S. Hrg. 115–202

# PRUDENT PLANNING OR WASTEFUL BINGE? ANOTHER LOOK AT END OF THE YEAR SPENDING

## HEARING

BEFORE THE

SUBCOMMITTEE ON FEDERAL SPENDING OVERSIGHT AND EMERGENCY MANAGEMENT

OF THE

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDRED FIFTEENTH CONGRESS

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### Wednesday, September 20, 2017



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# PRUDENT PLANNING OR WASTEFUL BINGE? ANOTHER LOOK AT END-OF-THE-YEAR SPENDING

**WEDNESDAY, SEPTEMBER 20, 2017**

U.S. SENATE,
SUBCOMMITTEE ON FEDERAL SPENDING,
OVERSIGHT AND EMERGENCY MANAGEMENT,
OF THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
*Washington, DC.*

The Subcommittee met, pursuant to notice, at 2:30 p.m., in room SD–342, Dirksen Senate Office Building, Hon. Rand Paul, Chairman of the Subcommittee, presiding.

Present: Senators Paul, Peters, and Harris.

### OPENING STATEMENT OF SENATOR PAUL[1]

Senator PAUL. I call this hearing of the Federal Spending Oversight Subcommittee to order, exactly at 2:30, not a second before or a second after, which is unusual to start on time.

Today we are looking at a phenomenon known as "use it or lose it": the practice of going on a spending binge at the end of the year before funds expire and go back to the Treasury.

We had a hearing on this same subject two years ago, and what we heard was shocking. Our witness then, Dr. Fichtner, who is back to testify today, told us that September spending nearly doubles as compared to August, which is already higher than average.

Another study showed, on average, spending jumps nearly 500 percent in the last week of the fiscal year (FY) as compared to the preceding 51-week average. Not only that, we have seen data indicating that on the last day of the fiscal year, money actually moves to the West as the sun sets and they continue to spend it as 5 o'clock approaches on the west coast.

That is the data, but the stories we have heard may be even more telling. We have been told of the military hovering aircrafts at the end of runways just to burn off fuel and soldiers sent to the shooting range sometimes for an entire day just to expend ammunition.

Of course, I cannot forget when we took over this Subcommittee we found toner cartridges for an obsolete printer stacked to the ceiling of the Subcommittee's office space because the Chairman preceding had said, "We have to expend it, we have to spend it, we got this money, we got to get rid of it." So I am not sure exactly

[1] The prepared statement of Senator Paul appears in the Appendix on page 21.

what happened to those cartridges, but I know that they were a waste of money.

There is no question this happens, but some argue it is solely caused by continuing resolutions (CR) and that the purchases really are not bad, just delayed. I do not like continuing resolutions and have never really voted for one, and I agree they play a part in the end-of-the-year spending, but the data does not support that this is "good" spending that is just simply delayed to the end of the year.

Studies have shown that the quality of contracts written at the end of the year are of almost five times lower quality than those written during the rest of the fiscal year.

We discovered that while the State Department and the United States Agency for International Development (USAID) spend roughly 25 percent of their budget in September, more than a third of the waste we found in these agencies seemed to be found in September. This includes funding for such things as Ultimate Frisbee in China, a bird-watching strategy for Honduras, and something called "Skateistan." You do not want to know what that is, I do not believe. None of these can be simply chalked up to delays caused by late appropriations. These have been going on decade after decade.

How do we fix this problem? I think a part of the solution could be the Bonuses for Cost-Cutters Act. This is a bill that I have put forward that is a bipartisan bill that simply gives bonuses to Federal employees that find wasteful spending that can be eliminated.

In the last Congress, this bill passed out of Committee with bipartisan support. The House version passed out of the Government Oversight Committee on a voice vote.

It would seem like a simple, noncontroversial bill that should sail through Congress and save the taxpayers money.

Reining in and controlling end-of-the-year spending binges should be a bipartisan priority. Hopefully, our hearing today will renew interest on both sides of the aisle to address accelerated wasteful spending at the end of the fiscal year.

With that, I would like to recognize Ranking Member Peters for his opening statement.

## OPENING STATEMENT OF SENATOR PETERS[1]

Senator PETERS. Well, thank you, Chairman Paul, for convening this hearing to examine end-of-year spending and explore options for mitigating wasteful spending. Regardless of when it occurs, wasteful spending is simply inexcusable, and I appreciate the opportunity to gather experts today to search for solutions and to do what we can to protect taxpayer dollars.

I would like to also give a sincere thank you to our distinguished panel of guests for taking the time to participate in this discussion today. The insights from your work are helpful in framing our discussion and allowing us to focus on some very central issues.

Among those central issues is the question of what is really happening as agencies routinely ramp up their spending volume toward the end of each fiscal year. First, what drives this behavior?

[1] The prepared statement of Senator Peters appears in the Appendix on page 23.

And, second, are there risks involved that make this spending particularly vulnerable to waste and abuse?

Concerning the high volumes of spending on certain purchases in August and September, I think we can all relate to the phenomenon of rushing to complete a task before an impending deadline. As a Senator, I can certainly relate to that fact, and oftentimes my schedule, as I know Senator Paul's schedule, revolves around the most time-sensitive issues that we are facing on any particular given day. And deadlines serve a purpose and create a sense of urgency that we sometimes need to finish our work, particularly for long-term projects.

But deadlines are no reason to become sloppy, or worse, negligent. If we find that our year-end deadlines are causing agencies to make poor spending decisions, then we need to diagnose this problem while we are also ensuring that we discipline those responsible for making these poor decisions.

Of course, there are also outside factors that might exacerbate the year-end spending surge, like the continuing resolutions that Congress keeps settling on or the hiring freeze that the current administration implemented this year. Budget uncertainty can hamper an agency's ability to effectively plan it's purchases.

We have to keep in mind that many Federal purchases require more than a simple wave of a wand to complete. Depending on the purchase, agencies must consider the required specs for the service or the product, request and evaluate bids from vendors, negotiate prices, obtain managerial approval on purchase orders, and draft contracts detailing the terms of the agreements.

A lot of work goes into making purchases before a final contract is signed, and this series of steps is not merely for show. These steps serve as internal controls to mitigate opportunities for individuals to act in bad faith.

It takes time to go through these steps, which are designed to ensure that funds are spent appropriately. If agencies get a late start in that process because Congress or the White House continually meddles with their appropriations, it could lead to delays in completing purchases.

We should do our part in Congress by passing timely budgets that limit the uncertainty agencies face in making spending decisions.

But beyond the factors that might be encouraging end-of-year spending binges, let us focus on the extent to which these binges lead to wasteful spending. We know spending levels for some purchases increase at the end of the year, but do we know why it might lead to increased levels of waste? Why would our internal controls fail to prevent wasteful spending as we reach the end of the year?

Do we see evidence that purchasing rules are put aside in September? Are contracts ignored? Do oversight activities become more lax? The fundamental question becomes: Are existing internal controls sufficient to prevent wasteful spending at year's end? And if not, where are those failures taking place?

If it turns out that agencies do not fully adhere to purchasing controls at year-end, we have a much larger issue than wasteful spending. And I sincerely hope this is not the case, but we need to see definitive evidence one way or the other.

But, please, if any of the witnesses have reason to believe that internal controls are weaker at year's end than at other times of the year, please share your findings with us today. It is very important for us to know that. This would be critical information during our discussion.

Dr. Fichtner's study shows that certain types of spending generally increase in most agencies in August and September every year, but it does not go so far as to say that the higher volume of spending taking place results in wasteful spending. So let us talk about the distinction there a little bit and what we need to focus on today.

There is a distinction between, A, a bad spending decision and, B, a bad spending decision that was brought about specifically by rushed year-end spending. This is an important distinction because it speaks to the focus of this hearing: Does our existing system of expiring appropriations instigate wasteful spending decisions?

This requires more than just identifying a purchase or two that we do not like, and I would rather not focus on something as benign as the purchase of a little extra printer paper before the end of September. We should spend our time on much larger issues than that.

I would rather focus on the kinds of waste that are blatant, where the person responsible for the spending knows that what they are doing is simply wrong. I am talking about reports of agencies intentionally burning through fuel on runways for the sole purpose of being able to spend more money later. That is clearly waste, and if it actually happens, we should go after these perpetrators to the full extent of the law.

The most complicated purchases to debate will be those that go through all of the existing approval channels and still are thought to be wasteful. In those cases, management approved the purchases and hypothetically gave an appropriate amount of consideration in approving them. If managers are to blame for poor decisions, it could be that the expiring appropriation is not so much the issue as it is the judgment of the officials approving those purchases.

But in instances where we believe that the expiring appropriation caused wasteful spending, that is where we will need to focus on ways to improve the internal controls in place for year-end spending decisions. What should we be doing better to prevent poor spending decisions? What has been attempted and what has proven successful? Do we need to consider options that will lessen the sense of urgency created by an end-of-year spending deadline?

