



Report to the Chairman, Government
Performance Task Force, Committee
on the Budget, U.S. Senate

October 2014

2013 GOVERNMENT SHUTDOWN

Three Departments
Reported Varying
Degrees of Impacts
on Operations,
Grants, and Contracts

GAO Highlights

Highlights of [GAO-15-86](#), a report to the Chairman, Government Performance Task Force, Committee on the Budget, U.S. Senate

Why GAO Did This Study

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. GAO was asked to describe the effects of the shutdown. This report describes (1) how the shutdown affected selected agencies' operations and services, including immediate and potential longer-term effects; (2) what is known about how the shutdown affected federal contracting and grants, as reported by the selected agencies and associations with expertise in grants and contracts; and (3) what economic studies or reports state about the effect of the shutdown on national economic activity.

GAO selected three departments for review—DOE, HHS, and DOT—based on the value of grants and contracts, the percentage of employees expected to be furloughed, and the potential for longer-term effects. GAO reviewed department contingency plans and other documents; economic forecasters' analyses; and interviewed officials from the selected departments and components, BEA, OMB, OPM, associations, and economic forecasters.

What GAO Recommends

GAO recommends that OMB instruct agencies to document lessons learned in planning for and implementing a shutdown, as well as resuming activities following a shutdown should a funding gap longer than five days occur in the future. OMB staff did not state whether they agreed or disagreed with the recommendation.

View [GAO-15-86](#). For more information, contact Yvonne D. Jones at (202) 512-6806 or jonesy@gao.gov

October 2014

2013 GOVERNMENT SHUTDOWN

Three Departments Reported Varying Degrees of Impacts on Operations, Grants, and Contracts

What GAO Found

The 2013 shutdown impacted some operations and services at the three departments that GAO reviewed: Energy (DOE), Health and Human Services (HHS), and Transportation (DOT). For example, at HHS's National Institutes of Health (NIH), initial closure of the clinical trials registry prevented new trial registrations for patients, before NIH recalled a small number of employees to reopen the registry. Similarly, DOT's Merchant Marine Academy closed and required a change to the academic calendar to allow eligible students to graduate on time. However, officials at these departments said that longer-term effects are difficult to assess in isolation from other budgetary events, such as sequestration.

Because of employee furloughs and payment or work disruptions, the three departments, their components, grant recipients, and contractors faced delays and disruptions in grant and contract activities during the shutdown, including the following examples:

- Within HHS, grants management activities at NIH effectively ceased with employee furloughs, although most current grant recipients were able to draw down funds. NIH had to reschedule the review process for over 13,700 grant applications because of the shutdown. After the shutdown, NIH completed the process to meet the next milestone in January 2014.
- Grants activities at DOT's Federal Transit Administration (FTA) effectively ceased with grants management officials furloughed and no payments made on existing grants. FTA officials said that no new grant awards were processed because of the shutdown, but the effect was minimal because the grant processing system is typically unavailable in early October for fiscal year closeout activities.
- At DOE's Office of Environmental Management (EM), contract activities generally continued because of the availability of multi-year funding, but more than 1,700 contractor employees who operate and maintain EM facilities were laid off or required to use leave because EM issued stop work orders. EM officials reported some programs required 4 months to return to pre-shutdown levels of contract activity.

Researchers' analyses of the economic effects of the shutdown have been limited to predicting its effect on real gross domestic product (GDP) in the fourth quarter of 2013. In January 2014, the Bureau of Economic Analysis (BEA) estimated the direct effect of the shutdown on real GDP growth to be a reduction of 0.3 percentage points. Economic forecasters GAO interviewed believed the other economic effects to be minimal at the economy-wide level.

The selected departments were aided in managing the uncertainties of the shutdown by their experience with preparing for prior potential shutdowns, funding flexibilities (such as multi-year funding), and ongoing communications internally and with Office of Management and Budget (OMB) staff and Office of Personnel Management (OPM) officials. OMB staff addressed questions from agencies on how to communicate about the shutdown with their employees, but did not direct agencies to document lessons learned from how they planned, managed, and implemented the shutdown for future reference.

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Abbreviations

ACF	Administration for Children and Families
BEA	Bureau of Economic Analysis
BPA	Bonneville Power Administration
CMS	Centers for Medicare and Medicaid Services
DOE	Department of Energy
DOT	Department of Transportation
EIA	Energy Information Administration
EM	Office of Environmental Management
FAA	Federal Aviation Administration
FTA	Federal Transit Administration
GDP	Gross domestic product
HHS	Department of Health and Human Services
IHS	Indian Health Service
MARAD	Maritime Administration
NIH	National Institutes of Health
NNSA	National Nuclear Security Administration
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PHMSA	Pipeline and Hazardous Materials Safety Administration
SNAP	Supplemental Nutrition Assistance Program
TANF	Temporary Assistance for Needy Families
WAPA	Western Area Power Administration
WIC	Special Supplemental Nutrition Program for Women, Infants, and Children

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October 15, 2014

The Honorable Mark R. Warner
Chairman
Government Performance Task Force
Committee on the Budget
United States Senate

Dear Mr. Chairman:

In October 2013, the federal government partially shut down for 16 days, because of a lapse in appropriations. At the start of the fiscal year, agencies without available funds were required to cease all operations (with few exceptions, such as the protection of human life and property) and commence an orderly shutdown. While under way, the government shutdown affected federal agencies differently in terms of agency operations and services provided, as well as in the numbers of employees that were furloughed. The Office of Management and Budget (OMB) reported that approximately 850,000 federal employees, or 40 percent of the civilian federal workforce, were furloughed for at least part of the shutdown.¹ The Department of Defense recalled the majority of its 400,000 furloughed civilian federal employees at the end of the first week in response to the Pay Our Military Act.²

In July 2014, the Bureau of Economic Analysis (BEA) issued the latest estimate of gross domestic product (GDP) growth for the fourth quarter of calendar year 2013—the time period during which the shutdown occurred.³ According to the estimates, in the fourth quarter of 2013 real GDP grew by 3.5 percent over the preceding quarter. According to BEA, increases in personal consumption expenditures, net exports, and gross

¹Office of Management and Budget, *Impacts and Costs of the October 2013 Federal Government Shutdown* (November 2013). In its report, OMB covered the executive branch agencies and how their employees and programs were affected by the shutdown.

²Pub. L. No. 113-39, 127 Stat. 532 (Sept. 30, 2013). This act provided appropriations for the pay and allowances of members of the U.S. armed forces and those civilian employees that the Secretary of Defense determined provide support to members of the armed forces.

³According to BEA, the GDP growth figures shown here reflect the most recent update of BEA's national income and product accounts released on July 30, 2014.

private domestic investment were three of the largest contributors to this growth.

You asked us to describe the effects of the federal government shutdown.⁴ In this report, we describe (1) how the federal government shutdown affected selected agencies' operations and services, including the immediate and potential longer-term effects, (2) what is known about how the shutdown affected federal contracting and grants, including the immediate and potential longer-term effects as reported by the selected agencies and associations with expertise in grants and contracts, and (3) what economic studies or reports state about the effect of the government shutdown on national economic activity.

For this review, we selected three departments and three departmental components to serve as nongeneralizable case studies: the Department of Energy (DOE) and its Office of Environmental Management (EM); the Department of Health and Human Services (HHS) and its National Institutes of Health (NIH); and the Department of Transportation (DOT) and its Federal Transit Administration (FTA).⁵ These departments and components were selected based on the following criteria: (1) having grants or contracts valued over \$1 billion in fiscal year 2013, as reported on USASpending.gov; (2) the percentage of federal employees expected to be furloughed as reflected in the department contingency plans; and (3) the potential for longer-term effects from the shutdown on operations, grants, or contracts based on our determination using department contingency plans, the dollar value of grant and contract programs in fiscal year 2013, and background research (including OMB's report on the shutdown).⁶ We selected a component within each department in order to

⁴This request was originally made by Senator Warner as Chairman of the Senate Subcommittee on Surface Transportation and Merchant Marine Infrastructure, Safety and Security, Committee on Commerce, Science and Transportation.

⁵DOE's management of major contracts and projects executed by EM—those with values of \$750 million or greater—is included in GAO's biennial report on government operations that GAO identifies as high risk. See GAO, *High Risk Series: An Update*, [GAO-13-283](#) (Washington, D.C.: February 2013).

⁶For example, see GAO, *2013 Sequestration: Selected Federal Agencies Reduced Some Services and Investments, While Taking Short-Term Actions to Mitigate Effects*, [GAO-14-452](#) (Washington, D.C.: May 28, 2014); 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).

obtain detailed examples of how components were affected by the shutdown in terms of operations and services as well as grants and contract activity.

To describe the effects of the shutdown on the three departments' and components' operations and services, we reviewed documentation from the departments (including the contingency plan and guidance to employees) and components (including details on programs affected by the shutdown) and interviewed relevant departmental and component level officials regarding steps they took for planning for and implementing the shutdown and the effects of the shutdown on operations and services. We reviewed OMB documentation (including its November 2013 report on the shutdown and guidance to agencies on preparing contingency plans and operating during a shutdown); reviewed Office of Personnel Management (OPM) guidance to agencies; and interviewed OMB staff and OPM officials. We did not assess whether departments correctly implemented the shutdown or whether decisions to except certain programs or employees were in accordance with the law.

To describe what is known about how the shutdown affected contracts and grants at the selected departments and components as reported by associations with expertise in grants and contracts, we reviewed documentation from the selected departments and components (including guidance to the recipients of grants from the components and contractors employed by the components) and interviewed officials managing grants and contracts within the selected departments and components. We targeted our review of grants to HHS and NIH and to DOT and FTA. We targeted our review of contracts to DOE and EM and HHS and NIH. We also reviewed documentation—identified through background research—on how federal grant recipients in general were affected by the shutdown. We interviewed relevant officials from national associations which either represent contractors and grant recipients or otherwise have relevant expertise, including associations representing recipients of grants from our selected departments and components. For grants, these organizations and associations included the American Association of State Highway and Transportation Officials; Association of American Medical Colleges; Association of American Universities; Community Transportation Association of America; Federal Funds Information for States; Federation of American Societies for Experimental Biology; National Association of State Auditors, Comptrollers, and Treasurers; and National Association of State Budget Officers. For contracts, these organizations and associations included the Professional Services Council and the American Small Business Chamber of Commerce.

To describe what economic studies or reports state about the effect of the government shutdown on national economic activity, we conducted a literature review to identify relevant studies or reports and economists who have researched the issue. We reviewed the identified research predicting the effects of the shutdown on the national economy. Using the results of the literature review, we interviewed several economic forecasters from financial services firms who had conducted relevant analyses. Forecasters we interviewed included economists from Goldman Sachs,⁷ IHS Global Insight,⁸ Macroeconomic Advisers,⁹ and Moody's Analytics.¹⁰ Using the results of the literature review, we also reviewed reports and analyses from federal agencies on the economic effects of the shutdown. We interviewed relevant officials from BEA, Congressional Budget Office, Congressional Research Service, and the Council of Economic Advisers.

We assessed the reliability of OMB's furlough data in its report, *Impacts and Costs of the October 2013 Federal Government Shutdown*, to be used for the limited purpose of background information. We checked OMB's data by comparing the data to the planned furlough data agencies reported in their shutdown contingency plans, and we checked the data for reasonableness and the presence of any obvious or potential errors in accuracy and completeness. We also interviewed selected OMB staff knowledgeable about the data and clarified the process whereby the data were collected and verified. We also assessed the reliability of the federal grants and contracts data as reported on USASpending.gov for the limited purpose of case study selection and background information. We assessed the USASpending.gov data for accuracy and completeness

⁷Goldman Sachs is a global investment banking, securities and investment management firm that provides a range of financial services to a diversified client base that includes corporations, financial institutions, governments, and individuals.

