of beneficiaries enrolled in Medicare and (2) the amount of benefits paid. CMS makes its budget estimates months in advance. Deviations from predicted expenses could occur due to changes in enrollment, drug costs, or utilization of benefits, among other factors.

In most cases, these changes are outside of CMS's control. If the actual costs that must be reimbursed to the trust funds from the general fund for supplementary medical insurance matching payments and prescription drug subsidies are higher than estimated, CMS obtains additional funding per Office of Management and Budget guidance. CMS officials told us that any unused funding obtained this way is backed out from the appropriation at the expiration date, rather than remaining in the account to be cancelled, If the actual costs are lower than estimated, any unused funds appropriated to the Payments to the Health Care Trust Funds account are cancelled.

For the Army Operation and Maintenance account, actual versus projected troop levels and warfront movements can contribute to cancelled appropriations. Officials from the Army told us that changes to Overseas Contingency Operations (OCO)—especially to troop levels that the president directs after appropriations levels have been decided—contributed to the level of cancellations from this account.[4] Analysis provided by Army officials showed that OCO funding is cancelled at a higher rate than other funding in the Operation and Maintenance account.

Some Case Study Accounts Received Funds for Very Specific Purposes, Limiting Their Ability to Redirect Unused Funds

Agency officials from four of our six case study accounts reported that some of the funds they received were for very specific purposes and often could not be used for other purposes. For example, officials said that the Administration for Children and Families' (ACF) Promoting Safe and Stable Families program provides grants to states for the Sexual Risk Avoidance Education program, which implements sexual risk avoidance education.

The law sets aside certain amounts of funding for each state, and ACF officials reported that some states declined the grant funding because of the program requirements. ACF did not have the authority to redirect those funds for other purposes, so the appropriations ultimately were cancelled. In 2010, $50 million was appropriated toward these programs, and approximately $31 million of those funds were cancelled.

From 2010 to 2015 an average of approximately $49 million was appropriated per year and an average of approximately $18.4 million was cancelled. According to ACF officials, Congress has since modified the program's authorization to encourage more states to use the funds.

Similarly, the Air Force reported its appropriations for procurement sometimes come with narrow purpose limitations, focusing on the production or acquisition of specific components or systems. In some

[4]DOD defines contingency operations as small, medium, or large-scale campaign-level military operations, including but not limited to support for peacekeeping operations, foreign disaster relief efforts, and noncombatant evacuation operations.

cases, the narrow purpose does not allow for the funds to be redirected to other areas, such as with cyberspace, supplemental, and OCO funds.

Reprograming: is shifting funds within an appropriation or fund account to use them for purposes other than those contemplated at the time of appropriation.

Source: GAO Budget Glossary | GAO-21-432

In other instances, if those systems or components cost less than the appropriated amount, the Air Force may be able to redirect the funds toward other priorities. However, DOD reported it is limited to changes within 20 percent of the base amount appropriated for procurement accounts. Further, DOD reported its process of review and congressional notification often takes several months, which means any potential reprogramming actions must be identified early in the fiscal year in order to be completed before the funds expire.

Case Study Agencies Reported That Uncertain Costs Result in More Cancelled Appropriations

Case study agencies reported that some types of spending have more uncertain final costs, which can result in greater rates of cancelled appropriations. Agencies that face more uncertainty in their final costs, such as agencies that have more of their spending in contracts, are more likely to have a higher rate of cancelled appropriations. While the balance between personnel and contract spending is largely a function of the agency's mission, our analysis suggests that agencies seeking to reduce cancelled appropriations may have more success if they focus on contract spending.

Contracts and acquisitions. When costs are more difficult to estimate, such as with contracts and acquisitions, there is a greater chance that final costs will not match the initial obligation. In some cases, agencies explicitly structure contracts to allow for variable costs, making final costs more uncertain. For example, DOD officials reported that their final contract costs often differ from the initial obligation due to:

- adjustments to the final cost for price inflation,
- contingency items that are within the scope of the original contract,
- contracts that include incentives for performance, and
- contracts that are structured to be flexible.

If contract or acquisition costs are lower than expected during the period of availability, agencies have the opportunity to redirect the funds toward other priorities before they expire. However, agencies need to identify deobligations early enough in the year to be able to redirect the funds. Air Force officials reported that deobligations late in the fiscal year can contribute to higher levels of cancelled appropriations.

Once appropriations have expired, there are limited opportunities to use the funds if actual costs are lower than the agency obligated. Agencies generally may only use funds to make upward adjustments to existing obligations during the expired phase that are within the scope of the existing contract or were not previously recorded, but no new obligations may be made with expired funds.