While internal controls ideally will stop wasteful spending before it happens, we also have to consider our options for catching wasteful spending as it occurs. As a member of the Senate Whistleblower Protection Caucus, I co-signed letters to 18 agencies in March this year asking them to remind employees that they are protected when they disclose fraudulent, wasteful, or abusive practices and to further remind employees and managers that whistleblowers may not be retaliated against.

The easier it becomes for whistleblowers to report the kind of wasteful spending we are concerned about here today, the more likely we are to root out such spending. Just as we are free to question spending decisions in settings like this, whistleblowers should be free to ask questions about and report potentially wasteful actions in their workplace without fear of retaliation.

And much like we hope and expect for whistleblowers, I hope that all of our witnesses feel welcome and comfortable today in sharing your insights and experiences as we work together to combat this problem. Please use this forum to give us your honest assessment. I look forward to your testimony and, again, I appreciate you being here today.

Senator PAUL. Thank you, Senator Peters.

I think as we begin this hearing, to put it into context, we are facing this year a $700 billion deficit. If we eliminate all of the end-of-the-year spending and fix the problem completely, we are still not going to fix the deficit. Some say, "Well, why bother? It is just one or two percent or three percent." Well, you have to start somewhere, and we should try to spend our money more wisely and less wastefully. It is not the whole solution, but it could be a stepping stone toward trying to be more fiscally responsible.

With that, I would like to begin by introducing our first witness, Dr. Jason Fichtner. He is a senior research fellow at Mercatus Center at George Mason University (GMU). He holds a Ph.D. from Virginia Tech, a Master's in Public Policy from Georgetown, where he is now an adjunct professor, and did his undergrad work at the University of Michigan. Dr. Fichtner has studied end-of-the-year spending extensively. He is one of the first academics to use online Federal spending data to study this phenomenon and testified about his research before this Subcommittee two years ago. I think it is safe to say that he is one of the foremost experts on this subject, and we are happy to have him back. At this point we would like to hear from Dr. Fichtner.

## TESTIMONY OF JASON J. FICHTNER, PH.D.,[1] SENIOR RESEARCH FELLOW, MERCATUS CENTER AT GEORGE MASON UNIVERSITY

Mr. FICHTNER. Thank you. Good afternoon, Chairman Paul, Ranking Member Peters, and Senator Harris. Thank you for inviting me to testify today, and, Senator Peters, it is good to be here with a fellow Detroiter. So thank you for having me.

My testimony focuses on two key issues: first, the extent to which perception of a year-end spending problem is reality; and, second, how various reforms would improve the efficiency of spending by Federal Government agencies and departments.

From this discussion I hope to leave you the following takeaways:

First, while anecdotes and media stories of year-end spending surges are widespread, empirical evidence for year-end spending surges and "use it or lose it" spending—or the motivation behind this spending—is significantly less available. However, my research and recent research by other scholars is beginning to demonstrate empirical evidence that a year-end spending phenomenon is real and potentially wasteful.

[1] The prepared statement of Dr. Fichtner appears in the Appendix on page 26.

Two, allowing Federal agencies limited rollover or carryover authority could reduce wasteful year-end spending surges. Similar reforms at the State level and internationally have shown promise, but, again, more research is still needed. Additionally, programs providing cash bonuses to agency employees whose identification of unnecessary expenses results in cost savings for the agencies may hold promise. But, again, further research is needed.

The "use it or lose it" phenomenon refers to the propensity of U.S. Government agencies to spend unused fiscal resources toward the end of the fiscal year. This spending is allegedly driven by fear that leftover resources will be returned to the Department of the Treasury and will prompt future congressional budget cuts for the agency. My research analyzed publicly available data from USASpending.gov related to spending on prime contracts awarded by executive departments. My analysis focused on this type of spending—which comprised roughly 11 percent of total Fiscal Year 2015 Federal spending—because the data are readily available. My research shows that a remarkably large percentage of Executive Branch contract spending occurred near the end of the fiscal year. If an agency were to spread its contract spending evenly over a 12-month period, roughly 8.3 percent of spending would occur in each month. However, in the last month of fiscal year 2015, the Department of State spent 34.9 percent of its contracting expenditures, and the Department of Housing and Urban Development (HUD) spent 32.6 percent.

Not all agencies exhibited a year-end spending surge. For example, the Department of Energy spent only 5.7 percent of its annual contract expenditures. But as the data show, most Federal agencies were well above eight percent, and over one-half of all agencies were above 16 percent. Between 2003 and 2015, across all executive departments, 16.3 percent of obligated contract expenditures occurred during the last month, September—more than twice what we would expect if spending were evenly split over 12 months.

Focusing on the fiscal year 2015 data, the number of contracts signed steadily increases throughout the month of September. In the last three days of September, agencies signed 2.5 percent of their contracts, and 0.9 percent were signed on the last day. If contracts were evenly distributed, one would expect to see 0.5 percent of contracts signed each day. Now, while 0.9 percent of contracts may not appear excessive, for some agencies this number amounted to a lot of dollars. For example, the State Department signed 2.18 percent of its total contracts on the last day of the fiscal year; this accounted for 7.75 percent of the agency's total obligated contract dollars for the year.

It is important to point out that the pattern of year-end spending surges is evident across all fiscal years analyzed and is not unique over the past few Congresses or administrations. Year-end spending surges have become the norm, regardless of administration, party control of Congress, or delays in finalizing agency appropriations.

Academic research and some anecdotal evidence suggest that the current budget rule of "use it or lose it" is not optimal and may be encouraging wasteful spending of taxpayer dollars. The question remains, as Senator Peters points out: If such spending is indeed wasteful, what can be done to reduce it?

One idea is to allow agencies limited rollover authority—also known as "carryover"—for funds not spent by the end of the fiscal year. The Federal Government could begin with a pilot exercise to test the merits of limited rollover authority. Within certain Federal departments, agency subcomponents could be given the authority to roll over up to five percent of contracting budget authority into the next fiscal year. To avoid lengthy delays in the spending and to discourage large accumulations, such funds should be spent within two years.

Departments or agencies that wish to participate in the pilot could request Congress to do so and could direct the Government Accountability Office (GAO) to oversee, audit, and evaluate the program. A pilot program that gives limited rollover authority to several departments, combined with congressional and GAO oversight of rollover accounts, would be a useful experiment to see whether these changes to the Federal budget process would reduce wasteful year-end spending.

Another potential reform is to create a cash bonus program, as Senator Paul has recommended, for agency employees who identify savings and return the unspent budget authority to the Treasury. A program for bonuses for waste reduction could be included in a limited rollover pilot program to test the efficacy of the new initiatives.

Thank you again for your time and for this opportunity to testify today. I look forward to your questions and the continued discussion.

Senator PAUL. Thank you, Dr. Fichtner.

Our next witness is Dr. Allan Burman. He is Commissioner of the Section 809 Panel. He was also Administrator for Federal Procurement Policy for the U.S. Government under Presidents Reagan, Bush, and Clinton. The 809 Panel, on which he serves, was created as part of last year's defense authorization bill and is tasked with finding ways to streamline and improve the defense acquisition process. I am very interested to hear from you what you have been finding, and we hear from former soldiers all the time about the military hovering helicopters or driving trucks around in circles to burn fuel and all sorts of other wasteful exercises designed to artificially create a justification for September spending. So we are very interested in hearing from you about your findings at the Department of Defense (DOD).

Dr. Burman, you are recognized.

## TESTIMONY OF THE HONORABLE ALLAN V. BURMAN, PH.D., COMMISSIONER, SECTION 809 PANEL

Mr. BURMAN. Thank you very much, Chairman Paul, Ranking Member Peters, and Senator Harris. I am pleased to be here today to speak on end-year spending surges. I would like to submit my statement for the record[1] and briefly summarize it, if I may.

Senator PAUL. Without objection.

[1] The prepared statement of Dr. Burman appears in the Appendix on page 66.

Mr. BURMAN. As you said, the 809 Panel has been charged to provide recommendations on defense acquisition reform, including ways to maintain Defense's technological edge, and we have formed a number of research teams to look at key issues in trying to achieve those objectives, including eliminating unnecessary regulations, identifying barriers to entry for high-tech firms, and improving budgeting practices, and I lead the budgeting team. Of course, a key topic of our team is what the subject of this hearing is today, incentives that produce end-year spending and their effects on acquisition effectiveness and efficiency. I will present some of the issues that the panel is considering. We are in the process of looking at these, so this is still an ongoing effort on our part.

Just to put defense spending in context, in Fiscal Year 2016 Defense spent $568 billion, and of that, $298 billion was obligated for the purchase of goods and services, products and services.