⁸IHS Global Insight is an economic organization that provides economic and financial information on countries, regions, and industries using macroeconomic models, data, and software to support planning and decision making. The company also provides consulting and advisory services for industries, such as automotive, energy, health, construction, and consumer goods.

⁹Macroeconomic Advisers is an independent research firm focused on the U.S. economic outlook, monetary policy, and fixed income markets.

¹⁰Moody's Analytics provides economic, consumer credit and financial data, research, analysis, and forecasting at the global, macro, and subnational/regional levels.

based on our recent report on the reliability of USASpending.gov data.¹¹ We believe these data to be sufficiently reliable for the purpose of this report. (See appendix I for a more detailed discussion of our objectives, scope, and methodology.)

We conducted this performance audit from April 2014 to October 2014 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

Overview of Shutdowns

Over the past 20 years, there have occasionally been federal lapses in appropriations that led to government shutdowns. The longest of these shutdowns lasted 21 calendar days, from December 16, 1995, to January 6, 1996.¹² The most recent government shutdown—the subject of this report—occurred at the beginning of fiscal year 2014 and lasted for 16 calendar days, from October 1 to 16, 2013. According to OMB, this shutdown resulted in agencies furloughing federal employees for a combined 6.6 million work days. Furloughed federal employees were retroactively paid and OMB estimated the cost to be about \$2 billion.¹³

¹¹GAO, *Data Transparency: Oversight Needed to Address Underreporting and Inconsistencies on Federal Award Website*, [GAO-14-476](#) (Washington, D.C.: June 30, 2014). While the report noted inconsistencies with USASpending.gov reporting, we determined that selected individual data elements that we used for this report had sufficiently low percentages of unverified information to be used for the limited purposes of case study selection and background information.

¹²For the purposes of this report, we will refer to the 16-day lapse in appropriations as the government shutdown. For more information on lapses in appropriations, please see GAO, *Principles of Federal Appropriation Law: Third Edition, Volume II*, [GAO-06-382SP](#) (Washington, D.C.: Feb. 1, 2006).

¹³Office of Management and Budget, *Impacts and Costs of the October 2013 Federal Government Shutdown* (November 2013).

Types of Employee Furloughs^a

A furlough is the placing of an employee in a temporary nonduty, nonpay status because of a lack of work or funds, or for other nondisciplinary reasons. There are two types of furloughs:

A *shutdown furlough* occurs when there is a lapse in appropriations, and can occur at the beginning of a fiscal year, if no funds have been appropriated for that year, or upon expiration of a continuing resolution, if a new continuing resolution or appropriations law is not passed. In a shutdown furlough, an affected agency would have to shut down activities funded by annual appropriations that are not excepted by law.

An *administrative furlough* is a planned event by an agency designed to absorb reductions necessitated by downsizing, reduced funding, lack of work, or any budget situation other than a lapse in appropriations.

Source: Office of Personnel Management. | GAO-15-86

^aOffice of Personnel Management, *Pay & Leave Furlough Guidance*, accessed Sept. 10, 2014. See also Office of Personnel Management, *Guidance for Shutdown Furloughs* (Oct. 11, 2013) and Office of Personnel Management, *Guidance for Administrative Furlough* (June 10, 2013).

Funding Gaps

Congress may provide budget authority to agencies through the passage of appropriations acts, which permits agencies to incur obligations to spend federal funds. When one or more of the appropriations are not enacted, a funding gap may result and agencies may lack sufficient funding to continue operations. Funding gaps occur most commonly at the beginning of a fiscal year when new appropriations, or a continuing resolution, have not yet been enacted. In this context, a gap may affect only a few agencies (if, for example, only one appropriation act remains unenacted as of October 1) or agencies across the federal government. We have previously reported that funding gaps, actual or threatened, are both disruptive and costly.¹⁴

¹⁴See, for example, GAO, *Continuing Resolutions: Uncertainty Limited Management Options and Increased Workload in Selected Agencies*, [GAO-09-879](#) (Washington, D.C.: Sept. 24, 2009); *Government Shutdown: Funding Lapse Furlough Information*, [GAO/GGD-96-52R](#) (Washington, D.C.: Dec. 1, 1995); *Government Shutdown: Permanent Funding Lapse Legislation Needed*, [GAO/GGD-91-76](#) (Washington, D.C.: June 6, 1991); *Funding Gaps Jeopardize Federal Government Operations*, [PAD-81-31](#) (Washington, D.C.: Mar. 3, 1981).

Operations during a Shutdown

Budgetary Definitions

Budget Authority enables the federal government to enter into financial obligations that will result in immediate or future outlays involving federal government funds. Budget authority may be classified by its duration (one-year, multiple-year, or no-year), by the timing provided in the legislation (current or permanent), by the manner of determining the amount available (definite or indefinite), or by its availability for new obligations.

An *obligation* is a definite commitment that creates a legal liability upon the government for the payment of goods and services ordered or received, or a legal duty on the part of the United States 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. 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 to the public or from one government account to another.

Source: GAO. | GAO-15-86

One of the key issues related to a government shutdown is determining what activities and programs an agency is permitted or required to continue when faced with a funding gap and resulting shutdown. Except in certain circumstances when continued activities are authorized by law, the Antideficiency Act generally restricts agencies from continuing operations funded by annual appropriations during a government shutdown.¹⁵

Activities Which May Continue During a Government Shutdown

The categories of activities which may continue fall into two broad categories. The first category is obligations authorized by law. Within this category, there are four types of exceptions:

- Activities funded with appropriations that do not expire at the end of the fiscal year, that is, multiple-year and no-year appropriations.
- Activities authorized by statutes that expressly permit obligations in advance of appropriations, such as contract authority.
- 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.” For example, there will be cases where benefit payments under an entitlement program are funded from other than 1-year appropriations (e.g., a trust fund), but the salaries of personnel who administer the program are funded by 1-year money. As long as money for the benefit payments remains available, administration of the program is, by necessary implication, authorized by law, unless the entitlement legislation or its legislative history provides otherwise or Congress takes affirmative measures to suspend or terminate the program.
- Obligations “necessarily incident to presidential initiatives undertaken within his constitutional powers,” for example, the power to grant pardons and reprieves. This same rationale would apply to legislative branch agencies that incur obligations “necessary to assist the Congress in the performance of its constitutional duties.”

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.

Source: GAO. | GAO-15-86

OMB’s Role

In the event of a government shutdown, OMB is responsible for ensuring that agencies have addressed the essential actions needed to effectively manage the shutdown; OMB does so by providing policy guidance and shutdown-related instructions. In particular, OMB *Circular No. A-11* directs federal agencies to develop contingency plans for use in the event of a government shutdown and to update those plans on a recurring

¹⁵31 U.S.C. §§1341-42.

basis.¹⁶ On September 17, 2013, OMB published guidance for executive branch agencies on how to prepare for and operate in the event of a government shutdown (including guidance on grant and contract administration) stating that agencies should be prepared for the possibility of a lapse in appropriations and resulting government shutdown.¹⁷ The guidance also instructed them to update their shutdown plans consistent with section 124.2 of OMB *Circular No. A-11*, which directs agencies to include the following in their shutdown plans: a summary of activities that will continue and those that will cease, the amount of time needed to complete shutdown activities, the number of employees on-board prior to shutdown, and the number of employees to be retained during the shutdown, among other information.¹⁸

¹⁶*Circular No. A-11* section 124.2 was updated in July 2014 and directs agencies to update and submit their shutdown plans to OMB every 2 years (at a minimum) starting August 1, 2015, or whenever there is a change in the source of funding for an agency program or any significant modification, expansion, or reduction in agency program activities. OMB had previously directed agencies to update their plans every 4 years (at a minimum) which would have gone into effect August 1, 2014. See Office of Management and Budget, *Agency Operations in the Absence of Appropriations*, OMB Circular No. A-11, Sec. 124.2 (Washington, D.C.: July 2014).

¹⁷Office of Management and Budget *Planning for Agency Operations During a Potential Lapse in Appropriations*, Memorandum M-13-22 (Sept. 17, 2013). OMB guidance states that, normally, routine operational and administrative activities relating to contract or grant administration (including payment processing) cannot continue when there is a lapse in funding. Therefore, agency employees who are paid with annual appropriations and who perform an activity associated with contract or grant administration (including oversight, inspection, payment, or accounting) should generally not continue to work during a shutdown.

¹⁸Office of Management and Budget, *Agency Operations in the Absence of Appropriations*, Circular No. A-11, Sec. 124.2 (Washington, D.C.: July 2014).

Communicating Changes during a Government Shutdown

OMB Circular No. A-11, most recently updated in July 2014, directs that if any of the information agencies are to include is expected to change should a lapse in appropriations extend for a prolonged period of time (i.e., longer than 5 days), the contingency plan should explicitly describe these changes. In particular, the plan should indicate any points in time when the furlough status of employees may change, how many employees would be affected, and the legal basis for such changes. Agencies should consult with an Office of Management and Budget (OMB) representative at such points in time during a lapse in appropriations to make OMB aware of any such changes. In addition, during a lapse in appropriations agencies should make an OMB representative aware of any instances where actions deviate from what is set forth in the plan. At the time agencies give furlough notices to employees, agencies should provide employees with as much information as possible regarding how the agency will go about resuming operations after the furlough has ended.

Source: OMB. | GAO-15-86

Agency Shutdown Contingency Planning

Given the inherent uncertainty of a lapse in appropriations, an agency's contingency plan should include actions to be taken during a short lapse in appropriations (1 to 5 days) as well as identify changes necessary should the lapse continue for an extended period. A plan should designate personnel responsible for implementing and adjusting the plan in response to duration or changes in circumstances that may arise.

The contingency plan should include a summary of significant agency activities that will continue and those that will cease as a result of the lapse in appropriations, the total number of agency employees expected to be on-board before implementation of the plan, and an estimate of the time (to the nearest half day) needed to complete shutdown activities. If shutdown activities cannot be completed in a half day, the time to completion, the number of employees necessary to accomplish shutdown, and the specific nature of the activities being performed should be identified.

Additionally, the contingency plan should address the total number of employees retained for each of the following categories:

- Those whose compensation is financed by a resource other than annual appropriations.
- Those necessary to perform activities expressly authorized by law.
- Those necessary to perform activities necessarily implied by law.
- Those necessary to the discharge of the President's constitutional duties and powers.
- Those necessary to protect life and property.

The plan should also describe in detail for each component within the agency the total number of employees in the component to be on-board before implementation of the plan. Additionally, it should identify the total number of employees to be retained in the component under the plan:

- Exempt employees whose compensation is financed by a resource other than annual appropriations. Employees who perform excepted activities expressly authorized by law.
- Employees who perform activities necessarily implied by law.
- Employees who are necessary to the discharge of the President's constitutional duties and powers.
- Those employees necessary to protect life and property.

Lastly, the agency should explain the legal basis for each of its determinations to retain the categories of employees including a description of the nature of the agency activities in which these employees will be engaged.

In its July 2014 guidance update, the Office of Management and Budget (OMB) directs agencies to consider preparations for resumption of activities. The guidance suggests the agency plan describe actions necessary for the resumption of orderly operations. This description should include methods for notifying employees that the furlough has ended; supervisory flexibilities to address employees who have difficulty returning when operations resume; plans for restarting information technology systems; and procedures for resuming program activities, particularly grants and contracts.

Source: OMB. | GAO-15-86

Selected Departments' and Components' Missions

The 2013 government shutdown came at a time of continuing budgetary uncertainty, which we previously reported limits the operations of federal agencies.¹⁹ To describe the effects of the shutdown, particularly on agency operations and services, grants, and contracts, we selected three federal departments and components (see table 1).