We also conducted statistical tests to examine whether there are differences in cancelled appropriation rates between agencies with different compositions of major spending categories such as personnel, grants, contracts, or acquisitions.[5] This analysis showed that within CFO Act agencies, a higher percentage of contract expenses compared to other spending types was associated with a higher rate of cancellations.

Personnel costs. Personnel costs are easier for agencies to predict since they are obligated and outlayed consistently throughout the year at the conclusion of each pay period, which makes cancelled appropriations less likely. To illustrate, Farm Service Agency (FSA) officials reported that approximately 70 percent of FSA's Salaries and Expenses account is for personnel costs.

FSA officials said this portion of the budget is easier to execute because obligations and outlays happen on a regular basis throughout the year. Further, FSA officials reported that there is no need to adjust these personnel costs after the funding expires.

In contrast, FSA officials said that most of the deobligations of funding within this account, which can ultimately lead to cancellations, come from information technology (IT) contracts and interagency agreements. If the providers of these services find that the actual costs are lower than expected during the period of availability, FSA can realign funding to cover other expenses. However, if the providers reduce the charges for these contracts or interagency agreements after the funds have expired, FSA cannot obligate the funds to other purposes, which usually results in cancelled appropriations.

[5]For this analysis, we used data from the Office of Management and Budget's budget database for each of the 24 agencies named in the CFO Act. 31 U.S.C. § 901. See appendix I for more details on this analysis.

Our statistical analysis showed that within CFO Act agencies, a higher percentage of personnel expenses compared to other spending types was associated with a lower rate of cancellations.

Timing of Appropriations Did Not Have a Consistent Effect on the Amount of Cancelled Appropriations among Case Study Accounts

Depending on the timing of appropriations actions, agencies may have more limited time to plan and execute annual spending. While these timing issues can make obligating funds before they expire more difficult, we did not find consistent evidence among case study accounts that they affected the amount of cancelled appropriations.

Continuing Resolutions. While some agency officials told us that long-term continuing resolutions (CR) can make planning and disbursing their funds more difficult, none of them reported effects on the cancelled appropriations from their accounts.

Continuing Resolution: When Congress and the President have not completed action on the regular appropriation acts by the beginning of the fiscal year, a continuing resolution can be enacted to allow agencies to continue in operation. A continuing resolution may be enacted for the full year, up to a specified date, or until regular appropriations are enacted.

Lapse in appropriations: When an appropriation ends and a new one is not enacted, a lapse in appropriations, also called a funding gap, results and if the affected agency or program lacks sufficient budget authority to continue operations, there may be a partial government shut down.

Supplemental appropriations: An act appropriating funds in addition to those already enacted in an annual appropriation act. Supplemental appropriations provide additional budget authority usually in cases where the need for funds is too urgent to be postponed until enactment of the regular appropriation bill.

Source: GAO Budget Glossary | GAO-21-432

For example, ACF reported that CRs could compress the budgetary process, making it harder to disburse grant monies. Delays in determining the full-year appropriation shortens the amount of time the program office has to execute their budget authority. According to ACF officials, creating and reviewing grants can be very time consuming for the program office, and, following a CR, ACF will often need additional staff to distribute awards before the end of the fiscal year. ACF officials reported that these additional staff have prevented cancelled appropriations even under condensed time frames resulting from a CR.

We ran statistical tests to determine if there is any relationship between cancelled appropriations and the number of days CFO Act agencies operated under a CR and did not find evidence of a correlation.

Lapses in appropriations. Officials from all six of our case study accounts reported little or no impact from lapses in appropriations. There was a single lapse in appropriations from fiscal years 2004 to 2014 that lasted 16 days at the beginning of fiscal year 2014.

When we analyzed cancellation rates at the CFO Act agencies over time, we did not observe any effects of the fiscal year 2014 lapse in appropriations on the fiscal year 2019 cancellation rate.[6]

[6]Fiscal year 2019 is the year most of the remaining appropriations provided in 2014 would have been cancelled.

Discretionary appropriation: Refers to those budgetary resources that are provided in appropriation acts, other than those that fund mandatory programs.

Mandatory appropriation: Refers to 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, SNAP benefits, Medicare, and veterans' pension programs), payment of interest on the public debt, and nonentitlements such as payments to states from Forest Service receipts. By defining eligibility and setting the benefit or payment rules, Congress controls spending for these programs indirectly rather than directly through appropriations acts.