Now, if you were obligating money evenly throughout the year, you would expect that you would be obligating about eight percent, a little more than eight percent of your funds every month. Instead, in our research on what is happening with Defense, we find more than 14 percent of the total was spent in 2016 in September, and in the final week of the fiscal year, seven percent of the funding. So it is very much in line with what we have heard from Dr. Fichtner.

The surges appear to be concentrated in certain areas, for example, information technology (IT) and building construction and maintenance. The three key questions that we are addressing are: Are these surges bad? Why do they happen? And what can be done about them?

Some of the preliminary findings we are getting from our data analysis and interviews are: With regard to are they bad, we have had some stakeholders say no, they do not see any issues with regard to quality. Others say, yes, you are buying lower-priority things at the end of the year, but these things, these goods and services, are still something that is needed and it is prudent to hold off spending in case there should be some kind of an emergency. Many, however, including the work that Dr. Fichtner has done, suggest that you get less efficient acquisition outcomes as a result of that end-year spending.

There was another major study done on this subject a couple of years ago that shows a very clear correlation between lower-quality IT products and end-year spending. We have heard anecdotal comments from many people that support this point.

What causes these surges? We need to look at the many tiers of obligation authority going from Congress to Office of Management and Budget (OMB) to service comptrollers, and these various spending organizations put constraints on when people can spend. But the key result, though, is that people want to spend that by the end of the year, or they fear that those funds will be taken or they will be lost.

How have we responded in the past to these kinds of surges? There are two mechanisms that have traditionally been used—among others. First, multiyear appropriations. For example, for research and development (R&D) and procurement accounts, there you can obligate money beyond the end of the first year, so you are not seeing the same kind of effects that you might see in one year money. There is also the 80/20 rule, which says that you should spend no more than 20 percent of your operations and maintenance funds in the last two months of the fiscal year. That appears to just more or less push the spike back a couple of months but not necessarily deal with the problem itself.

So other measures for addressing end-year surges include:

The Bonus for Cost-Cutters Act that you mentioned, Chairman Paul, that directly targets wasteful spending. Here we would want to make sure that the incentives between leadership and employees are aligned, but we are definitely looking at that as a factor to consider;

Using working capital funds, which allow an activity to operate more like a business, and in that case funds are not tied to end-year deadlines, and some agencies have used those, and Defense has a number of them;

And then, finally, carryover authority, similar to what Dr. Fichtner has mentioned, and, in fact, there was an opportunity to do that in the Defense Health Agency last year, and it appears that it is reducing spikes.

So we are looking at all of these areas and approaches in terms of the recommendations that our committee will be making to the Congress.

This concludes my prepared remarks, and I am happy to answer any questions the Committee might have.

Senator PAUL. Well, thank you, Dr. Burman.

Our final witness today is Heather Krause, who is Director in the U.S. Government Accountability Office, Strategic Issues team. In this role Ms. Krause is responsible for developing and leading portfolio work on cross-cutting agency budget, regulatory, and intergovernmental relations issues. Of interest to us today is her work on continuing resolutions and uncertainty in the appropriations process. Ms. Krause holds an M.A. in Public Policy from the University of Minnesota and a B.A., also from the University of Minnesota. Ms. Krause.

**TESTIMONY OF HEATHER KRAUSE,[1] DIRECTOR, STRATEGIC ISSUES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE**

Ms. KRAUSE. Thank you, Chairman Paul, Ranking Member Peters. Thank you for the opportunity to discuss our work on agency responses to budget uncertainties and the effects on year-end spending.

Congress exercises its power of the purse by appropriating funds and prescribing conditions governing their use. Federal funding may be available to obligate for one year, multiple years, or have no time limit. For example, expenses like payroll generally must be obligated in one year, while capital investments such as IT modernization efforts can involve funds available for multiple years.

As funds approach the end of their period of availability for obligation, a "use it or lose it" mentality, as my fellow panelists have talked about, can set in among agencies. This can create an incentive to rush to obligate funds. Agencies may also fear that if they

[1] The prepared statement of Ms. Krause appears in the Appendix on page 73.

do not use all the funds in a given year, it could reduce the next year's appropriation.

On the other hand, there may be good reasons, including reasons intended by Congress, for agencies to have higher levels of spending in the fourth quarter. Our prior work on year-end spending emphasized the importance of accurate and available data to effectively monitor how agencies execute their budget. Our body of work on Federal budgeting has continued to stress the need for quality and available data as agencies manage their budgets and Congress oversees them.

My statement today focuses on: first, how agencies spend their funds in response to budget uncertainty; and, second, on the legal and other considerations managers must balance in spending funds throughout the year.

Our prior work has shown that agency spending patterns are affected by budget uncertainty and disruptions. For example, in all but four of the last 40 years, Congress has passed continuing resolutions, when all regular appropriation bills have not been enacted on time. In many cases CRs have extended past the first quarter of the fiscal year into February or March. While CRs allow agencies to continue operations until their final appropriations are determined, in 2009 we reported agencies changed their spending patterns during the CR period.

For example, agencies limit their spending early in the year because the final funding may be less than anticipated. Also, agencies delayed hiring or contracts during a CR. Such delays reduced the level of services agencies provide and increased costs.

Longer CRs in particular can contribute to agencies rushing to obligate funds at the end of the year. Agency officials told us that, following a lengthy CR, they can end up spending funds on lower-priority items that can be procured quickly if they do not have enough time to spend funds on higher priority needs.

There are also important legal constraints on agencies as they manage their funds throughout the year. When Congress provides funding to agencies, they put certain requirements on those funds. Such requirements include: what agencies can spend their funding on, how much funding they will receive, and when they have to use those funds.

In addition, an agency may not obligate money from the current year for the needs of future fiscal years. Commonly referred to as the "bona fide needs rule," an agency must point to a genuine need for the expense in that year, not just use up dollars before the end of the fiscal year.

It is also important to recognize that some factors affecting the timing of spending are within the agency's control and some are not. For example, agencies may choose to award contracts or grants annually at the end of the fiscal year. Conversely, an agency may be compelled to spend at the end of the fiscal year due to external events beyond their control, such as natural disasters.

In close, there is always a delicate balance in budgeting between offering agencies sufficient flexibility to operate efficiently while also ensuring adequate oversight and accountability. In an era of increasingly constrained Federal resources, the need to manage agency budgets prudently has become even more critical to the success of Federal agencies and the missions that they support.

This concludes my statement. I look forward to answering your questions.

Senator PAUL. Thank you all for your testimony.

I think we will let Senator Peters start, if you are ready.

Senator PETERS. Well, that is fine. Thank you, Chairman Paul. I appreciate that. Thank you for the testimony, all three of you. I appreciate that.

Dr. Burman, your studies of DOD spending I believe also indicate some spikes in spending both in March and September 2016, and for that matter, it looked like December and June also appeared to be a little higher than other months in the year as we looked at it tracked out. It appears that the DOD has a variety of deadlines throughout the year that lead to corresponding spikes in spending at those various times. My concern is whether that increased volume might be comprised of wasteful spending as well in those periods.

My question is: Does the DOD have an epidemic of wasteful spending in March every year similar to what we are hearing may be happening in September?

Mr. BURMAN. I do not think so, Senator. I think what is happening is that people are concerned about the end-of-year spikes, and particularly for the Navy and the Air Force, we are seeing that some of these funds, it appears, have been moved forward where they can do that, where they can take into account the overall needs for whatever the system is that they are procuring or working on to try to avoid this end-of-year issue. The Army, on the other hand, has a very much higher spike, something like 20 percent at the end of the year. So I think we are seeing some policy actions taking place to try to address the problem. You still have the question of what is the overall value of what it is that you are buying.

Senator PETERS. Dr. Fichtner, how did August and September spending volumes compare to March spending in your study? And were there other months that showed spending spikes as well?

Mr. FICHTNER. That is an excellent question, Senator Peters. Generally, we saw some spikes throughout agencies, some here, some there, but not necessarily consistent with what we saw with the year-end spending. But to your point that you asked Dr. Burman, I think it is very important. One of the things he pointed to in his testimony and you mentioned in your opening statement was whether or not the process is designed in some ways that we are forcing people to rush to the end. I do not know if that is something we should look into, but OMB apportions money sometimes on a quarterly basis. So if there is an apportionment issue from OMB that is forcing agencies to spend up to the end of the quarter to get the next apportionment, that could also be an issue. Whether that is wasteful spending or just rushed spending is a good question. But to your point at the beginning of the hearing was: Is the process set up in a way that is creating a perverse incentive and not giving folks enough time to make proper decisions and allocation of resources? That is a very good question which we are all starting to look at, too.

Senator PETERS. Well, I guess to follow up on that point, in your analysis in your study, do you know approximately what percentage of purchases would have been subjected to a long-term planning procedure such as developing requirements, requesting bids, negotiating prices, which is something you cannot do overnight, obviously? Do you know what percentage that may have been?