Table 1: Selected Departments' and Components' Missions for Fiscal Year 2013

Department/Component	Mission
Health and Human Services (HHS)	HHS is the federal government's principal department responsible for protecting the health of Americans and providing essential human services.
National Institutes of Health (NIH)	A component within HHS, NIH is the nation's leader in sponsoring and conducting biomedical research.
Department of Transportation (DOT)	DOT is the principal department responsible for implementing national transportation policy and administering most federal transportation programs.
Federal Transit Administration (FTA)	A component within DOT, FTA provides assistance to transit agencies to plan and develop new transit systems and operate, maintain, and improve existing systems.
Department of Energy (DOE)	DOE's missions encompass energy resources, scientific and technological development, environmental cleanup, and nuclear security.
Office of Environmental Management (EM)	A component within DOE, EM carries out activities to clean up radioactive wastes, excess plutonium and uranium, and contaminated facilities, and conduct government-sponsored nuclear energy research, among other activities.

Source: GAO analysis of agency documents. | GAO-15-86

¹⁹For example, see [GAO-14-452](#); [GAO-14-244](#); GAO, *Financial Audit: Bureau of the Fiscal Service's Fiscal Years 2013 and 2012 Schedules of Federal Debt*, [GAO-14-173](#) (Washington, D.C.: Dec. 12, 2013); *Debt Limit: Delays Create Debt Management Challenges and Increase Uncertainty in the Treasury Market*, [GAO-11-203](#) (Washington, D.C.: Feb. 22, 2011); and [GAO-09-879](#).

Budget Authority Duration

Government Funding Authorities

Agencies have varying budget authorities, which afford more or less flexibility with implementing activities. Some authorities include for example:

No-year authority: Budget authority that remains available for obligation for an indefinite period of time. A no-year appropriation is usually identified by language such as “to remain available until expended.”

Multiple-year authority: Budget authority available for a fixed period of time in excess of one 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.

One-year authority: Budget authority available for obligation only during a specific fiscal year that expires at the end of that fiscal year. It is also known as “fiscal year” or “annual” budget authority.

Transfer authority: Statutory authority provided by Congress to shift all or part of the budget authority in one appropriation or fund account to another.

Reprogramming authority: Shifting funds within an appropriation or fund account to use them for purposes other than those contemplated at the time of appropriation. Unlike a transfer of funds that involves shifting funds from one account to another, reprogramming involves shifting funds within an account.

Source: GAO. | GAO-15-86

Across the federal government, departments and components have varying periods of duration for which budget authority is available for obligation, such as no-year, multi-year, and annual funds. The duration of budget authority is important to agencies in a government shutdown, as differing durations afford differing degrees of flexibility. Departments and components also have varying degrees of transfer authority and reprogramming limitations, which also afford agencies differing degrees of flexibility in the event of a shutdown.

For example, DOE generally receives no-year funds (i.e., appropriations available for obligation without fiscal year limitation) and as a result, DOE may use funds not yet obligated from prior fiscal years. On the other hand, most of DOT’s appropriations are available for one year. Generally speaking, appropriations providing for periods of time longer than one year, such as multi-year and no-year, afford agencies more flexibility, which may be helpful in terms of being able to continue some activities during a government shutdown.

Grants and Contracts

Federal grants and contracts are important tools through which the federal government provides program funding to implement initiatives and provide goods and services. At \$546 billion in fiscal year 2013, federal grants to state and local governments accounted for about 16 percent of total federal outlays. The National Association of State Budget Officers reported that federal funds comprised an estimated 31 percent of state spending in fiscal year 2012.²⁰ HHS is the largest federal grant-making department, and according to USASpending.gov, HHS and DOT awarded about \$337 billion and \$56 billion in grants in fiscal year 2013, respectively.²¹ In addition, federal procurement spending was over \$459 billion in fiscal year 2013. According to USASpending.gov, HHS and DOE awarded \$20 billion and \$24 billion in contracts in fiscal year 2013, respectively. DOE is the largest civilian contracting department and spends an estimated 90 percent of its annual budget on contracts.

The 2013 Shutdown Impacted Some of the Selected Departments' Operations and Services, but Longer-Term Effects Are Difficult to Assess

Preparations to Furlough Federal Employees Affected the Operations of the Selected Departments

The shutdown impacted some of the selected departments' and components' operations and services due to activities undertaken to help prepare for furloughing federal employees and determining which programs could continue. According to some officials at the selected departments and components, planning for the shutdown took resources

²⁰National Association of State Budget Officers, *State Expenditure Report (Fiscal 2011-2013 Data)*, accessed July 25, 2014.

²¹We have reported inconsistencies with USASpending.gov reporting (see [GAO-14-476](#)), but we determined that the selected individual data elements that we used for this report had sufficiently low percentages of unverified information and therefore could be used for the limited purposes of case study selection and background information.

away from administering their daily operations and services. Officials said that quantifying the total time spent or overall cost of shutdown preparations and implementation was difficult. However, some officials said time spent preparing for the shutdown led to a loss of productivity.

For example, for the last 2 weeks of September and through the first 2 weeks in October, EM management was consumed by work concerning the shutdown. A department level official stated that DOE spent an extraordinary amount of time reprioritizing its budget to help ensure as many programs and functions as possible remained open and to help minimize the impact of the shutdown on the agency's operations. Similarly at the component level, during the month of September EM headquarters began collecting information from each field office in order to estimate how long each field office could sustain operations with current funds. EM headquarters asked the field offices for information such as unobligated balances available to support continued operation into fiscal year 2014, the number of days supported by available balances, and the number of federal and contractor employees impacted. EM officials estimated that budget, procurement, and management officials spent at least 50 percent of their time in September preparing for the shutdown.

In their contingency plans, the selected departments documented the planned number of employees that were to be furloughed and those who should continue to work during the shutdown (referred to as excepted employees in some cases). Specifically, DOE, HHS, and DOT planned to furlough 96 percent, 52 percent, and 33 percent of their employees, respectively, as shown in table 2. According to officials at these departments, the contingency plans were reasonably accurate representations of how the shutdown was implemented in terms of total employees actually furloughed and those that continued to work. However, as discussed later and shown in the table below, DOE officials told us that they were able to avoid furloughing any EM federal employees because prior year balances were available to fund program direction accounts.²² Similarly, DOE officials said the Energy Information Administration was the only office within DOE that furloughed employees during the shutdown.

²²Program direction accounts are funds provided for staffing and mission support services for a departmental component.

Table 2: Selected Departments' and Components' Planned Employee Furloughs Compared with Actual Furloughs on Average

Department and component ^a	Total federal employees ^b	Furloughed		Continued to work ^c		Percentage furloughed	
		Planned	Actual	Planned	Actual	Planned	Actual
Department of Energy (DOE)	9,140	8,617	350	523	8,790	96%	4%
Office of Environmental Management (EM)	1,413	1,348	0	65	1,413	95%	0%
Department of Health and Human Services (HHS)	79,133	40,512	42,702	37,686	36,431	52%	54%
National Institutes of Health (NIH)	19,740	13,698	15,712	4,948	4,028	73%	80%
Department of Transportation (DOT)	55,468	18,481	17,992	36,987	37,476	33%	32%
Federal Transit Administration (FTA)	529	501	504	28	25	95%	95%

Source: GAO analysis of contingency plan data and data from selected departments and components. | GAO-15-86

Notes: The actual number of employees furloughed and those who continued to work are on average for the period of the shutdown given that the numbers of employees furloughed and those that continued to work in some cases varied slightly throughout the shutdown based on the needs of the departments and their components.

^aEM, NIH, and FTA are components within DOE, HHS, and DOT, respectively. The components' employee numbers are included in the department level numbers.

^bThe total number of federal employees for DOE is as of September 30, 2013, for HHS is October 10, 2013, and for DOT is September 27, 2013. This table includes only federal employees, not employees of contractors working for the department or component. For DOE, the total number of employees does not include the Federal Energy Regulatory Commission or the Power Marketing Administrations within DOE.

^cFor this table, the continued to work data include excepted employees and those employees who were determined to be exempted from the furlough due to other funding sources.

During the shutdown, management officials that were not furloughed at the selected departments and components reevaluated their contingency plans to determine which employees were needed for excepted functions that arose during the shutdown. As a result, the number of furloughed employees changed during the shutdown. For example, according to NIH officials, mailroom employees were initially furloughed, but NIH realized that some mailroom employees were needed to pick up mail that was delivered to NIH including bills that needed to be paid to keep the facilities minimally operational. NIH brought some mailroom employees back to work as a result.

The Shutdown Disrupted Some Operations and Services at Selected Departments and Components

The selected departments and components reported that the shutdown was disruptive to their operations and services resulting in immediate disruptions to selected programs that were affected by the shutdown. For example, at NIH protecting human life and property continued to be a focus when deciding which activities to continue or close. During the shutdown, NIH's Clinical Center, also called the House of Hope, reduced patient morale services such as library services and pet therapy because of employee furloughs.²³ According to NIH officials, while it is difficult to measure the influence of these services on patients' health and well-being, these services help improve the morale of patients at the center. As issues arose in patient care at the NIH Clinical Center during the shutdown, specialists or professionals were brought in to take care of the need and then furloughed when they completed the task.

ClinicalTrials.gov

ClinicalTrials.gov is a database operated by the National Library of Medicine. It includes information on clinical trials registration such as participant eligibility criteria, location, and the condition being studied. The database also includes summary results from completed trials. The database typically receives roughly 400 new trial registrations and updates to 1,300 of the more than 30,000 open trials per week. The Food and Drug Administration Amendments Act of 2007 requires registration of certain clinical trials, so-called Applicable Clinical Trials, regardless of the source of the funding, into ClinicalTrials.gov within 21 days of enrolling the first participant. Some information (i.e., recruitment status and trial completion) must be updated no later than 30 days after a change. In addition to the statutory deadline for trial registration, many institutions that conduct clinical trials have their own internal policies that require registration before their institutional review board will review the study – a necessary step before a clinical trial can begin.

Source: NIH officials. | GAO-15-86

In addition, according to NIH officials, the clinical trials registry was initially closed because of the shutdown but was reopened during the shutdown. At the beginning of the shutdown the employees who manage ClinicalTrials.gov were furloughed. While the public side of ClinicalTrials.gov was still accessible, the submission side of the database was closed, preventing new trials from being registered to the database and all updates to existing entries. According to NIH officials, clinical trials may be the only hope for some patients with life-threatening diseases. Also, agency officials said that NIH received concerned calls from members of Congress and institutions performing clinical trials, as well as queries from the media. To handle the posting of new clinical trial registrations and critical trial updates to ClinicalTrials.gov, NIH recalled a small number of ClinicalTrials.gov employees on October 4, 2013, and reopened the data submission system. The ClinicalTrials.gov employees continued to facilitate registration and other critical trial updates through the remainder of the shutdown. A message was posted on the website and sent to NIH's extramural community as well as to registered users of ClinicalTrials.gov to inform them of this decision. In making the decision to reopen ClinicalTrials.gov, NIH officials said they considered a number of factors, such as the uncertainty of the length of the shutdown and the fact that the registration of trials in ClinicalTrials.gov provides critically important information to patients seeking opportunities to participate in clinical trials, including important information about details of enrolling.







²³NIH's Clinical Center is a facility where NIH conducts intramural clinical research in a hospital setting with patients or participants who receive not only experimental treatments, but also hospital care.

In terms of immediate disruptions within DOT, the Merchant Marine Academy, funded by DOT and administered by the Maritime Administration, was closed.²⁴ According to DOT's contingency plan, an extended lapse in appropriations could significantly disrupt the Merchant Marine Academy's academic schedule, making adjustments difficult to accommodate. To lessen the impact of the closure, the academy revised its academic calendar to allow eligible students to graduate as previously scheduled. In terms of immediate disruptions to FTA's operations and services, FTA officials stated that in the short term the shutdown may have affected the delivery at the local level of public transportation services in certain parts of the country.

To identify programs that would be affected by the shutdown, the selected departments used shutdown guidance from OMB and determined the funding sources for their programs in collaboration with their general counsel, budget officers, and human resources officials. See figure 1 for examples of programs or activities within the selected departments that did not continue and those that did continue during the shutdown.