Source: GAO Budget Glossary | GAO-21-432

Supplemental appropriations. Supplemental appropriations often provide additional appropriations for one-time events or concerns that occur after the annual budget has been passed, such as a natural disaster or economic downturn. USDA and Air Force officials reported that supplemental appropriations could contribute to increased cancelled appropriations, in part because of the combination of less time for estimating costs (often resulting in greater funding) and a shorter time frame to obligate funds. For example, FNS reported that supplemental funding for SNAP benefits provided during a disaster could be greater than needed. This could result in higher levels of cancelled appropriations.

Case Study Agencies Limit the Amount of Cancelled Discretionary Appropriations through Periodic Reviews and Other Procedures

As described earlier in this report, the design of case study mandatory programs does not allow agency interventions to reduce cancelled appropriations. The appropriations for SNAP benefits, Payments to the Health Care Trust Funds, and the mandatory portion of the Promoting Safe and Stable Families account have specific formulas to determine beneficiaries and benefit amounts. If circumstances cause fewer beneficiaries to qualify, the agencies have no other legal use for the funds.

However, agencies have greater ability to prevent cancelled appropriations within their discretionary programs. We found that our case study agencies use periodic reviews and other procedures that help limit cancelled appropriations. When agencies ensure they fully obligate funds before they expire, avoid deobligations, and limit cost adjustments, they help reduce the amount of appropriations that are ultimately cancelled from their accounts.

Army Developed a Program to Specifically Address Cancelled Appropriations

Army officials told us they established the Command Accountability and Execution Review (CAER) program in 2017 in response to high levels of cancelled appropriations from Army's Operation and Maintenance (O&M) account that began in fiscal year 2015. According to Army officials, CAER aims to elevate awareness among Army leadership about actions that lead to cancelled appropriations from the O&M account.

The CAER program identified that downward adjustment of previously incurred obligations, or deobligations, often leads to cancelled appropriations in the O&M account. CAER program financial analysis found that nearly three-quarters of the deobligations from the Army O&M account from fiscal years 2015 through 2017 were for transportation, supplies and materials, and contract services. Using this information, the CAER program focused its efforts on these areas.

The CAER program also provides Army leadership with metrics and tools to help prevent cancelled appropriations. For example, CAER officials told us they use the capabilities of the Army's financial system to monitor supply and material obligations that are more than 60 days old. The officials said funds that have not been outlayed toward those expenses within the 60-day period could be an early indicator of a deobligation. Officials stated that by monitoring these transactions early, Army leadership has a greater chance of being able to redirect the funds toward another expense before they expire.

Since the CAER program began in 2017 and focuses its efforts on currently available budget authority that will cancel in 5 years, it is too soon to know what effect these actions will have on the amount of cancelled appropriations. However, Army reported that one year after fiscal year 2018 funds expired, the deobligations from the O&M account were 68 percent lower than the previous average in the areas of transportation, supplies and materials, and contract services.

FSA and Army Modified Systems of Interagency Payments to Reduce Cancelled Appropriations

FSA and the CAER program both found opportunities to reduce cancelled appropriations by modifying billing systems they used to split costs between government accounts. In both cases, agency officials found that interagency payments were causing cancelled appropriations and developed new systems to determine the final costs of their shared expenses earlier. Agency officials told us these new systems reduced cost adjustments and deobligations during the expired phase, which could ultimately help reduce the cancelled appropriations from these accounts.

For example, FSA officials reported that the Salaries and Expenses account used to experience numerous upward and downward adjustments for rent costs. In response, USDA implemented a new system in 2016 that allowed the lead agency on a lease to bill directly each agency that shared the space. FSA officials reported that since this system was implemented, rent costs are adjusted much less frequently, which ultimately results in fewer cancelled appropriations.

Similarly, CAER program officials told us that transportation costs shared between agencies often changed after obligated funds had expired. To address this issue, DOD devised a new software system that provided faster feedback on actual transportation costs. Officials could use this information to increase the accuracy of obligations toward transportation costs. CAER officials attribute this system to decreasing net deobligations for transportation from a 3-year average of $100 million in deobligations after 10 expired months in fiscal years 2015 through 2017 to upward adjustments of $12 million in fiscal year 2018 and $21 million in fiscal year 2019. Since deobligations are often a precursor to cancelled appropriations, Army officials believe this new system should begin having an effect on cancelled appropriations from the O&M account in fiscal year 2024.