Mr. FICHTNER. I do not, Senator, and it is a very good question because when we started looking at the data, we were looking first at whether there is an issue, is there something we can point to. Again, as my testimony points out, there are a lot of anecdotal evidences, but we do not want to make policy by anecdote. We were one of the first, my colleagues and I, looking at this issue empirically, and we were not able to dive into each contract specifically to figure out whether it was even a wasteful spending, a good spending. We had to sort of let the data sort of drive the aggregates, and that creates the results. But your point is very valid and important. If a lot of these contracts require long-term planning, whether it is several months or more, just having a year-end deadline without having any carryover authority could force a decision to be made or not made that we would not want otherwise.

Senator PETERS. So that is going to be part of future studies that you are going to do going forward, because just thinking it through, if you know you have to get this stuff out by the end of the year, you start a contract process in February, and you say, it has to be done by the end of September, then you do another one in March, it has to be done by the end of September, it continues, and it can build up. I do not know what that number is, but we have to figure that out because that is going to be a part of analyzing what we may have here.

Mr. FICHTNER. Yes, Senator, that is correct, and I am hoping also Dr. Burman's panel starts looking at this, too, because they have a nice bigger team than just me to look at the data. But the point you make is very valid, and I think we want to just hit something home that—I do not want to speak for my fellow panelists, but I think they would agree no one here is saying there is malintent going on or it is evil intentions of civil servants. The infrastructure, the process, the incentives right now are misaligned. If there are projects that take several months to plan, the ones that take less time are going to naturally be put off to the end. And that was Dr. Burman's point as well.

So if you get to the point where you are planning for all the ones that take a lot of your time and attention, then you get down to, say, September and you have still got all this extra money you have to spend, well, I do not have time for the three or four month planning process anymore, but I have to spend this money or it goes back to the Treasury. Now I am going to fill in those blanks with the smaller, less time-consuming—they still may be relevant and important contracts, but that is where the attention goes; whereas, if we allow for some sort of rollover, at least we would have more time to make decisions past the fiscal year.

Senator PETERS. Well, I know you do not want to speak for the other panelists, so I am going to ask them to speak for themselves based on Dr. Fichtner's comments. Dr. Burman, then Ms. Krause afterwards.

Mr. BURMAN. Sure, Senator Peters. In the contracting field, there is something called procurement administrative lead time (PALT). It is the time that you need to actually conduct the entire procurement. Once a requirements package has been given to the contracting folks—and when you are talking about open market procurements, we are looking at taking 150 days or more actually for some major contract actions. So anything that disrupts that process or where you get a CR that comes late in the year where you have some uncertainty as to whether you can proceed, then you could end up pushing folks to make judgments and make contract awards by the end of the year, if it is one year money, or otherwise they may be waiting two years because of the budget process. You have to put these things in the budget well in advance of when you are actually going to be able to provide the obligations.

So that is another issue that causes people perhaps to do things that they should not be doing in terms of rushing, using a different kind of a contract type, or perhaps going sole-source, using less competition so that you can move that process and make that award by the end of the year so the money does not expire and then you have to wait another 18 months before you can get back into pursuing that project again.

Senator PETERS. Thank you. Ms. Krause.

Ms. KRAUSE. Thank you. I would just add you mentioned the carryover balances and when we have done different work looking at budget uncertainty in terms of whether it is the CRs or sequestration, we have certainly heard agencies say that having some of that carryover balance and flexibility when in a CR environment does help address some of those incentives.

But I guess one of the things—and we have looked at carryover balances—is really thinking about as I was saying, the tension between sort of giving them flexibility but making sure you have adequate oversight over that kind of authority, asking them, what are your plans for the balances you are carrying over, what kind of—especially looking at what kind of changes over time for that kind of money and spending that you are holding, whether the agencies have capacity to use that money. So I think in that context of carryover balances, the oversight piece is really important.

Senator PETERS. Great. Thank you.

Senator PAUL. Well, thank you all, and thank you, Senator Peters.

We have talked about increased spending at the end of the year, and so I think there are sort of, I guess, two possibilities. One is that government, which often has a reputation for not doing things very well, just cannot spend the money fast enough, and so they have a bunch left because they did not spend it fast enough because they just could not get to what they were doing. But the other possibility is maybe we gave them too much, and so they spend it to get rid of it to make sure they get it the next year. And I think there is probably some truth to both of those, that procurement and deadlines and wait periods, and uncertainty add to the fact that it takes a long time to get to September, then they have to spend it all. But it could also be the argument we have appropriated too much, and that ought to be at least one of the considerations.

So when we look at sort of the idea of rolling over, I think it does address the idea that you get rid of hurried decisions and that maybe buying the wrong stuff or just buying something—we have to buy something, we have to do something with the money, you might get rid of that and you might get rid of some waste. But I think there is an equally bigger picture when you have a $700 billion deficit every year that maybe we have appropriated too much.

We talked about the cost-cutter bill a little bit, the idea that we could give incentives to people who can find cost savings that still allow the agency to do what it is supposed to do but are able to find savings. That would be sort of a positive thing to give to workers. Let us comment first on that, and then I will ask you maybe about the opposite, whether we should have some punishment for people who are actually spending it unwisely and if there would be a way we could do that.

First, the idea of bonuses, and I know you all mentioned it, but if you could each give a comment. We will start with Heather and work our way down.

Ms. KRAUSE. I think in the context, I have not seen your current bill that you have introduced, but looking at other similar bills or prior bills, I think the one important element of that in terms of from a congressional standpoint would be really that Congress has visibility over how that program is being implemented and that the agencies are actually demonstrating that there are savings that are occurring and sort of having thoughtful evaluation on the types of savings, and also just that, the other aspect of it, that, employees are being rewarded if that is what is occurring.

Senator PAUL. Dr. Fichtner.

Mr. FICHTNER. Let me answer this in two parts.

First, regarding the cost-cutters, I think it is a fantastic idea that also should be done as part of a pilot; and not to throw my GAO colleague under the bus, but GAO is the right organization that can do an evaluation of pilots in the government to let us know whether they are designed properly, working properly, and what the effects are, and also what we could learn from these type of pilots.

Second, in the spirit of bipartisanship, let me sort of square the circle with you and Senator Peters. Senator Peters has made the point again in some ways that it is hard for some agencies to make the decisions. If you have a CR, you are pushing some things back. If you do not have political appointees in place, no one is going to stick their neck out to make a spending decision that costs a lot of money over a few years without a manager or a political appointee there to give them cover. There is also rollover authority you could do that does not have to last one or two years. You could make it two or three months, especially if you have a CR. Right now if you do not have a budget passed until the end of December, why not add three months of carryover and do that as part of a pilot with cost-cutters. You give people the incentive to say, "I do not have to rush anymore to spend this, and I have some carryover. But if there is wasteful spending, then I actually can now get an incentive to save money for the government and get some bonus at the same time." I think we can merge these two incentives into one pilot program, and that would be very effective.

Senator PAUL. Dr. Burman.

Mr. BURMAN. I think that the issue is, again, incentives and aligning incentives in the organization to make sure that the organization itself sees that there is real benefit here and makes the point that we are not looking for spending money on wasteful things and making it clear that that is a goal and a motivation of the organization, so people who are rewarded for doing these kinds of things are actually recognized for doing good things as well.

There are lots of opportunities over the course of a year, presumably, for leadership and staff to be looking at what are they spending their money on. Are they spending it on the right things? Are they getting value for what they are spending on?

I would say the one thing that would be important is trying to figure out a way to make sure that those interests are aligned and those incentives are aligned.

Senator PAUL. We have legislation on the bonuses. I do not have legislation on this other idea, but the opposite side of the coin would be could we or do we have any way of punishing people who make terrible decisions on wasteful things. The thing that frustrates both me and other taxpayers is I can remember as a kid reading William Proxmire's Golden Fleece Awards, and you know what? My staff still finds all of that stuff. I mean, Ultimate Frisbee in China, I do not know why we are sending any money to China. All right? We trade with them. They are doing great. They are growing at 7 to 10 percent a year. We should not be sending them any money. And somebody who is sending money for Ultimate Frisbee ought to be fired.

There has to be somebody reviewing the spending decisions. Do we have something in place where someone reviews it and says, "That is outrageous"? In a company, if they found that you spent $1 million going to Las Vegas on September 30th, you might be fired, particularly if the company did not do very well. This company is the country. It is not doing very well, $700 billion in the hole, low growth rates. Someone should be fired for the waste. Is anybody accountable? Is there a way of making people accountable where someone looks back up here and says, "Why did you do that?" and there is some accountability?

We will start with Ms. Krause.