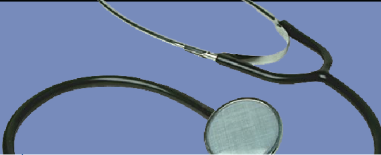




²⁴The U.S. Merchant Marine Academy is a federal service academy that educates and graduates licensed Merchant Marine officers who serve America's marine transportation and defense needs in peace and war.

Figure 1: Examples of Activities and Programs by Three Selected Departments that Did Not Continue and that Did Continue During the 2013 Government Shutdown

Selected Activities and Programs That Did Not Continue			
 Department of Health and Human Services 			
National Institutes of Health (NIH)	Administration for Children and Families (ACF)	Centers for Medicare and Medicaid Services (CMS)	Indian Health Service (IHS)
New patient admittance New protocol initiations ^a Some veterinary services Grant application or award actions	Quarterly formula grants for Temporary Assistance for Needy Families, Child Care, Social Services Block Grant, Refugee Programs, and Community Service Block Grant programs ^b New discretionary grants, including Head Start and other social service programs	Discretionary funding for health care fraud and abuse	Funding to Tribes and Urban Indian Health Programs National policy development and issuance Oversight and other functions
 Department of Transportation 			
Federal Transit Administration (FTA)	Federal Aviation Administration (FAA)	Maritime Administration (MARAD)	Pipeline and Hazardous Materials Safety Administration (PHMSA)
Unfunded core agency functions, including grants, cooperative agreements, contracts, purchase orders, travel authorizations, or documents obligating funds	Development of new air traffic control specialists not certified to work a position Aviation rulemaking Facility security inspections, evaluations, audits, and other similar activities	Administrative support excepting life and safety support and activities associated with the no-year Maritime Security Program and the reimbursable program, National Defense Reserve Fleet (including the Ready Reserve Fleet) U.S. Merchant Marine Academy operations	Strategic planning and program evaluation Public affairs Civil rights Pipeline program development
 Department of Energy^c 			
Energy Information Administration (EIA)	National Nuclear Security Administration (NNSA)	Bonneville Power Administration (BPA)	Western Area Power Administration (WAPA)
Select functions related to collecting, analyzing, and disseminating energy information promoting understanding of energy interactions within the environment and the economy	Not applicable	Not applicable	Not applicable

Source: GAO analysis of selected departments' contingency plans. | GAO-15-86

Selected Activities and Programs That Continued

 Department of Health and Human Services 			
National Institutes of Health (NIH)	Administration for Children and Families (ACF)	Centers for Medicare and Medicaid Services (CMS)	Indian Health Service (IHS)
Clinical Center patient care Ongoing protocols (minimal support) ^a Animal care services Safeguarding facilities and infrastructure	Mandatory funded programs, including <ul style="list-style-type: none"> • Federal Parent Locator Service • Personal Responsibility Education • Health Profession Opportunity Grants 	Large portions of Affordable Care Act activities, including <ul style="list-style-type: none"> • Medicaid and the Health Insurance-Marketplace coordination • Insurance rate reviews 	Direct clinical health care services Referrals for contracted services not provided through Indian Health Service clinics
 Department of Transportation 			
Federal Transit Administration (FTA)	Federal Aviation Administration (FAA)	Maritime Administration (MARAD)	Pipeline and Hazardous Materials Safety Administration (PHMSA)
Hurricane Sandy activities funded from the 2013 Disaster Relief Appropriations Act Lower Manhattan Recovery Office activities funded by emergency supplemental appropriations after 9/11	Air traffic control services Maintenance and operation of navigational aids and other facilities Flight standards, field inspections, and other activities	Positions required for U.S. Merchant Marine Academy midshipmen safety and welfare activities (on campus or at sea)	Pipeline accident investigations Pipeline operators and systems inspections Pipeline safety regulation enforcement
 Department of Energy^c 			
Office of Environmental Management (EM)	National Nuclear Security Administration (NNSA)	Bonneville Power Administration (BPA)	Western Area Power Administration (WAPA)
Environmental restoration related to Cold War activity Waste management Stabilization and disposition of special nuclear materials Technology development Facility transition and management	Management and security of <ul style="list-style-type: none"> • U.S. nuclear non-proliferation programs • Naval reactor programs • U.S. nuclear weapons arsenal 	Marketing of wholesale electrical power from <ul style="list-style-type: none"> • 31 federal hydropower projects in the Columbia River basin • One nonfederal nuclear plant • Several small non-federal power plants 	Marketing and delivery of <ul style="list-style-type: none"> • Hydroelectric power and related services (within a 15-state region of the central and western United States)

Source: GAO analysis of selected departments' contingency plans. | GAO-15-86

^aClinical Research Protocols are research studies conducted by NIH staff. The protocol may test something for a specified condition or purpose (e.g., a drug or medical device) or may review previous studies or record the history of a disease or condition..

^bWhile HHS did not make the quarterly formula grant payments for Temporary Assistance for Needy Families (TANF), the underlying TANF statutes remained in place and states were permitted to use their unspent federal TANF funds from prior years for expenditures allowable under the TANF statute. The Continuing Appropriations Act, 2014, allowed for states to be reimbursed for expenses they incurred to keep grant programs operational. Pub. L. No. 113-46, § 116, 127 Stat. 558, 561-62 (Oct. 17, 2013). According to HHS, nearly \$110 million in grants to the states to assist in refugee resettlement was delayed due to the lapse, causing some states to reduce or suspend services.

^cAccording to DOE officials, DOE was able to continue operating most of its activities and programs throughout the shutdown, because of funding flexibilities, and did not stop most of its activities or programs as originally outlined in its contingency plan. In addition, DOE officials stated that there was a concern that in the absence of federal oversight, had the lapse continued more than a few weeks, there would have been added risks engendered in operations involving hazardous materials and the possibility of errors, which in turn lead to risks to the facilities and the surrounding areas. DOE officials explained that although operations continued, there were impacts to operations as noted in their contingency plan.

Mitigating Factors Lessened the Uncertainties of the Shutdown

The shutdown created uncertainty for the three selected departments regarding how employees and programs would be affected. Officials at the selected departments said they were concerned about how long the shutdown would last and the uncertainty of the length affected employees. However, several mitigating factors in the preparation and implementation of the shutdown lessened the uncertainty of the effects on the operations and services of the three departments and the workforce. These factors include (1) experience with prior budget uncertainties including past preparations for potential shutdowns; (2) funding flexibilities, such as multi-year appropriations; and (3) ongoing communication internally and with OMB staff and OPM officials.

Experience with Prior Budget Uncertainties

According to officials at the three departments, employees were familiar with shutdown guidance and procedures from previous potential shutdown preparations and planning for operating under a continuing resolution or in other environments of budgetary uncertainty. For example, according to DOT officials, DOT has experience with managing budget uncertainty from addressing the sequestration of funds, shortfalls within its Highway Trust Fund, and past preparations for possible government shutdowns.²⁵ DOT officials explained that they have planned extensively for continuity of operations in times of budgetary uncertainty

²⁵Sequestration is an automatic across-the-board cancellation of budgetary resources. Sequestration was first established in the Balanced Budget and Emergency Deficit Control Act of 1985 to enforce discretionary spending limits and control the deficit. On March 1, 2013, the President ordered a sequestration to achieve \$85.3 billion in reductions across federal government accounts.

working with their management team—officials from human resources, budget, general counsel, communications, and the modal administrations—to assess and plan for the potential situations that would affect the department’s budget.

Similarly, according to DOE officials, during August and September DOE prepares to address potential budgetary uncertainty that would impact its operations and services in anticipation of a potential continuing resolution or other situation affecting funds. The officials indicated that these yearly preparations helped ensure that their planning and processes for the shutdown were implemented and the department was well prepared to keep its operations running as funds allowed. Specifically, DOE has an order that it follows if Congress fails to pass appropriations for the new fiscal year by October 1.²⁶ The order describes the procedures DOE will follow 1) for continuing operations using available balances such as unobligated balances from unexpired prior-year appropriations and 2) upon exhaustion of all available balances, continuing only those functions excepted from a shutdown. At the component level, although EM reprioritized its budget, officials said they were concerned about the length of the shutdown.

Funding Flexibilities

Having flexibility in funding beyond the annual appropriations for some of its programs helped the selected departments manage the effects of the shutdown on their operations and services given that some programs were able to continue throughout the shutdown, which also reduced the number of employees furloughed. For example, most of DOE’s appropriations are multi-year or no-year. DOE’s programs with multi-year and no-year funding were allowed to continue their activities during the shutdown by expending unobligated balances of prior year money still available for obligation. Each organization or program within DOE planned to operate during the shutdown until available funds to pay federal employees were exhausted. According to DOE officials, prior to the shutdown, the budget office reevaluated budget priorities in order to have funds available to meet payroll and to help ensure that the highest priority activities, such as the oversight of nuclear materials at EM, could continue during the shutdown.

²⁶Department of Energy: Plan for Operating in the Event of a Lapse in Appropriations, DOE O 137.1B (Sept. 30, 2011).

Several HHS components have mandatory spending programs or operate programs using user fees that were not affected by a lapse in annual appropriations. Therefore, the employees managing the programs in these components were generally considered excepted. For example, the Administration for Children and Families and the Centers for Disease Control and Prevention have mandatory spending programs such as the Health Profession Opportunity Grants and the World Trade Center health program, respectively, which continued during the shutdown. Also, the Food and Drug Administration continued activities related to its user fee funded programs including activities in the Center for Tobacco Products.

DOT also has several activities that are funded by other sources including multi-year appropriations or contract authority. For example, the Federal Aviation Administration's Airport Improvement Program is funded through contract authority, while the Maritime Administration used reimbursable Department of Defense funding to continue its Ready Reserve Force.²⁷ The Highway Trust Fund, which funds several DOT programs, was established by law to hold federal highway-user taxes that are dedicated for highway and transit projects and is also a multi-year fund. Although FTA furloughed most of its federal employees, it used prior year emergency supplemental appropriations that were available to continue its Hurricane Sandy activities.

Ongoing Communication
Internally and with OMB Staff
and OPM Officials

Officials at the selected departments commented that communication within their departments and with OMB and OPM was very important to the preparation for and implementation of the shutdown. According to these officials, prior to the shutdown, some of the departments posted furlough guidance and frequently asked questions from OMB and OPM on their websites to ensure employees were provided with the latest information regarding the potential for a shutdown. During the shutdown, management officials at the three departments who were not furloughed reevaluated their contingency plans to determine which employees were needed for excepted functions that arose during the shutdown. According to officials at the three selected departments, all decisions were made in collaboration with their general counsel, budget officers, and human resources officials, and in line with guidance from OMB.

²⁷The Ready Reserve Force is a fleet of cargo ships, owned and maintained by the Maritime Administration and managed by commercial companies. The ships are used to support the deployment of U.S. military forces overseas and in national emergencies.

At DOT, prior to and during the shutdown, the management team met to determine what actions were needed to maintain operations and services in the event of a government shutdown. The management team was convened in August 2013 to start planning and met frequently in the days before and during the shutdown. According to DOT officials, some days there were multiple meetings held to make the necessary determinations and after the team reached consensus on a particular issue the requisite action was taken. Specifically, DOT officials said they continually monitored how employees were affected by the shutdown through their daily management meetings. According to DOT officials, DOT developed an emergency furlough recall form to document when an employee needed to be recalled temporarily back to duty because of an emergency situation, such as services needed to protect life and property. The form allowed management to document its request for employee recall in addition to outlining the internal steps that needed to be followed to obtain approval and document the process. According to DOT officials, management used a tracking log to ensure these emergency recalls were internally monitored throughout the shutdown. DOT did not update its contingency plan after the shutdown.