Routine Agency Procedures Also Limit Discretionary Cancelled Appropriations

Case study agencies also have routine procedures in place to help ensure that most discretionary funds are obligated before they expire. These policies and procedures also help limit future cancellations, as demonstrated in the following examples.

Semi-annual reviews of expiring and cancelled funds. Air Force financial management and acquisitions officials review programs' expenditures twice a year to monitor the execution of funds, with the goal of ensuring funds are spent. Air Force officials told us these reviews classify unobligated expired funds based on whether the Air Force had any recourse to ensure it used the funds. This analysis helps Air Force officials focus their efforts on areas where they can be most effective and learn lessons from prior year spending patterns.

Monitoring grant expenditures. ACF's Office of Grants Management and ACF program offices monitor expenditures at grant programs to see if spending is proceeding as planned by grantees. The frequency and scope of these monitoring activities depend on the size and requirements of each grant.

Officials reported that throughout ACF's grant cycle, certified public accountants audit annual ACF federal grants in excess of $750,000. ACF officials told us they have a team dedicated to the successful resolution of any program or fiscal findings from the audits, which helps to ensure grant monies are spent correctly.

Identifying opportunities to redirect funds. FSA reported that it performs some routine fiscal procedures that can reduce the amount of cancelled appropriations. FSA creates and monitors spending plans for the Salaries and Expenses account. By monitoring these plans against expenditures, FSA can identify any balances on the account before they expire. Agency officials said they also maintain a list of priorities for redirecting funds if they become available during the period of availability. When funds are deobligated from other areas, FSA uses them to fund that list of priorities. While USDA officials told us that the prioritized items change from year to year, some recent examples of items that were included on the list were hiring temporary staff and technology upgrades.

All Three Case Study Agencies Have Some Authority to Redirect Expired Discretionary Funds by Statute

DOD, HHS, and USDA all have some authority to redirect discretionary expired funding. This authority allows the agencies to take monies that are, or were, going to expire and shift those funds to other priorities so they do not eventually need to cancel the funds.

For example, before cancelling its discretionary budget authority, HHS has authority to transfer unexpended funds into a non-recurring expenses fund, which was created by statute in 2008. HHS officials told us the fund is intended to simplify the budget process for large, irregularly occurring expenses at the department. For example, for fiscal years 2015 to 2019, ACF transferred more than $3.1 million of its discretionary funds from the Promoting Safe and Stable Families account into the non-recurring expenses fund. The fund is available for capital asset acquisitions for HHS and its components, but HHS cannot use it for operating expenses. According to HHS, it cannot distribute funds from the non-recurring expenses fund to HHS grantees either. As of fiscal year 2019, this fund had $1.5 billion in available budget authority.

FSA officials reported that they have the ability to extend the availability of unused discretionary funds within their Salaries and Expenses account for up to 2 years, if they direct them toward IT expenses. Initially, there was no limit on the amount, but in 2014, Congress capped the amount at $20 million. From fiscal years 2009 through 2019, the Salaries and Expenses account used this flexibility for $213 million in IT expenses, averaging about $19 million a year.

DOD's Foreign Currency Fluctuation account has the statutory authority to receive transfers from expired O&M and Military Personnel appropriations accounts for up to 3 years. Once transferred, the funds are then available until expended. The account has a statutory balance limit of $970 million, and DOD has maintained the account balance at that level since 2012.

However, case study agencies reported that all mandatory funds are ineligible to be redirected through these methods. In other words, the three agencies cannot use these methods to extend the availability of time-limited funds in SNAP, Payments to the Health Care Trust Funds, or the mandatory portion of the Promoting Safe and Stable Families account.

Agency Comments and Our Evaluation

We provided a draft of this report to the Secretaries of the Treasury, DOD, HHS, and USDA for review and comment.

DOD, HHS, and USDA provided technical comments, which we incorporated as appropriate. Treasury reviewed our draft report and had no comments.

We are sending copies of this report to the appropriate congressional committees, the Secretary of the Treasury, the Secretary of Defense, the Secretary of Health and Human Services, the Secretary of Agriculture, and other interested parties. In addition, the report will be available at no charge on the GAO website at https://www.gao.gov.

If you or your staff members have any questions regarding this report, please contact me at (202) 512-6806 or arkinj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix II.

Jeff Arkin
Acting Director, Strategic Issues

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Appendix I: Objectives, Scope and Methodology

This report addresses (1) the extent of appropriations that were cancelled in fiscal years 2009 through 2019 and how the rate of cancelled appropriations and other characteristics differ across agencies, (2) factors that contribute to the level of cancelled appropriations in selected accounts, and (3) efforts selected agencies make to prevent the cancellation of funds.