Ms. KRAUSE. I think as there has been some discussion, I mean, internal controls are really important in terms of having those processes in place to identify wasteful spending throughout the year. Again, I think you do have to create, as we found from some of our organizational transformation work, a culture that encourages employees to bring these types of issues to the forefront that they, really the employees are the ones that know their agencies, and they know where there are, ideas and opportunities for improvement. It is really important that agencies are sort of setting up programs and cultures that help encourage that kind of behavior from employees.

Senator PAUL. All right. We had a study—and a lot of these are from the National Science Foundation (NSF) which I am upset with almost on a daily basis: $300,000 spent studying Japanese quail to see if they are more sexually promiscuous on cocaine. All right. I use that in speeches across the country because it brings a guffaw and then laughter and then anger at government. But we have been doing this since the 1970s. I can point to a similar study from the 1970s, the same kind of stuff, that nobody in their right mind with any common sense thinks we should spend a penny on. But are we fixing any of it? I know you try to do a good job. You are looking at waste in government. You are trying to make us accountable, so I do not blame you. But I think we have to do something different because year after year we keep seeing this waste. Dr. Fichtner.

Mr. FICHTNER. Thank you, Senator. This is a very important question, and I want to try to answer this in a nuanced fashion.

First of all, I think there are also some agencies that have problems with leadership. It starts at the top. If an agency head or the political appointees are not actually taking care and sending the right message that they do not want wasteful spending, then they are going to get wasteful spending. It starts at the top. So when you have Commissioners, Secretaries up in front of you testifying, you should ask them about wasteful spending and what they are doing about it. Make it something that if you care, they care, then the agency is going to care.

The second is the Inspectors General (IG). That is part of their role and their job. If there is wasteful spending that we are identifying, whether it is anecdotal or evidentiary, we should have the IGs looking at it.

And we should probably have some sort of reform to the civil service rules to make it easier to fire people that are actually wasting money in a nefarious manner.

On the flip side of my third point—because I want to make sure that I put this forward because Senator Peters mentioned and it is very important about culture—we have to protect whistleblowers. There is no way around this. The front-line people for protecting the taxpayers' dollars are our civil servants. They are the face of the public. They are our Social Security representatives. They are the ones you talk to when you have the Internal Revenue Service (IRS) problems. They are the ones who are identifying fraud, waste, and abuse. If we do not stand by them, they are not going to come forward. We have to make sure we protect them.

Senator PAUL. What do you think is the idea—it has been said—and I am not sure if this is absolutely true or not, but contractors are not covered under the whistleblower? Is that true or not true?

Mr. FICHTNER. I do not know, but if they are——

Senator PAUL. Because a lot of government is whistleblower, and I know you are interested in it. I just throw it out as an idea that maybe we should think about whether contractors ought to be, because contractors are spending a lot of the money, too. And they actually might be a little freer to give us information, but they are also worried about the next contract, whether we could include them under the whistleblower statutes.

Mr. FICHTNER. That is good to look into, Senator.

Senator PAUL. Dr. Burman.

Mr. BURMAN. There are provisions, qui tam provisions, that would allow someone who identifies waste as a contractor to go and bring that to the Department of Justice (DOJ) and be able to address that issue under protection. That is something that actually does already occur.

I agree with my fellow panelists that you need to hold leadership accountable for making good decisions, and when they are not making good decisions, then hold them accountable again for that result. As a procurement administrator, frequently when these kinds of issues would come up for me, I would ask the IG to look into them, and I would use the IG as the appropriate agency to try to get to the bottom of these kinds of problems.

Senator PAUL. And you think people in—civil servants have a sufficient—I do not know is "fear" is the right word, but respect for the IG when they come into the situation and they are addressing it, that it is not just seen as, "We do not really care"? Do you think people are concerned when the IG comes and investigates?

Mr. BURMAN. I think they are. I think they are definitely concerned if the IG is looking into an issue or a problem.

Senator PAUL. I have one more question, but if Senator Peters has another question, I will let you go again. Do you have anything?

Senator PETERS. Just a couple of follow ups, and then I will let you wrap it up, Mr. Chairman.

Back to the whistleblower idea, which I think is one that we have to make sure we are looking at for the reasons that were mentioned by the witnesses here, we have to make sure they are protected. I am just curious, from your studies or working in this area, do you believe that people are not adequately protected now, that there is a culture that people are still concerned about coming forward? And are there things that we need to be thinking about that we should be doing to strengthen that? Dr. Fichtner.

Mr. FICHTNER. So, again, and I hate to have anecdote drive policy, but there has been enough anecdotal evidence that people say they are fearful of retaliation. Just having those anecdotes be spread in the media, be spread in public, creates a culture of fear. So my answer would be, even if it is not a problem, if people think it is a problem, then it is a problem. So, yes, this is something the Committee should look into. How to strengthen that, I am not a lawyer. I am not sure what should be done. But I am all in favor of strengthening whistleblower protection so they are not fired, facing retaliation, and they have protections and, if possible, if they need anonymity in forwarding things on fraud, waste, and abuse, that they have that as well.

Senator PETERS. Any other comments?

Mr. BURMAN. Again, I would say on these kinds of issues, for trying to promote what we are looking for is for people to get rid of—not do unnecessary spending or wasteful spending, it makes sense to make sure that they are in line with a leadership that says that is what they want to do as well.

Senator PETERS. Ms. Krause.

Ms. KRAUSE. I would just say—we have not looked specifically at sort of whistleblowers' cost savings, but definitely support strong programs to allow employees to come forward.

Senator PETERS. Because as we are looking at the differences that we have talked about, the example that the Chairman mentioned of just burning fuel on the tarmac, obviously that would be a case ripe for a whistleblower saying this is ridiculous that this kind of thing is happening, which is different than the other issues that we have talked about of just long-term contracting, they get piled up for all the various reasons. We need to get that kind of information as well to see how we can refine some of those processes.

One of the ideas that you have all talked about is granting carryover authority and how powerful that is. I understand that Congress approved the use of carryover within the Department of Defense in Fiscal Year 2016, approved a one year, one percent carryover authority for the operation and maintenance spending by Defense Health Agency. I do not know if you have looked at that in 2016. I am just curious as to what the results were. Did we see differences? It looks as if they did see a three percentage-point drop in some of that surge spending during that time. But if you have had a chance to look at that, if there is some qualitative lessons that came out of that one percent carryover in 2016?

Mr. BURMAN. Senator Peters, we are looking at that, and we did see some results. But in terms of the effort itself, it seems like it was some sort of a pilot approach to see whether or not there might be some success along those lines. Frankly, our commission is very much looking at a similar kind of thing with a limited amount of carryover money, because we have heard lots of people say if you do a large amount, it is basically going to cause people to procrastinate; they are just going to delay. So, similar to what Dr. Fichtner is recommending, we are analyzing that and would likely make some recommendations along those lines to the Congress.

Mr. FICHTNER. I have not looked into it directly except for Dr. Burman's testimony, but I echo his sentiments.

Senator PETERS. Ms. Krause.

Ms. KRAUSE. We have not looked at that specifically, but we have looked at other agencies' carryover balances. As I said, we have a series of questions that, as you are managing and overseeing whether it is Congress or agencies themselves asking the questions of what are the plans for the amount, rates, changes over time, etc, to make sure they are managed efficiently.

Senator PETERS. All right. Thank you.

Senator PAUL. On the question of contractors and whether they are covered as whistleblowers, it sounds like maybe some are, but there have been—the most widely reported one was of Edward Snowden, who said that when he saw James Clapper giving misinformation or not telling the truth to Congress about the bulk collection of our information, the reason he went public is he did not feel he was covered by the whistleblower. I think we are going to look into it, our staff is going to look into it, if there is any interest with Senator Peters on covering contractors, not only for waste but also for someone not telling the truth in government and they want to expose that untruth, protecting them somehow. Obviously, I think we would have all been a lot happier if Edward Snowden would have reported as a whistleblower instead of going to China or Russia. But that is at least one of his arguments, that he was not covered as a contractor. So maybe we can look at that some.

Senator PETERS. I would welcome that. In fact, as you know, we had in a full Committee hearing talked about the Lifeline program and where you have individual companies that were claiming that they had customers when, in fact, they did not, which is inexcusable.

Senator PAUL. Absolutely.

Senator PETERS. You had contractors there scamming the government. I am sure there are employees within those companies that saw that and were outraged by it. We want to make sure that they are protected to come forward so we can take action.

Senator PAUL. I agree completely.

On one finishing note, and this is kind of a different subject, but it goes along the same way of how we make government less wasteful or most cost efficient, is the idea of auditing, and I think GAO has something to do with audits. If you will maybe give us some general information about what you do with audits, and then maybe a comment on half of our discretionary spending is defense spending, and the fact that they do not have an audit, and whether it would be a good idea or not. We will start with Ms. Krause, but you can all add to the same question. With that, then we will sort of get to a conclusion. Thanks.