According to HHS officials, throughout the shutdown key management officials were in constant communication to monitor the effects of the shutdown on department operations and services including employee furloughs. For example, the number of employees furloughed at HHS changed according to the circumstances for each day of the shutdown, according to HHS officials. Employees that completed the end of the fiscal year financial close out for HHS initially were not furloughed, but after they finished the financial close out they were furloughed. While HHS did not document the number of employees furloughed each day during the shutdown, HHS officials said, the key officials made decisions orally as they were in constant communication throughout the shutdown. HHS updated its contingency plan during the shutdown on October 10, 2013, to reflect the number of employees actually involved in the orderly phase-down and suspension of operations. Specifically, on October 1, HHS estimated that 1,103 employees were engaged in this activity, while on October 10, HHS estimated that actually 429 employees were engaged in this activity. HHS did not update its contingency plan after the shutdown.

DOE officials said ongoing communication with management at the department and component level allowed them to closely monitor the shutdown and make decisions as needed to keep programs operational based upon the availability of funding, as discussed earlier. For example,

although DOE planned to furlough some of the EM staff at headquarters and at each site that it oversees, EM officials said that their federal employees were not furloughed as projected in the contingency plan. DOE officials said the Energy Information Administration was the only component that furloughed a number of employees during the shutdown. According to departmental officials, DOE managed its contingency plan throughout the shutdown in an effort to assess the needs of the department and components regarding furloughs for employees at EM and its other components. However, DOE did not formally update its written plan after the shutdown.

Officials at the three departments we reviewed said the daily communication with OPM and OMB to address questions about the shutdown was beneficial and helped lessen the uncertainty of the situation. According to OMB staff and OPM officials, OMB and OPM had daily telephone communication with agencies' management to address questions such as clarifying guidance and answering questions from agencies relating to recalling furloughed employees. Issues discussed included unemployment compensation for furloughed employees and the treatment of the Columbus Day holiday for excepted employees. In addition, OMB staff indicated that they addressed questions from agencies regarding how to communicate shutdown information to their employees through these phone calls. Prior to the shutdown, OMB provided guidance to agencies instructing them to update their contingency plans and to determine the number of furloughed and excepted employees.²⁸ During the shutdown, OPM posted frequently asked questions on its website to provide details on how employees' pay, leave, and other personnel functions would be affected by the shutdown.

Consistent with *Circular No. A-11*, OMB staff told us that after the shutdown, they did not direct agencies to update their contingency plans or document in another way how the shutdown was planned for, managed, or implemented in terms of lessons learned for future reference. For a longer shutdown, such as one lasting more than five days, documenting what actually happened once a shutdown is over including how operations were fully resumed could help agencies better

²⁸Office of Management and Budget, *Planning for Agency Operations during a Potential Lapse in Appropriations*, OMB Memorandum M-13-22 (Washington, D.C.: Sept. 17, 2013); *Agency Operations in the Absence of Appropriations*, OMB Circular No. A-11, Section 124 (Washington, D.C.: July 2013, most recently updated in July 2014).

prepare and plan in the event of a future shutdown.²⁹ Federal standards indicate that agencies should identify, record, and distribute pertinent information to the right people in sufficient detail, in the right form, and at the appropriate time to enable them to carry out their duties and responsibilities.³⁰ Without documentation of how the shutdown was implemented, agencies may not have timely, appropriate information that could help inform planning and implementation efforts in the event of a future shutdown.

Selected Departments' Longer-Term Effects from the Shutdown on Operations and Services are Difficult to Assess

The selected departments did not report any longer-term effects from the shutdown on operations and services and indicated that it is difficult to assess the effects from the shutdown in isolation from other budgetary events, such as sequestration. However, officials raised concerns about how the timing of the shutdown, occurring soon after sequestration, affected the morale of its employees. The impacts of sequestration on the workforce, which included reduced employee travel, training, and monetary awards, affected employee morale.³¹ According to department officials, this effect on employee morale was further exacerbated by the lapse in appropriations.

According to HHS officials, once the shutdown ended, the department's functions were fully reestablished and operations were back to normal within 6 months of reopening. Department officials do not anticipate any longer-term effects from the shutdown on departmental operations and services. However, according to HHS officials, the morale of HHS employees was low as a result of being furloughed. Also, the longer the shutdown lasted, the more challenges arose that they had to unexpectedly manage. For example, furloughed federal employees were eligible to apply for unemployment insurance benefits, which the Department of Labor is responsible for administering. HHS needed

²⁹OMB Circular No. A-11 defines a short shutdown as 1 – 5 days. See OMB Circular No. A-11, Section 124 (Washington, D.C.: July 2014).

³⁰GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999). The federal standards for internal control were revised in September 2014. The revised standards are effective beginning fiscal year 2016. See GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

³¹[GAO-14-244](#).

guidance on how to instruct its employees to apply for unemployment insurance since each state has different rules and procedures. HHS officials said they could not provide general guidance to all employees. After the shutdown, the department had to work with OPM to instruct its employees on how to repay the insurance benefits since they received back pay. At the component level, NIH officials stated the longer-term effects of the shutdown are much harder to detect than any immediate disruptions to the operations of the agency. According to NIH officials, there are also less tangible impacts, such as external partners' decreased trust and confidence in NIH to continue funding their research after it is approved.

According to DOT officials, they are unable to identify any longer-term effects of the shutdown on their operations and services at the department level. However, DOT officials commented that the shutdown lowered the morale of their employees. Officials explained that furloughed employees were concerned about when they could return to work and whether they would be paid.

DOE officials stated that the shutdown did not have any longer-term effects on operations and services at the department level. Because the shutdown came early in the fiscal year, the impact on agency's operations and services was minimized. A DOE official indicated that as a result of the department's annual data collection in August-September on programs that could be affected by a lapse in appropriation DOE officials were able to reevaluate budget priorities to maintain programs in order to minimize effects on operations and services. The data collection is to determine unobligated balances and which programs may have insufficient funds for payroll on October 1.

Selected Components, Grant Recipients, and Contractors Faced Challenges Related to Grants and Contracts during the Shutdown

Planning Helped Selected Components Manage the Shutdown's Effects on Grants and Contracts, but Grant Recipients and Contractors Faced Other Challenges

The effects of the shutdown on contracts and grants management were more pronounced at the component level than at the department level for the three selected departments we reviewed.³² Department-level officials provided contract and grants management guidance from OMB to their components. For example, DOE, HHS, and DOT provided guidance to program offices at EM, NIH, and FTA, respectively, that were responsible for implementing that guidance. DOT reported that grants management is typically coordinated at the component level, so managing shutdown-related activities for contracts and grants at the component level was consistent with standard practices. HHS reported the same for contract and grants management. Officials at DOT and HHS stated that conducting program oversight at the component level helped minimize the effects of the shutdown at the department level at DOT and HHS. DOE noted disruption in its departmental oversight of contracting activities in its field offices.

Grants Management Activities Effectively Ceased at NIH and FTA during the Shutdown

All NIH and FTA grants management officials were furloughed and were generally unavailable to assist grantees. According to NIH officials, appropriate assistance would have been provided if an incident had arisen in which a grant supported an excepted activity, such as the protection of human life and property, but this situation did not occur.

³²We targeted our review of grants to HHS and NIH and to DOT and FTA. We targeted our review of contracts to HHS and NIH and to DOE and EM. See appendix I for more information on how these agencies were selected.

At NIH, the grant peer review process used to assess grant applications had to be rescheduled, adding to potential grant recipients' uncertainty about the timing of their research. NIH had to reschedule the review process for over 13,700 grant applications. According to NIH, these applications were scheduled to be reviewed by over 8,000 reviewers in over 400 panels during the time of the shutdown.³³ According to NIH, the average delay from the original panel date to the rescheduled panel date was 46 days, but after the shutdown NIH and the external peer reviewers were able to act quickly and complete this process in time for all but 31 applications to meet the next milestone in January 2014. NIH reported that deferring 31 applications to a later date is well within the typical range of applications normally deferred for reasons other than a government shutdown.

The National Institutes of Health's Peer Review Process for Grant Applications

The National Institutes of Health (NIH) handles approximately 80,000 research applications and engages approximately 20,000 reviewers per year during three annual peer review cycles. The NIH dual peer review system is mandated by statute and all applications are subject to peer review.^a

The first level of review is carried out by a Scientific Review Group composed primarily of nonfederal scientists who have expertise in relevant scientific disciplines and current research areas. Selection of scientists for peer review panels for the various study sections is a multi-step process and it takes months to vet and balance scientific expertise. NIH officials coordinate the nomination process, peer reviewer vetting, and meeting schedules for the peer review cycle.

The second level of review is performed by National Advisory Councils or Boards within NIH's Institutes and Centers. Councils are composed of both scientific and public representatives for their expertise, interest, or activity in matters related to health and disease. Appointed members usually serve a 4-year term (or usually 6-year terms in the National Cancer Institute) and require approval by the Secretary of the Department of Health and Human Services or in some cases by the President of the United States. Only applications that are recommended for approval by both the Scientific Review Group and the Advisory Council may be recommended for funding. Final funding decisions are made by the NIH Institute and Center Directors.

Source: GAO analysis of NIH information. | GAO-15-86

^aSee 42 U.S.C. § 289a. NIH outlines the requirements of the peer review at Scientific Peer Review of Research Grant Applications and Research and Development Contract Projects, 42 CFR Part 52h.

³³NIH peer review panelists are scientists with expertise suitable for evaluating the proposed work objectively. Panelists are selected to cover the necessary range of scientific expertise. These scientists are recruited from around the globe. To accommodate the participation of foreign scientists, NIH employs emerging technologies to reduce the need for international travel including video conferencing.

Grant Drawdowns

Programs funded in whole or part with federal grant funds may initiate a request for federal funds to be disbursed through a process called a drawdown. Grant recipients may draw down grant funds for anticipated or actual expenditures made under the terms of the grant award or authorizing language of the federal grant program. These disbursements may be authorized in advance of actual program expenses or as reimbursement of expenditures made by the state. When there is a lapse in federal funding, the method by which federal grant funds are provided to the recipients can determine the severity of the consequences of a federal government shutdown.

Source: Congressional Research Service. | GAO-15-86

NIH and FTA grant recipients' access to funds varied depending on agencies' grant processing systems and policies as well as the timing of grant milestones. While grants management officials were furloughed and unavailable, according to NIH officials, the bulk of NIH grants allowed recipients to continue to draw down funds during the shutdown. The exception was if the drawdown request triggered a Payment Management System internal control flag.³⁴ For example, some of the controls compare requests to previous quarter draws, check if reporting requirements are all met, and verify that the funds requested are within the grant's budget period. NIH officials said that there were two holds triggered during the shutdown for NIH grants that were resolved by the excepted employees. Among all Payment Management System users, 561 payments triggered a hold during the shutdown. According to HHS officials, of these 561 payment requests, 84 requests valued at \$65 million were paid despite the hold and 477 requests valued at \$165 million were not paid. Grantees were notified about each payment that was rejected and instructed to resubmit after the shutdown ended.

Like NIH, FTA grants management officials were furloughed and unavailable to answer questions or provide assistance to grant recipients. However, FTA did not process any new grant awards or make payments to its existing recipients during the shutdown. According to FTA officials, this had a minimal effect because FTA's grant processing system is typically offline and unavailable in early October for end-of-year closeout processing and no new grant awards are processed. Specifically, FTA officials told us that FTA had not awarded any grants from October 1 to 16 in the 5 years prior to the shutdown. FTA does, however, normally make payments on existing grants in early October, but no payments were made during the shutdown because employees were furloughed.

Contract Activities Generally Continued at EM and NIH, but Resulted in Disruptive Personnel Actions and Program Challenges for Some Contractors

While contract activities generally continued at EM and NIH, some contractors experienced disruptive personnel actions and program challenges. For example, EM did not furlough any federal contracting employees during the shutdown because most of its programs were exempt at the beginning of the shutdown and the agency had multi-year appropriations available, but several EM contractors that operate and

³⁴The Payment Management System, maintained by HHS, is the largest civilian federal payment system for federal grants. The system, which made 68 percent of all federal grant disbursements in fiscal year 2010, allows grant recipients to draw down their federal funds.

maintain EM facilities experienced reductions because EM issued stop work orders.³⁵ These reductions included layoffs or forced use of annual leave for 61 contracted employees at EM's Portsmouth Paducah Project Office and 1,715 contracted employees at its Savannah River Remediation Site. Agency officials also told us that the looming possibility of employee furloughs and the potential termination of contracts decreased morale among contractor employees in the weeks leading up to the shutdown.