In order to determine the amount and rate of cancelled appropriations, we used data from the U.S. Department of the Treasury's (Treasury) Central Accounting Reporting System (CARS). CARS is a government-wide system of record for agency financial data. It is used to prepare the annual Combined Statement of Receipts, Outlays, and Balances, among other purposes. We examined the amounts of appropriations cancelled in fiscal years 2009 through 2019 as reported in CARS.

Since budget authority is typically cancelled 5 years after the period of availability of the appropriation ends, we examined the available budget authority amounts from fiscal years 2004 through 2014. Since budget authority amounts prior to fiscal year 2004 were not available, we excluded any cancelled appropriations that were available in fiscal year 2003 or earlier from this analysis. For purposes of this report, we define the available budget authority as the appropriations available for obligation during the time period, combined with the net transfers made between government accounts and any collections from the public that are available without further appropriation. This approximates the total resources available to the account from which the cancellation was made.[1]

[1]In our previous work, we have reported on control deficiencies related to agency-submitted information in CARS. We found that the guidance for coding transaction within CARS is not comprehensive in its definitions. Further, the Bureau of Fiscal Service does not have a mechanism for checking agencies' use of transaction codes for consistency with existing guidance. While Treasury issued enhanced guidance in December 2019, this would not retroactively correct any prior issues. Therefore there is an increased risk that federal agencies may not have properly classified their transactions. As a result, the percentage of canceled appropriations could be modestly overstated or understated for some agencies if their transactions related to offsetting transactions are misclassified. For context, there were $245 billion in offsetting collections and $804 billion in intragovernmental transactions in fiscal year 2019, compared to $4,704 billion in total budget authority. In order to mitigate the potential overstatement or understatement of total available budget authority, we generally present cancellation rates at the agency level and do not present cancellation rates at the account level. See GAO, *Financial Audit: Bureau of the Fiscal Service's Fiscal Year 2018 Schedules of the General Fund,* GAO-19-185 (Washington, D.C.: May 15, 2019)

To assess the reliability of these data, we reviewed related documentation describing the account and transaction classification systems used within CARS. To supplement this review, we interviewed Treasury officials familiar with CARS to ensure our planned use was accurate and appropriate. We also conducted a number of tests to identify missing data, unmatched values, or unrealistic data results. We found the data to be sufficiently reliable to produce government-wide statistics at the agency level and higher and, in some cases, for agency-specific accounts.

To examine factors that contribute to the level of cancelled appropriations across agencies, we ran statistical tests to determine if there is any correlation between cancelled appropriations and the timing and type of appropriations. In particular, we examined whether there was any significant correlation between numbers of days agencies operated under a continuing resolution and the amount of cancelled appropriations. We also used multivariate statistical testing to examine whether there are differences in cancelled appropriation rates when agencies have different compositions of major spending categories, such as personnel, grants, contracts, or acquisitions. We used data from the Office of Management and Budget's budget database for each of the 24 agencies named in the Chief Financial Officers Act of 1990, as amended (CFO Act).[2]

To further examine factors that contribute to the level of cancelled appropriations across agencies and what efforts selected agencies make to manage them, we selected six case study accounts across three agencies: the Department of Defense, the Department of Health and Human Services, and the U.S. Department of Agriculture (USDA). We selected the three accounts with the most cancelled appropriations government-wide from fiscal years 2009 through 2018 (Army Operation and Maintenance, the Supplemental Nutrition Assistance Program, and Payments to Health Care Trust Funds) and an additional account at each of the three departments (Air Force Aircraft Procurement, Farm Service Agency Salaries and Expenses, and Promoting Safe and Stable Families).

Within this selection, there is at least one account that predominantly uses each of the major categories of federal spending: personnel, acquisitions, grants, and contracts. These six accounts, together represent 36 percent of total cancelled appropriations government-wide

[2]31 U.S.C. § 901.

from fiscal years 2009 through 2018. We interviewed officials from the three agencies, examined their written responses, and analyzed related documents to gather information about what causes cancelled appropriations within selected accounts and what efforts the agency makes to limit the appropriations that are cancelled.

We conducted this performance audit from January 2020 to May 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: GAO Contacts and Staff Acknowledgments

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Staff Acknowledgments

In addition to the contact name above, the following staff members made key contributions to this report: Thomas McCabe (Assistant Director), Katherine D. Morris (Analyst-in-Charge), Mariel Alper, Erik Shive, and Dylan Stagner.

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