Ms. KRAUSE. No, absolutely—the fact that DOD is not in a position for GAO to do an audit, keeps us from rendering an opinion on the overall audit of the Federal Government. That is something that GAO has been working closely on in terms of trying to make progress on that or work with DOD to make progress on that. It is very important.

Senator PAUL. But the public reports have been that they have responded they are too big to be audited, or at least someone said that. What is the big hangup right now in doing an audit of Defense?

Ms. KRAUSE. I think it is the data and the systems do not support accurate information for doing a financial audit.

Senator PAUL. Dr. Fichtner.

Mr. FICHTNER. I have always been surprised that the Department of Defense has a qualified audit. When I was at Social Security, we had one every year that was unqualified. So I think there is—it is a big agency. There is a lot of money that goes through. But to say you cannot tell me where your money is going is a bad sign of management.

One of the things about auditing that I think is very important is the word "transparency," and in some ways, we the public now have become auditors of government. I need to give credit to President Obama and the Obama Administration because all the work that I have been doing on this issue is because they put information on data.gov and Federalspending.gov. We need to make sure that Federal agencies continue to put data online available for the public, for the researchers, for Members of Congress, for staff, for Senators to look at directly because some of these issues do not come up until researchers start looking at it and bring it to your attention.

We need to make sure we continue to have agencies put data online in a transparent way, and that would also help with, I think, generally then pushing agencies toward better audits at the same time.

Mr. BURMAN. I would support the same points that both Dr. Fichtner and Ms. Krause mentioned. I think everybody thinks it would make a great deal of sense to make sure that the Defense Department can, in fact, go through the same kind of audits that any other government agency can. I know that they have been trying to do that for a number of years. The number of financial systems and the variety of those systems and the ability to get them to interact has been a significant problem, but it certainly is something that would be a goal that we would all support.

Senator PAUL. The only response I would have to that is it has been a number of years—I think some have said 17-some-odd years we have been waiting for an audit, and there is nothing like a mandate, a deadline, or a law to force you to do it that might change things. There is—and I am not sure if you are aware of the bill, but Senator Manchin and I are on a bill that is for auditing the Pentagon. I am also for auditing the Fed. I am for auditing all of government to make sure we have more transparency. But these are just thoughts of things that we might look at. This is already a bipartisan bill to try to-—instead of just waiting for the Pentagon someday to say they are going to audit it, we spend a lot of money, and we do have to have a strong national defense. But we need to make sure it is being spent wisely.

I think the hearing has been very useful, hopefully, for both of us, and for the testimony. I thank you for spending the time with us and also feel free to communicate with us or our offices at any time if you have ideas or suggestions. The one thing I would ask you to look at is whether or not there is something we could do legislatively—we are talking about giving bonuses for people who come forward, talking about waste or savings, but whether or not we could do something legislatively to actually change where, when we hear something outrageous, we find out, oh, yes, that person no longer works there or that person got demoted or that person no longer is allowed to make those decisions. This is the frustration of taxpayers, is they hear about these terrible, wasteful, crazy things that are being done with their money, but they never hear that there were any ramifications, that it is getting better. It does not seem to get better sometimes. If you can think of any solutions or any kind of influence or ideas for us on that. I know GAO does that, and they said they have recommendations, and then they come back and say a lot of these were adhered to. I think it is not completely without that we are not changing government. But I think we all want more.

Thank you all for your testimony.

Mr. FICHTNER. Thank you.

Mr. BURMAN. Thank you.

[Whereupon, at 3:26 p.m., the Committee was adjourned.]

# APPENDIX

I call this hearing of the Federal Spending Oversight Subcommittee to order.

Today we're looking at the phenomena known as "use it or lose it"; the practice of going on a spending binge at the end of the fiscal year before funds expire and go back to the treasury.

We had a hearing on this same subject two years ago and what we heard there was shocking.

Our witness then, Dr. Fitchner, who is back to testify today told us that September spending nearly doubles as compared to August, which is already higher than average.

Another study showed, on average, spending jumps nearly 500 percent in the last week of the fiscal year as compared to the preceding 51-weeks average. Not only that, but the last day of the fiscal year, money moves west using time differences to gain a few more hours of fiscal binging.

That is the data, but the stories we have heard may be more telling. We have been told of the military hovering aircrafts at the end of runways just to burn off fuel and soldiers sent to the shooting range sometimes for an entire day just to expend ammunition.

Of course I cannot forget when we took over this subcommittee and found toner cartridges for an obsolete printer stacked to the ceiling of the subcommittee's office; the result of a previous chairman's end of year spending binge.

So there is no question this happens. Some argue it is solely caused by continuing resolutions and the purchases are not bad, just delayed. I don't like CRs and have never voted for one, and I agree they play a part in end of year spending, but the data does not support that this is "good" spending that is just simply delayed.

Studies have shown the quality of contracts written at the end of the year are of almost 5 time lower quality than those written during the rest of the fiscal year.

We discovered that while the State Department and USAID spend roughly 25% of its budget in September, more than a third of the waste we find in these agencies was obligated in September. This includes funding for such things as Ultimate Frisbee in China, a bird watching strategy for Honduras, and something called Skateistan.

None of this can be simply chalked up to delays caused by late appropriations.

How do we fix this problem? A part of the solution could be the Bonuses for Cost-Cutters Act. It is a simple idea to give bonuses to federal employees that find wasteful spending that can be eliminated.

In the last Congress this bill passed out of Committee with bipartisan support. The House version passed out of the Government Oversight Committee on a voice vote.

It would seem like a simple, noncontroversial bill that should sail through Congress and save the taxpayers money.

Reigning in and controlling end of year spending binges should be a bipartisan priority. Hopefully our hearing today will renew interest on both sides of the aisle to address accelerated wasteful spending at the end of the fiscal year.

With that, I'll recognize the Ranking Member Peters for his opening statement.

Thank you, Chairman Paul, for convening this hearing to examine end of year spending and explore options for mitigating wasteful spending. Regardless of when it occurs, wasteful spending is inexcusable and I appreciate the opportunity to gather experts today in search of solutions that better protect taxpayer dollars.

I'd like to also give a sincere "thank you" to our distinguished panel of guests for taking the time to participate in our discussion today. The insights from your work are helpful in framing our discussion today and allowing us to focus on the central issues.

And among those central issues is the question of what's really happening as agencies routinely ramp up their spending volume toward the end of each fiscal year. First, what drives this behavior? And second, are there risks involved that makes this spending particularly vulnerable to waste and abuse?

Concerning the high volumes of spending on certain purchases in August and September, I think we can all relate to the phenomenon of rushing to complete a task before an impending deadline. As a Senator, often times my schedule revolves around the most time-sensitive issues I'm facing on a given day. Deadlines serve a purpose and create the sense of urgency that we sometimes need to finish our work, particularly for long-term projects.

But deadlines are no reason to become sloppy, or worse – negligent. If we find that our year end deadlines are causing agencies to make poor spending decisions, then we need to diagnose this problem while also ensuring that we discipline those responsible for making these decisions.

Of course, there are also outside factors that might exacerbate the year end spending surge, like the continuing resolutions that Congress keeps settling on or the hiring freeze that the current administration implemented this year. Budget uncertainty can hamper agencies' ability to effectively plan their purchases.

We have to keep in mind that many federal purchases require more than a simple waive of a wand to complete. Depending on the purchase, agencies must consider the required specs for the service or product, request and evaluate bids from vendors, negotiate prices, obtain managerial approval on purchase orders, and draft contracts detailing the terms of the agreements.

A lot of work goes into making purchases before a final contract is signed and this series of steps isn't merely for show. These steps serve as internal controls to mitigate opportunities for individuals to act in bad faith in spending federal funds.

It takes time to go through these steps, which are designed to ensure that funds are spent appropriately. If agencies get a late start in that process because Congress or the White House continuously meddle with their appropriations, it could lead to delays in completing purchases.

We should do our part in Congress by passing timely budgets that limit the uncertainty agencies face in making spending decisions.

But beyond the factors that might be encouraging end of year spending binges, let's focus on the extent to which these binges lead to wasteful spending. We know spending levels for some purchases increase at the end of the year, but do we know why it might lead to increased levels of waste? Why would our internal controls fail to prevent wasteful spending as we reach year's end?

Do we see evidence that purchasing rules are put aside in September? Are contracts ignored? Do oversight activities become more lax? The fundamental question becomes – "Are existing internal controls sufficient to prevent wasteful spending at year's end?" And if not, where are those failures taking place?

If it turns out that agencies don't fully adhere to purchasing controls at year's end, we have a much larger issue than wasteful spending. I sincerely hope that this is not the case and I have yet to see definitive evidence that it is the case.