Although the availability of multi-year funding gave EM some flexibility to fund contracts, EM officials were still limited in their ability to manage contracts and meet programmatic requirements. EM officials told us that if EM had more advance notice of a potential lapse in funding, federal and contractor personnel would have been better able to strategize as to how to prepare for the funding lapse and would have slowed work at the end of fiscal year 2013 to carryover more funds into fiscal year 2014 so that work on contracts could continue. EM officials also reported challenges with keeping equipment—particularly equipment for nuclear processes—running and staffed at necessary levels during the shutdown. For example, officials told us that at the Savannah River Remediation Site they had to reduce contractor support for operating melters—equipment that processes nuclear waste into more stable forms such as solid glass for safer long-term storage—to the lowest possible levels during the shutdown. The officials also said that if the shutdown had continued much longer, existing funding for even the minimum level of staffing and operation would have been in jeopardy. Officials told us that melters can never be shut down because if the temperature of the melters fell below a certain threshold, the melters would not restart and would therefore become permanently unusable. The officials said that DOE was in the review process for excepting the melters from the shutdown if the shutdown had continued past October 31, 2013.

³⁵In the context of shutdown furloughs, the term “excepted” employees is used to refer to employees who are funded through annual appropriations who are nonetheless excepted from the furlough because they are performing work that, by law, may continue to be performed during a lapse in appropriations. Other employees are “exempt” from furlough because they are not affected by a lapse in appropriations. This includes employees who are not funded by annually appropriated funds. Office of Personnel Management, *Guidance for Shutdown Furloughs* (Oct. 11, 2013).

Contract Option

Option means a unilateral right in a contract by which, for a specified period of time, the government may elect to purchase additional supplies or services called for by the contract or may elect to extend the term of the contract. Generally, once the specified period within which the option may be exercised has passed, the option can no longer be exercised.

Source: GAO analysis and the Federal Acquisition Regulation 2.101. | GAO-15-86

Conversely, NIH officials told us that most of their contracting officials were furloughed during the shutdown and that having limited staffing and systems made it hard to complete excepted activities during the shutdown. For example, some of the agency's computer systems that are used to locate and assemble contract data were unavailable during the shutdown and many of the officials who run reports and analyze data were furloughed. As a result, the excepted officials had to manually search through other means to obtain the information they needed to inform decisions, such as identifying contract options that were set to expire. Officials reported that one NIH contract had an annual option that expired during the shutdown, and 24 additional contracts had options that would also have expired if the shutdown had continued through November 1, 2013. The contract option that expired—an administrative support service contract—received a stop work order during the shutdown and resumed work after the government reopened with no additional implications. After the shutdown ended, NIH officials reported having sufficient time to exercise the options of the 24 other contracts with options set to expire.

Unlike EM, NIH officials reported that the agency did not have the flexibility of multi-year or no-year funding to maintain contracting activities and NIH did not have a reserve of available funds from previous years to support contracts during the shutdown. However, according to NIH officials, the agency's primary system for managing contracts is typically offline for 6 days at the beginning of each fiscal year for scheduled maintenance, during which time limited contracting activities are typically logged into the system. As a result of this scheduled down time at the beginning of the shutdown, NIH officials reported that contracting activity was not significantly behind schedule when the government resumed full operations.

NIH and EM Reported Returning to Normal Levels of Contract Activity and NIH and FTA to Normal Levels of Grant Activity Soon After Government Reopened With Minimal Expected Longer-Term Effects

NIH and EM officials indicated that they returned to normal levels of contracting activity and operations within a few months and do not foresee any longer-term effects from the shutdown on their contract activity and ability to meet future milestones. NIH officials reported that contracting activity and programs returned to normal levels of activity within 1 month, and EM officials reported that some programs required 4 months to return to pre-shutdown levels of contract activity.

According to EM officials, a longer shutdown would have severely affected EM contractors and their employees. Specifically, EM officials reported that if the shutdown had continued for another week, reductions were expected for an additional 1,500 contractor employees from two

contractors. Notices of the planned layoffs had already been issued for these contracts prior to the government reopening. Furthermore, EM contractors also planned to issue personnel notices on October 21, 2013, which could have potentially affected another 5,000 contractor employees.

FTA and NIH officials indicated that their agencies returned to normal scheduling and timing of grant activities soon after the shutdown. FTA officials said that they were able to recover quickly because grant milestones were not scheduled to occur during the shutdown. Further, FTA does not anticipate any longer-term effects on grants management activity as a result of the shutdown. According to NIH, the NIH employees and stakeholders involved in the peer review process and panels for grant applications worked extra hours to get back on schedule after the government reopened, but did not track the hours or costs associated with this extra work. Because of their efforts, NIH officials said they did not miss the next milestone, the second level of peer review held in January 2014, and anticipated no longer-term effects on grants activity.

Officials from associations representing NIH grant recipients noted that while the longer-term effects of the shutdown on scientific research are hard to determine and cannot be quantified, there were other effects from the shutdown that may influence grant recipients and their future research.³⁶ For example, officials from the associations that we interviewed said some of the grant recipients they represent have reported decreased morale and question if they should rely on federal assistance for their research going forward. Additionally, one association official expressed concern that the shutdown could contribute to scientists working on smaller, more narrowly-defined projects because of financial concerns for future grants, rather than pursuing more innovative, larger projects that would be dependent on a higher cost grant for which the federal government would likely be the primary source of funding.

³⁶We interviewed national associations representing recipients of grants or with expertise in the area of grants and contracts. For additional information, see appendix I.

Research Involving Organism Life Cycles

Live specimens—whether cellular or animal colonies—require attention and specifically timed interactions and analysis during the course of an experiment. A scientist from one of the associations we interviewed explained that it is necessary to maintain the same biological characteristics throughout the experiment by providing attention at specific intervals. Even if the cellular or animal colonies are maintained, interrupting these intervals may result in lost research or resources.

Source: NIH documents and an official from an association representing grant recipients. | GAO-15-86

Further, officials from associations representing grant recipients, including those that receive NIH grants, noted that there may have been a loss of research involving the life cycles of live organisms. Prior to the shutdown, NIH determined which officials should be excepted to ensure the welfare of all live specimens in NIH facilities, including over 1.8 million animals. However, according to an official from an association we interviewed, preserving live specimens at the grant recipient level could have been challenging if the recipient was not able to receive the needed funds to continue the research during the shutdown. These officials from associations we interviewed did not provide a specific example of where this problem occurred during the shutdown. However, according to NIH, for some experiments a break in protocol would render the research property (both animate and inanimate) useless and require some of it to be destroyed.

Federal Contractors and Grant Recipients Faced Uncertainty during the Shutdown, but Indicated that the Effects Would Have Been Greater If the Shutdown Had Continued Longer

Communication Leading Up to and During the Shutdown Contributed to Uncertainty

Some associations with expertise in federal contracts and grants reported that there was limited guidance leading up to the shutdown from departments about how their federal contractors and grant recipients would be affected by a potential shutdown. According to officials from NIH and some associations with expertise in federal contracts and grants that we interviewed, the lack of guidance contributed to the uncertainty that contractors and grant recipients experienced regarding how the shutdown would affect their ability to continue their work. On September 17, 2013, OMB issued guidance to agencies on planning for a potential shutdown, which included instructions on how agencies should manage grants and contracts during a lapse in funding. However, according to officials at the three departments we reviewed, per OMB's advice they did not notify their contractors and grant recipients about the possible shutdown until on or after September 26—3 business days before October 1. According to OMB staff, OMB was cautious about advising agencies to notify contractors and grant recipients until it appeared likely that the shutdown

was an imminent possibility, in order to avoid unnecessary disruptions to agency operations.

According to association officials, grant recipients and contractors across the government had difficulty obtaining accurate, timely information about how their programs would be affected once the shutdown began. Grant and contract management officials who were furloughed could not communicate with grant recipients or contractors to respond to questions or provide other contract and grant support services. Further, officials were generally not available to correct problems on automated payments to grant recipients, as was the case with HHS's Payment Management System. Problems could be addressed only if the program was funded with funds from a prior fiscal year (i.e., exempt from the lapse in appropriations) or was otherwise excepted, for example if it met the life and safety exception.

Bridge Funding

Some grant recipients provided short-term interim funding to maintain certain grant activities during the shutdown. These funds may have been repaid with federal funds after the shutdown. For the purposes of this report, we refer to this as bridge funding.

Source: GAO analysis. | GAO-15-86

Another source of uncertainty for federal grant recipients was whether agency programs could continue if they had authorizations that lapsed on September 30, 2013. The authorizations for certain large programs including the Supplemental Nutrition Assistance Program (SNAP), managed by the U.S. Department of Agriculture, and Temporary Assistance for Needy Families (TANF), managed by HHS, expired September 30, 2013. While SNAP continued during the shutdown by using funds authorized under the American Recovery and Reinvestment Act of 2009 that were available through October 31, 2013 and TANF continued by using unexpended prior year balances, the National Association of State Budget Officers and Federal Funds Information for States reported that some states had questions as to whether they would be repaid for providing bridge funding to keep the programs operating past October 31, 2013. HHS issued a statement on September 30, 2013 saying that in the event of a shutdown, the underlying TANF statutes remained in place and states would be permitted to use their unspent federal TANF funds from prior years for expenditures allowable under the TANF statute. The Continuing Appropriations Act, 2014, allowed for states to be reimbursed for expenses they incurred to keep grant programs operational.³⁷

³⁷Pub. L. No. 113-46, § 116, 127 Stat. 558, 561-62 (Oct. 17, 2013).

Contractors and Grant Recipients Experienced the Shutdown Differently Based On Their Specific Circumstances

The effects of the shutdown on federal grant recipients varied based on the timing of milestones and the availability of funding. As the Congressional Research Service reported, it is difficult to determine the exact impact of a federal government shutdown on grant recipients because the impact will vary depending on the current stage of each individual grant award at the time of the shutdown and the duration of the shutdown. Additionally, the impact may vary within a grant program and across programs and agencies.³⁸ The timing of milestones was a key factor for both federal grant applicants and grant recipients because of the resulting effects on the review process timeline for grant applications and the availability of funds for current grant recipients. Officials from associations with expertise in grants that we interviewed said that grant recipients with funding available during the shutdown reported to the associations that there were minimal effects from the shutdown.

At a government-wide level, Grants.gov, the online portal to apply for federal grants which is maintained by HHS, was online and accepting applications, but HHS's Grants.gov support was decreased from 10 officials to 1 official. According to HHS, 6,725 applications were submitted to Grants.gov during the shutdown, over 10,000 fewer applications than during the same period in 2012. On October 21, NIH began processing the error-free applications submitted during the shutdown or in the two days prior to it.

Two of the associations with expertise in federal grants that we interviewed—the National Association of State Budget Officers and Federal Funds Information for States—both noted the importance of grant award type in determining the effects of the shutdown on grant recipients. For example, grant programs that receive mandatory advance appropriations for the first quarter, such as HHS's State Medicaid Grants, and those funded in authorization acts, such as the Children's Health Insurance Program, generally continued during the shutdown. Discretionary programs, such as FTA's Transit Formula Grants, and programs functioning as appropriated entitlements without advance appropriations, such as HHS's Social Services Block Grant, generally were affected by the shutdown as funding was not available for new grants and furloughs of agency grants management officials could have

³⁸Congressional Research Service, *Federal Aid to State and Local Governments: Select Issues Raised by a Federal Government Shutdown* (Washington, D.C.: Apr. 7, 2014).

affected the recipients' ability to draw down prior year grant funds. Once the shutdown ended, recipients of discretionary grants whose funding was disrupted by the shutdown were eligible for reimbursement from the agencies that manage the grants.