But please, if any of the witnesses have reason to believe that internal controls are weaker at year's end than at other times of the year, share your findings with us today. This would be critical information to have during our discussion.

Dr. Fichtner's study shows that certain types of spending generally increase in most agencies in August and September every year. But it doesn't go so far as to say that the higher volume of spending taking place results in wasteful spending. So let's talk about the distinction there a little bit and what we want to focus on today.

There's a distinction between (A) a bad spending decision and (B) a bad spending decision that was brought about specifically by rushed year end spending. This is an important distinction because it speaks to the focus of this hearing – does our existing system of expiring appropriations instigate wasteful spending decisions?

This requires more than just identifying a purchase or two that we don't like. And I'd rather not focus on something as benign as the purchase of a little extra printer paper before the end of September. We should spend our time on larger issues than that.

I'd rather focus on the kinds of waste that's blatant, where the person responsible for the spending knows that what they're doing is wrong. I'm talking about stories of agencies intentionally burning through fuel on runways for the sole purpose of being able to spend more money replacing the fuel. That's clearly waste, and if it actually happens we should go after the perpetrators to the full extent of the law.

The most complicated purchases to debate will be those that go through the all of the existing approval channels and still be thought of as wasteful. In those cases, management approved the purchases and hypothetically gave an appropriate amount of consideration in approving them. If managers are to blame for poor decisions, it could be that the expiring appropriation is not so much the issue as it is the judgement of the officials approving the purchases.

But in instances where we believe that the expiring appropriation caused wasteful spending, that's where we'll need to focus on ways to improve the internal controls in place for year end spending decisions. What should we be doing better to prevent poor spending decisions? What has been attempted and what has proven successful? Do we need to consider options that will lessen the sense of urgency created by an end of year spending deadline?

While internal controls ideally stop wasteful spending before it happens, we also have to consider our options for catching wasteful spending as it occurs. As a member of the Senate Whistleblower Protection Caucus, I cosigned letters to 18 agencies in March this year asking them to remind employees that they are protected when disclosing fraudulent, wasteful, or abusive practices and to further remind employees and managers that whistleblowers may not be retaliated against.

The easier it becomes for whistleblowers to report the kind of wasteful spending we're concerned about today, the more likely we are to root out such spending. Just as we are free to question spending decisions in a setting like this, whistleblowers should be free to ask questions about and report potentially wasteful actions in their workplace without fear of retaliation.

And much like we hope and expect for whistleblowers, I hope all of our witnesses feel welcome and comfortable in sharing their insights and experience today as we work together to combat wasteful spending in a bipartisan setting. Please use this forum to give us your honest assessment of these challenges and potential enhancements that can improve our procurement processes.

We greatly appreciate your time today and I look forward to our discussion.

Thank you.

MERCATUS CENTER
George Mason University

TESTIMONY

# CURBING WASTEFUL YEAR-END FEDERAL GOVERNMENT SPENDING: REFORMING "USE IT OR LOSE IT" RULES

**Jason J. Fichtner, PhD**
*Senior Research Fellow, Mercatus Center at George Mason University*

Senate Committee on Homeland Security and Governmental Affairs
Subcommittee on Federal Spending Oversight and Emergency Management
Hearing: Prudent Planning or Wasteful Binge? Another Look at End of the Year Spending

September 20, 2017

Good afternoon, Chairman Paul, Ranking Member Peters, and members of the subcommittee. Thank you for inviting me to testify today.

My name is Jason Fichtner, and I am a senior research fellow at the Mercatus Center at George Mason University, where I research fiscal and economic issues. I am also an affiliated professor at Georgetown University and Johns Hopkins University, where I teach courses in economics and public policy. Previously I served in several positions at the Social Security Administration, including deputy commissioner (acting) and chief economist. All opinions I express today are my own and do not necessarily reflect the views of my employers.

I would like to begin by thanking Chairman Paul and Senator Peters for the leadership you provide this committee to ensure that important public policy issues involving the federal budget and the stewardship of federal tax dollars get the attention and debate they deserve. I also appreciate that you ensure ideas and viewpoints from all sides are shared in a collegial and respectful manner. It is a privilege for me to testify before you today.

My testimony focuses on two key issues: first, the extent to which perception of a year-end spending problem is reality, and second, how various reforms would improve the efficiency of spending by federal government agencies and departments.

From this discussion, I hope to leave you with the following takeaways:

1) While anecdotes and media stories of year-end spending surges are widespread, empirical evidence for year-end spending surges and "use it or lose it" spending—or the motivation behind this spending—is significantly less available. However, my research and recent research by other scholars is beginning to demonstrate empirical evidence that a year-end spending phenomenon is real and potentially wasteful.

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2) Allowing federal agencies limited rollover or carryover authority could reduce wasteful year-end spending surges. Similar reforms at the state level and internationally have shown promise, but more research is still needed. Additionally, ideas to provide cash bonuses to agency employees whose identification of unnecessary expenses results in cost savings for the agency may hold promise. Again, further research is still needed.

## YEAR-END SPENDING: ANECDOTAL VS. EMPIRICAL EVIDENCE

The "use it or lose it" phenomenon refers to the propensity of US government agencies to spend unused financial resources toward the end of the fiscal year. This spending is allegedly driven by fear that leftover resources will be returned to the Department of the Treasury and will prompt future congressional budget cuts for the agency. Anecdotes and media stories of year-end spending surges are widespread,[1] but empirical evidence for year-end spending surges and "use it or lose it" spending, or the motivation behind such spending, is significantly less available.[2]

Recent research suggests that year-end spending surges exist and may facilitate wasteful spending. For example, in their 2013 paper, economists Jeffrey Liebman and Neale Mahoney analyze data from the Federal Procurement Data System and the White House's IT Dashboard to show that not only is there a surge in federal spending at the end of the year, but also this spending is of lower quality.[3] According to Liebman and Mahoney, at the end of a fiscal year, "the prospect of expiring funds" causes agencies to spend all their remaining resources, "even if the marginal value is below the social costs of funds (our definition of wasteful spending)."[4] A 2009 International Monetary Fund report found that year-end spending surges are a "commonly observed phenomenon in government administrations."[5] Such surges have occurred in Canada, Taiwan, and the United Kingdom, to name a few countries.[6] On the US state level, a 2012 report by Missouri's state auditor indicates that an annualized budget process does impact annual agency expenditure patterns and that a "use it or lost it" phenomenon exists to a certain extent.[7]

Given how few empirical analyses of year-end US agency spending exist, I developed my own analysis of federal contract spending trends with my colleagues Robert Greene and Adam Michel,[8] using publicly available data from USASpending.gov on prime contracts awarded by executive departments.[9]

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[1] For example, see David A. Fahrenthold, "As Congress Fights over the Budget, Agencies Go on Their 'Use It or Lose It' Shopping Sprees," *Washington Post*, September 28, 2013; Matthew Sabas, "'Use It or Lose It' Shows There's More Room to Cut Spending," *Heritage Foundation*, November 14, 2013; Josh Hicks, "Two Charts that Suggest Use-It-or-Lose-It Federal Spending Is Real," *Washington Post*, April 17, 2015.

[2] Jeffrey B. Liebman and Neale Mahoney, "Do Expiring Budgets Lead to Wasteful Year-End Spending? Evidence from Federal Procurement" (NBER Working Paper No. 19481, National Bureau of Economic Research, Cambridge, MA, September 2013).

[3] Liebman and Mahoney, "Expiring Budgets."

[4] Ibid., 1. "Our definition of wasteful spending" refers to Liebman and Mahoney's definition.

[5] Ian Lienert and Gösta Ljungman, "Carry-Over of Budget Authority" (Public Financial Management Technical Guidance Note, Fiscal Affairs Department, International Monetary Fund, Washington, DC, 2009), 3.

[6] Rowena Crawford et al., "A Survey of Public Spending in the UK" (IFS Briefing Note BN43, Institute for Fiscal Studies, London, September 2009); Noel Hyndman et al., "Annuality in Public Budgeting: An Exploratory Study" (research report, Chartered Institute of Management Accountants, London, 2005); Internal Audit Branch, Treasury Board of Canada Secretariat, *Government Wide Review of Year-End Spending*, June 1995; Jinn-Yang Uang and Ching-Wan Liang, "Does Monitoring Frequency Affect Budget Execution Patterns?," *Asia Pacific Management Review* 17, no. 1 (2012): 59–75.

[7] Thomas A. Schweich, "Statewide Year End Spending Practices" (Report 2012-44, Office of the Missouri State Auditor, Jefferson City, 2012).

[8] Jason J. Fichtner and Robert Greene, "Curbing the Surge in Year-End Federal Government Spending: Reforming 'Use It or Lose It' Rules" (Mercatus Working Paper, Mercatus Center at George Mason University, Arlington, VA, September 2014); Jason J. Fichtner and Adam N. Michel, "Curbing the Surge in Year-End Federal Government Spending: Reforming 'Use It or Lose It' Rules—2016 Update" (Mercatus Research, Mercatus Center at George Mason University, Arlington, VA, September 2016).