There were exceptions to how grant programs functioned during the shutdown. Officials from associations with expertise in federal grants that we interviewed, reported uncertainty among states as to the difference in funding for mandatory and discretionary federal grant programs. Specifically, at least one state publically reported it was uncertain about how a mandatory grant with administrative costs funded with a discretionary grant would be affected by the shutdown. For example, unemployment compensation is a federal-state partnership and the state is entitled to a grant from the Department of Labor to cover the necessary costs of administering the program. While states were responsible for making unemployment compensation payments during the shutdown, states were unclear when they would be reimbursed for the administrative costs incurred during the shutdown.

The degree of disruption caused by the shutdown varied among contractors at NIH and EM as well. Whether or not a federal contract was allowed to continue during the shutdown depended on a number of variables including the availability of funds and the extent to which contract employees required supervision by federal employees or access to federal facilities to conduct their work. For example, NIH contractor employees that are located with and receive technical input from federal employees or access to federal facilities were generally furloughed while contracted EM employees generally continued their work at most sites. However, the DOE contingency plan noted that while multi-year and no-year funds would be used initially DOE might need to review the activities of its contractors depending upon the length of the shutdown, the need for government oversight, and the availability of prior-year funding. Only those activities where the suspension of the function of the contract would imminently threaten the safety of human life or the protection of property would be permitted to continue.

Officials from industry associations that represent federal contractors told us that the impact of the shutdown on contracted employees across the government varied. Some contractor employees were reportedly laid off during the shutdown and furloughed contractor employees were not necessarily paid by their employer during or after the shutdown. For furloughed contractors, several circumstances influenced whether they could be paid during the shutdown, including whether work was allowable

Effects of the Shutdown on
Grant Recipients Would Likely
Have Been Greater If the
Shutdown Had Continued

based on the terms of the contract that they worked on, the availability of other assignments, and whether their company chose to or was able to compensate them out of its own pocket if contract funds were unavailable. Specifically, one association we interviewed told us that small businesses with federal contracts were reportedly less prepared to weather the shutdown than larger contractors with revenue sources other than the federal government. In addition to furloughs, some companies with affected contracts required employees to use leave or take paid or unpaid time off if they were unable to reassign employees to training or other nongovernment projects. Contractors who were waiting on their contracts to be renewed at the beginning of the fiscal year also faced added uncertainty as to whether their work would continue once the government reopened.

While some grant recipients were able to obtain bridge funding so that programs and services funded through federal grants would continue, this was not sustainable over the long term and was challenged by the uncertainty of the situation. As the Congressional Research Service reports, in cases where the state is the primary grant recipient and is tasked with administering a program that is partially or fully funded by federal grants, the state has the discretion to decide whether to cover any gaps in federal funding to maintain normal program operations, or whether to suspend program operations during the lapse in federal funding. In some cases, suspending program operations may include furloughing state employees.³⁹ Some states have large numbers of federally funded state employees and at least eight states furloughed state employees during the shutdown. According to an official from one national association representing recipients of federal transportation grants that we interviewed, transportation entities which use the funding for operational costs were especially vulnerable. Some local paratransit services which provide transportation to seniors and persons with disabilities, including providing the elderly with rides to doctors' appointments, expressed concerns about possible disruptions stemming from a lack of funding if the shutdown continued. During the shutdown, the association officials said that some of these entities had developed plans to prioritize life sustaining travel, but that their flexibility to continue operations was limited if the shutdown continued.

³⁹Congressional Research Service, *Federal Aid to State and Local Governments: Select Issues Raised by a Federal Government Shutdown* (Washington, D.C.: Apr. 7, 2014).

Similarly, an association official representing research grant recipients noted that some NIH grant recipient institutions had made plans to bridge the funding during the shutdown, but that this was not an option for all grant recipients and was not sustainable over the long term. As one university wrote in a press statement, it could temporarily use cash reserves in unrestricted fund balances to cover any federal shortfall. However, doing so would affect its cash flow and if the shutdown lasted a few weeks, the university expected the shutdown to have a direct effect on the student academic experience and the university's ability to continue to do research. Affected funding would include graduate student funding, post-doctorate funding, and other academic professionals and faculty funding.

During the shutdown, it was an issue for states to maintain sufficient cash flow to bridge funds for federally-funded grant programs. Even if a state wanted to use its funds to continue services for a federally funded program, it might not have had sufficient liquid assets to do so quickly. At least 12 states publicly reported that funding for certain grant programs was only confirmed through October, meaning the funding may not have been available if the shutdown had continued into November.⁴⁰ Some of these states had expected to discontinue certain federally-funded programs or services if the shutdown had extended into November, while others expressed uncertainty over how they would have proceeded if the shutdown had been longer. For example, the State of Kentucky had expected to run out of funds for several programs before November 1 including SNAP, TANF, the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), and the Low Income Home Energy Assistance Program. Similarly, the State of Colorado noted that if the federal government had not resumed operations or some other remedy had not been put in place, the Colorado WIC program would not likely have been able to serve participants in November.

⁴⁰The examples of states' funding for their grants programs during the shutdown are based on state documents, including press releases, and we did not independently validate the information with the states.

Economic Effects of the Shutdown on GDP Were Limited

Estimates of the Economic Effects of the Shutdown on Real GDP Growth Ranged From 0.2 to 0.6 Percentage Points

We identified and reviewed the analysis of several economic forecasters who predicted the effects of the October 2013 shutdown on the national economy; however, there were no studies or academic research focused on estimating all the economic effects of the shutdown.⁴¹ The forecasters we identified predicted the effect of the shutdown on the real GDP growth in the fourth quarter of 2013—which included the time of the shutdown—to be from 0.2 to 0.6 percentage points as a result of lost productivity of federal workers.⁴² These forecasts were conducted either during or soon after the shutdown ended. None of the economic forecasters we interviewed further analyzed the effects of the shutdown since it ended or plans to conduct future analysis as part of a formal study. The economic forecasters we interviewed do not anticipate the shutdown having any longer-term effects on national economic activity.⁴³

In January 2014, the Bureau of Economic Analysis (BEA), the agency whose national economic statistics provide a comprehensive view of the U.S. economy in the form of summary measures such as GDP, estimated the direct effect of the shutdown on the real GDP growth in the fourth quarter of 2013 to be a reduction of 0.3 percentage points, which is within the range of estimates provided by the economic forecasters that we identified. According to BEA, the shutdown did not have an impact on current-dollar federal compensation since Congress authorized

⁴¹See appendix I for information on the economic forecasters' analyses we identified through our literature review and a list of the four economic forecasters and other officials at federal agencies we interviewed.

⁴²GDP changes from one period to another because of change in quantity as well as price. The quantity-change element in GDP is referred to as the constant-dollar increase, or sometimes as the change in the real component of GDP or in real GDP.

⁴³The officials we interviewed from federal agencies (including the Bureau of Economic Analysis, Congressional Budget Office, Congressional Research Service, and the Council of Economic Advisers) that have researched the topic also indicated that they are not planning any research or are not aware of any planned research.

retroactive compensation for furloughed workers.⁴⁴ BEA derived this estimated effect on real GDP from real federal government compensation, one of the components of GDP. BEA adjusted real federal government compensation estimates based on the number of furloughed employees and the number of furlough days, for the reduction in hours worked by federal workers to account for a reduction in services.⁴⁵ Thus, BEA estimates show a decline in real GDP based on the lost productivity of the furloughed workers. BEA could not quantify the effects of the shutdown on other components of GDP and the national income and product accounts, such as personal consumption expenditures or private wages and salaries, since they were embedded in the source data that underlie BEA estimates and could not be separately identified.

Other Economic Effects of the Shutdown

The economic forecasters we interviewed believed the other economic effects of the shutdown to be minimal and they generally limited their analyses to the effect of the shutdown on direct effects of government spending, specifically real federal compensation, as discussed earlier. For example, one economic forecaster who did factor in some of the indirect effects of the shutdown told us that he estimated the loss in real GDP growth to be 0.36 percentage points, out of which only 0.03 percentage points could be attributable to loss of support services or procurement of other services by the federal government such as food and janitorial services.

Given the challenge with identifying and analyzing the detailed micro-level data that would let them capture all the ripple effects through the economy, these economic forecasters did not take all the indirect or multiplier effects into account.⁴⁶ These economic forecasters told us that

⁴⁴Continuing Appropriations Act, 2013, Pub. L. No. 113-46, § 115, 127 Stat. 558, 561 (Oct. 17, 2013).

⁴⁵The timing of when the back pay was actually paid out to furloughed federal employees does not affect the estimates because compensation of government employees is measured on an accrual basis (when the compensation is earned) in the national income and product accounts. The furlough was represented as a reduction in the level of government services but the same costs of these services were maintained in BEA's estimates for the fourth quarter GDP.

⁴⁶Lower government spending can have multiplier effects that make a decline in GDP greater than the initial decline in government spending. For example, if federal employees reduced consumption or if federal contractors reduced investment as a result of the shutdown, then these reductions would also be represented as a decline in GDP.

effects such as impact on consumer and investor confidence were harder to quantify since it is not possible to isolate the effect of the shutdown from the general political uncertainty at the time of the shutdown.

One of the economic forecasters we interviewed believed that at the economy-wide level, when one aggregates the effects over time and across economic participants, these effects cancel each other out because of substitution between activities and goods. For example, the money that was not spent by furloughed federal workers at restaurants near their work places may have been spent at restaurants around their residences or at grocery stores.⁴⁷ In addition, two of the four economic forecasters told us that furloughed federal workers may have delayed some purchases rather than canceling them altogether because they were paid retroactively.

Though the economic forecasters we interviewed generally did not analyze all the indirect or multiplier effects of the shutdown on the national economy, the economic forecasters told us that they expect the indirect effects to have been minimal due to several factors:

- **Duration and timing of the shutdown.** Given that the shutdown lasted for 11 working days, two of the forecasters we interviewed believed it had a modest effect on the national economy. For example, according to the analysis of one economic forecaster, defense gross investment funding is usually set contractually about a year before expected delivery so a shutdown was unlikely to delay private production or construction of defense-related capital from one quarter to the next.⁴⁸ Also, if the contractors know that the funding is

⁴⁷Similarly, people who could not visit a certain national park during the days of the shutdown may have gone somewhere else or returned to those destinations at a later date. For details on how national parks were affected by the shutdown, see U.S. Department of the Interior, National Park Service, *Effects of the October 2013 Government Shutdown on National Park Service Visitor Spending in Gateway Communities* (February 2014).

⁴⁸Macroeconomic Advisers' Macro Focus, *Showdown over a Shutdown: The GDP Effects of a (Brief) Federal Government Shutdown*, Volume 8, Number 7 (Sept. 25, 2013). Most defense equipment scheduled for delivery late in 2013 was financed out of appropriations authorized in 2012. Equipment is recorded in defense gross investment when it is delivered. When the equipment is delivered there is no impact on GDP because the value of the delivery is subtracted from private inventories where it accumulated as the equipment was fabricated. Ships and structures are recorded in defense gross investment as the work progresses and also are paid for with funds obligated out of prior obligations.

secure and will be forthcoming eventually, this economic forecaster said a brief shutdown would be unlikely to have an impact on defense gross investment. Similarly, research projects are more likely to have been delayed, rather than canceled, given the temporary nature of the shutdown. We were also told that the timing of the shutdown somewhat constrained its visible impact on the economy because it occurred in the earlier part of the fourth quarter. Specifically, delays in federal spending which occur within a quarter have no impact on the growth rate of federal spending across different quarters, according to the economic forecasters we interviewed.

- **Expectations of federal workers regarding retroactive pay.** Two of the economic forecasters we interviewed said the furloughed federal workers expected to be compensated for the time of the shutdown, which prevented major changes in the economic behavior of these employees. Federal employees have historically received retroactive compensation from previous government shutdowns and the day before the shutdown, Congress authorized that members of the armed forces and civilian employees who support these members would receive retroactive compensation.⁴⁹ Both of these factors increased federal employees' expectations that they would receive retroactive compensation once the shutdown ended. This expectation caused them to delay rather than reduce consumer expenditures.

Conclusions

The October 2013 government shutdown was disruptive for the selected departments' and components' operations and services. According to selected department officials, the time spent preparing to furlough federal employees and determining which programs could continue took resources away from the departments' daily operations. The shutdown also disrupted federal grants and contracts delivery at our selected departments and components as a result of employee furloughs and payment or work disruptions. Among other factors, the selected departments were aided in managing the uncertainties of the shutdown by their experience with preparing for prior potential shutdowns.

The three selected departments reported that their contingency plans were important in directing their shutdown activities and that these plans generally represented how the shutdown was implemented. According to

⁴⁹Pay Our Military Act, Pub. L. No. 113-39, 127 Stat. 532 (Sept. 30, 2013). There were also other bills introduced that included retroactive pay for all federal employees.

the departmental officials, the departments did not update their contingency plans after the shutdown ended to reflect how they managed the shutdown. OMB requires agencies to submit plans and update them when changes in funding occur and every 2 years starting August 1, 2015. However, OMB does not direct agencies to formally document lessons learned from planning for and implementing a shutdown, as well as resuming activities following a longer shutdown, such as the October 2013 shutdown which lasted more than five days. Federal standards indicate that agencies should identify and record pertinent information to enable officials to carry out their duties. Without documentation of how the shutdown was implemented and lessons learned from a longer shutdown, agencies may not have timely, appropriate information that could help inform planning and implementation efforts in the event of a future government shutdown.

Recommendation for Executive Action

In its annual update of *Circular No. A-11*, we recommend that the Director of OMB instruct agencies to document lessons learned in planning for and implementing a shutdown, as well as resuming activities following a shutdown, should a funding gap longer than five days occur in the future.

Agency Comments and Our Evaluation

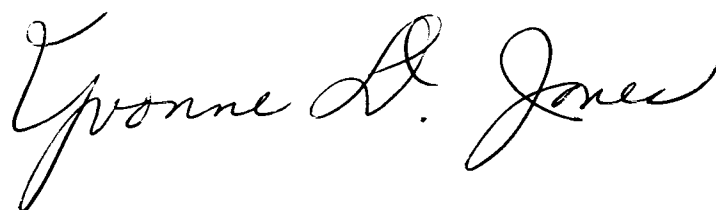
We provided a draft of this report to the Secretaries of DOE, DOT, and HHS; and the Directors of BEA, OMB, and OPM. We received technical comments from DOE, DOT, HHS, BEA, and OPM which we incorporated into the final report where appropriate. In oral comments received on September 11, 2014, staff from OMB discussed our findings, conclusions, and recommendation. In response to this discussion, we made minor revisions to the recommendation language to reflect the importance of agencies having timely and appropriate information after a longer shutdown. On September 19, 2014, OMB staff did not state whether they agreed or disagreed with the recommendation. However, OMB staff said they agreed on the value of documenting lessons learned and will take into consideration the recommendation as OMB develops next year's annual update of *Circular No. A-11*. OMB staff also provided technical comments, which are incorporated into the report where appropriate.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days after the report date. At that time, we will send copies to the appropriate congressional committees, BEA, DOE, DOT, HHS, OMB, OPM, and other

interested parties. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-6806 or jonesy@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.

Sincerely yours,

A handwritten signature in black ink that reads "Yvonne D. Jones". The signature is written in a cursive style with a large, stylized 'Y' and 'J'.

Yvonne D. Jones
Director, Strategic Issues

Appendix I: Objectives, Scope, and Methodology

You asked us to describe the effects of the federal government shutdown. This report describes (1) how the shutdown of the federal government affected selected agencies' operations and services, including the immediate and potential longer-term effects; (2) what is known about how the shutdown affected federal contracting and grants, including the immediate and potential longer-term effects, as reported by the selected agencies and associations with expertise in grants and contracts; and (3) what economic studies or reports state about the effect of the government shutdown on national economic activity.

For this review, we selected three departments and three departmental components to serve as nongeneralizable case studies: the Department of Energy (DOE) and its Office of Environmental Management (EM); the Department of Health and Human Services (HHS) and its National Institutes of Health (NIH); and the Department of Transportation (DOT) and its Federal Transit Administration (FTA).¹ These departments and components were selected based on the following criteria: (1) having grants or contracts valued over \$1 billion in fiscal year 2013, as reported on USASpending.gov; (2) the percentage of federal employees expected to be furloughed as reflected in the department contingency plans; and (3) the potential for longer-term effects from the shutdown on operations, grants, or contracts based on our determination using department contingency plans, the dollar value of grants and contracts programs in fiscal year 2013, and background research (including the Office of Management and Budget's (OMB) report on the shutdown).² We selected a component within each department in order to obtain detailed examples of how components were affected by the shutdown in terms of operations and services as well as grants and contract activity.

We assessed the reliability of OMB's furlough data in its report, *Impacts and Costs of the October 2013 Federal Government Shutdown* for use in

¹DOE's management of major contracts and projects executed by EM—those with values of \$750 million or greater—is included in GAO's biennial report on government operations that GAO identifies as high risk. See GAO, *High Risk Series: An Update*, [GAO-13-283](#) (Washington, D.C.: February 2013).

²For example, see GAO, *2013 Sequestration: Selected Federal Agencies Reduced Some Services and Investments, While Taking Short-Term Actions to Mitigate Effects*, [GAO-14-452](#) (Washington, D.C.: May, 28, 2014); 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).

the limited purpose of background information.³ We checked OMB's data by comparing the data to the planned furlough data agencies reported in their shutdown contingency plans, and we checked the data for reasonableness and the presence of any obvious or potential errors in accuracy and completeness. We also interviewed selected OMB staff knowledgeable about the data and clarified the process whereby the data were collected and verified. Additionally we assessed the reliability of the federal grants and contracts data as reported on USASpending.gov for the limited purpose of case study agency selection and background information. We assessed the USASpending.gov data for accuracy and completeness based on our recent report on the reliability of USASpending.gov data.⁴ While the report noted inconsistencies with USASpending.gov reporting, we determined that selected individual data elements that we used for this report had sufficiently low percentages of unverified information and therefore could be used for the limited purposes of case study selection and background information. We believe these data to be sufficiently reliable for the purposes of this report.

To describe the effects of the shutdown on the three departments' and components' operations and services, we reviewed the documentation from the department (including the contingency plan and guidance to employees) and components (including details on programs affected by the shutdown) and interviewed relevant departmental and component level officials regarding steps they took for planning for and implementing the shutdown and the effects of the shutdown on operations and services. We reviewed OMB documentation (including its November 2013 report on the effects of the shutdown,⁵ guidance to agencies on preparing contingency plans and operating during a shutdown (OMB Circular No. A-11⁶ and OMB Memorandum M-13-22);⁷ reviewed Office of Personnel

³Office of Management and Budget, *Impacts and Costs of the October 2013 Federal Government Shutdown* (Washington, D.C.: November 2013).

⁴GAO, *Data Transparency: Oversight Needed to Address Underreporting and Inconsistencies on Federal Award Website*, [GAO-14-476](#) (Washington, D.C.: June 30, 2014).

⁵Office of Management and Budget, *Impacts and Costs of the October 2013 Federal Government Shutdown* (Washington, D.C.: November 2013).

⁶Office of Management and Budget, *Preparation, Submission, and Execution of the Budget*, Circular No. A-11 (Washington, D.C.: July 2013, most recently updated in July 2014).

Management (OPM) guidance to agencies; and interviewed OMB staff and OPM officials. The information obtained from the selected agencies is not generalizable to the rest of the government, but is descriptive of the preparation and implementation of the shutdown and the effect of the shutdown for the selected agencies. We did not assess whether departments correctly implemented the shutdown or whether decisions to except certain programs or employees were in accordance with the law.

To describe what is known about how the shutdown affected contracts and grants at the selected departments and components and contractors and grant recipients as reported by associations with expertise in grants and contracts, we reviewed documentation from the selected departments and components (including guidance to the recipients of grants from the components and contractors employed by the components) and interviewed officials managing grants and contracts within the selected departments and components. We targeted our review of grants to HHS and NIH and to DOT and FTA. We targeted our review of contracts to HHS and NIH and to DOE and EM. We also reviewed documentation on how federal grant recipients in general were affected by the shutdown as identified through background research from national associations as well as the Congressional Research Service. We interviewed relevant officials from national associations which either represent contractors and grant recipients or otherwise have relevant expertise, including associations representing recipients of grants from our selected departments and components. In selecting associations with expertise in grants, we applied the following criteria: geographic dispersal of membership; longevity of operations; recommendations from the case study departments and components; and our judgment. For grants, these included the American Association of State Highway and Transportation Officials; Association of American Medical Colleges; Association of American Universities; Community Transportation Association of America; Federal Funds Information for States; Federation of American Societies for Experimental Biology; National Association of State Auditors, Comptrollers, and Treasurers; and National Association of State Budget Officers. For contracts, these included the Professional Services Council and the American Small Business Chamber of Commerce. For information concerning the effect the lapse in appropriations had on federally funded grant programs to the states, we also reviewed documents from various state agencies, governors' offices, and state

⁷Office of Management and Budget, *Planning for Agency Operations During a Potential Lapse in Appropriations*, Memorandum M-13-22 (Washington, D.C.: Sept. 17, 2013).

press releases. We did not independently validate the information with state officials.

To describe what economic studies or reports state about the effect of the government shutdown on national economic activity, we conducted a literature review to identify relevant studies or reports of economic forecasts and analysis and economists who have researched the issue. We found that currently no studies have been undertaken; however, we identified the work of several economic forecasters from financial services firms who had analyzed and written about the effects of the shutdown on the national economy. We reviewed the identified research predicting the effects of the shutdown on the national economy and interviewed several of the economic forecasters who had conducted relevant analyses. Forecasters we interviewed included economists from Goldman Sachs,⁸ IHS Global Insight,⁹ Macroeconomic Advisers,¹⁰ and Moody's Analytics.¹¹ Using the results of the literature review, we also reviewed reports and analyses from federal agencies and conducted interviews with federal officials at the Bureau of Economic Analysis, Congressional Budget Office, Congressional Research Service, and the Council of Economic Advisers. At the time of our interviews, the economists we interviewed from the financial services firms and officials from the federal agencies were not aware of any planned or completed studies or reports on the topic since the shutdown ended.

We conducted this performance audit from April 2014 to October 2014 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

⁸Goldman Sachs is a global investment banking, securities and investment management firm that provides a range of financial services to a diversified client base that includes corporations, financial institutions, governments, and individuals.

⁹IHS Global Insight is an economic organization that provides economic and financial information on countries, regions, and industries using macroeconomic models, data and software to support planning and decision making. The company also provides consulting and advisory services, for industries, such as automotive, energy, health, construction, or consumer goods.

¹⁰Macroeconomic Advisers is an independent research firm focused on the U.S. economic outlook, monetary policy, and fixed income markets.

¹¹Moody's Analytics provides economic, consumer credit and financial data, research, analysis and forecasting at the global, macro, and subnational/regional levels.

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 Contact and Staff Acknowledgments

GAO Contact

Yvonne D. Jones, (202) 512-6806, jonesy@gao.gov

Staff Acknowledgments

In addition to the contact named above, Janice Latimer and Thomas Gilbert (Assistant Directors), Namita Bhatia Sabharwal, Jessica Berkholtz, Amy Bowser, Diantha Garms, Thomas James, Melissa King, Thomas McCool, Susan Offutt, LaSonya Roberts, Cynthia Saunders, Shelia Thorpe, Holly Williams, and William Woods made key contributions to this report.

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