[9] Data for FY 2003 through FY 2013 were accessed on June 30, 2014. All data used from FY 2003 through FY 2013 were last updated by USASpending.gov on June 17, 2014. Data from FY 2000 through FY 2002 were last updated on July 15, 2013. Data from FY 2014 were accessed and last updated on May 13, 2016, and data from FY 2015 were accessed and last updated on April 17, 2016.

My analysis focused on this type of spending—which comprised roughly 11 percent of total 2015 federal spending[10]—because the data are readily available through the USASpending.gov data archive. Data were downloaded containing detailed information on all contracts executed by each executive branch department for fiscal years 2000 through 2015.

My research shows that a remarkably large percentage of executive branch contract spending occurred near the end of the fiscal year. If an agency were to spread its contract spending evenly over a 12-month period, roughly 8.3 percent of spending would occur in each month. However, in the last month of fiscal year 2015, September,[11] the Department of State spent 34.9 percent of its contracting expenditures and the Department of Housing and Urban Development spent 32.6 percent. Not all agencies exhibited a year-end surge in spending. For example, the Department of Energy spent only 5.7 percent of its annual contract expenditures in the final month. But as the data show, most federal agencies were well above 8 percent, and more than one-half were above 16 percent. Between 2003 and 2015, across all executive departments, 16.3 percent of obligated contract expenditures occurred during the month of September—almost twice what we would expect if spending were split evenly over 12 months at 8.3 percent per month.

A closer look at daily September contracts and contract expenditures lends further support to the trend that shows how agencies rush to spend down their budgets at the end of the fiscal year. In the last three days of the month, agencies spent more than 5 percent of their total yearly contract expenditures. On the last day of September, they spent 2.2 percent—the highest daily expenditure in September.

Focusing on FY 2015 data, the number of contracts signed steadily increased throughout the month of September. In the last three days of September, agencies signed 2.5 percent of their contracts, and 0.9 percent were signed on the last day. If contracts were evenly distributed, one would expect to see 0.5 percent of contracts signed each day. While 0.9 percent of contracts may not appear excessive, for some agencies, this number amounted to many dollars. For example, the State Department signed 2.18 percent of its total contracts on the last day of September; this amount accounted for 7.75 percent of the agency's total obligated contract dollars for the year.

The pattern of year-end spending surges is evident across all the fiscal years analyzed and is not unique to the current administration or the past few Congresses. Year-end spending surges have become the norm, regardless of administration, party control of Congress, or delays in finalizing agency appropriations.

## POLICY RECOMMENDATIONS

Academic research and some anecdotal evidence suggest that the current budget rule of "use it or lose it" is not optimal and may be encouraging wasteful spending of taxpayer dollars. The question remains: if such spending is indeed wasteful, what can be done to reduce it?

One idea is to allow agencies *limited rollover* (also known as carryover) authority for funds not spent by the end of the fiscal year. The federal government could begin with a pilot exercise to test the merits of limited rollover authority. Within certain federal departments, agency subcomponents should be given the authority to roll over up to 5 percent of the contract budget authority into the next fiscal year. To

[10] Percentage is calculated by dividing the total amount of contract spending across the entire federal government in FY 2015 ($401 billion, as reported by USASpending.gov) by the total amount of federal government outlays during FY 2015 ($3.69 trillion, as reported by the Office of Management and Budget). USASpending.gov, "Data Feeds, Data Archives for Prime Award Spending Data," accessed April 17, 2016, http://www.usaspending.gov/data; Office of Management and Budget, Executive Office of the President, "Summary of Receipts, Outlays, and Surpluses or Deficits (−) in Current Dollars, Constant (FY 2009) Dollars, and as Percentages of GDP: 1940–2021," table 1.3, https://www.whitehouse.gov/omb/budget/Historicals.
[11] The federal fiscal year runs from October 1 to September 30.

maximize success in reducing waste, the rollover accounts of agency subcomponents should be segregated. The separation of accounts increases the incentive to save, because only the agency subcomponents that achieve cost savings will be able to deploy those savings in subsequent fiscal years. Departments or agencies that wish to participate in the pilot program could submit a request to Congress, which could direct the Government Accountability Office (GAO) to oversee, audit, and evaluate the program.

A legitimate concern regarding carryover accounts is that they could have the perverse consequence of decreasing government accountability by serving as annual "rat holes."[12] Requiring midyear budget reviews could help address this concern and would further curb year-end spending surges. Executive departments should be required to submit midyear budget reviews to Congress and the GAO. These reviews would detail, by agency subcomponent, the anticipated expenditures for the remainder of the fiscal year, the anticipated surpluses at the end of the fiscal year, and the reasons for these surpluses. Midyear reports with similar components have yielded success in reducing "use it or lose it" pressures and year-end spending surges when tried at home in Oklahoma and overseas in Taiwan.[13] Of course, these midyear reviews would have limited value if Congress fails to conduct appropriate oversight. If Congress fails to do so, these reports may become mere paperwork exercises.

To further curb waste, an agency would be allowed to carry over up to 5 percent into a rollover account, but agencies would be permitted to carry over only 50 percent of any remaining balance in those accounts into the subsequent fiscal year. To avoid lengthy delays in the spending of rollover fund savings and to discourage large accumulations of rollover funds, such funds should be spent within two years.

These reforms may create undesirable new administrative burdens and could disrupt existing budgeting practices. However, the short-term costs would be outweighed by long-term benefits. These benefits include relieving agencies of a perceived pressure to spend remaining resources at the end of the fiscal year to protect their budgets from cuts, along with the public benefit of reducing wasteful expenditures associated with that pressure to spend. Furthermore, even if year-end spending spikes were not inherently wasteful, enabling executive departments to manage their budgets without artificial deadlines would likely improve the efficiency of spending by the departments and their subcomponents.

A pilot program that gives limited rollover authority to several departments, combined with congressional and GAO oversight of rollover accounts, would be a useful experiment to see whether these changes to the federal budget process would reduce wasteful year-end spending.

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[12] L. R. Jones, "Outyear Budgetary Consequences of Agency Cost Savings: International Public Management Network Symposium," *International Public Management Review* 6, no. 1 (2005): 156.

[13] James W. Douglas and Aimee L. Franklin, "Putting the Brakes on the Rush to Spend Down End-of-Year Balances: Carryover Money in Oklahoma State Agencies," *Public Budgeting & Finance* 26, no. 3 (2006): 54 (Oklahoma); Uang and Liang, "Does Monitoring Frequency Affect Budget Execution Patterns?" (Taiwan).

Lastly, another potential reform is to create a cash bonus program for agency employees who identify savings and return the unspent budget authority to the Treasury (a portion of the saving is used for the bonuses). The proposal is intended to realign the incentives of individual employees who save public money. If properly implemented, these incentives could be similar to those in the private sector, where rigorous attention to costs, expenditures, and better budget management is often rewarded using bonuses. A program for bonuses for waste reduction could be included in a limited rollover pilot program to test the efficacy of the new incentives.

Thank you again for your time and this opportunity to testify today. I look forward to your questions.

Sincerely,

Jason Fichtner, PhD

Senior Research Fellow
Mercatus Center at George Mason University

## ATTACHMENT

Cutting Wasteful Year-End Federal Government Spending: Reforming "Use It or Lose It" Laws (Mercatus Research)

# Curbing the Surge in Year-End Federal Government Spending: Reforming "Use It or Lose It" Rules—2016 Update

Jason J. Fichtner and Adam N. Michel

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*Jason J. Fichtner and Adam N. Michel. "Curbing the Surge in Year-End Federal Government Spending: Reforming 'Use It or Lose It' Rules—2016 Update." Mercatus Research, Mercatus Center at George Mason University, Arlington, VA, September 2016.*

## ABSTRACT

The "use it or lose it" phenomenon refers to the propensity of US government agencies to spend unused financial resources toward the end of the fiscal year out of fear that leftover resources will be returned to the Department of the Treasury and will prompt future congressional budget cuts for the agency. While anecdotes and media stories of year-end spending surges are widespread, empirical support for such surges or the motivation behind them is significantly less available. The budget and spending literature has examined the efficacy of policy solutions designed to curb year-end spending surges, but these studies have often been done without empirical evidence. In this update of the 2014 version of this paper, we examine existing literature on the prevalence, consequences, wastefulness, and causes of year-end spending surges. We then update the expenditure patterns we identified for executive departments' year-end obligated federal contracts using data obtained from USASpending.gov. We review literature on purported solutions to curb year-end spending surges and recommend a pilot program to give limited budget rollover authority to select agencies.

*JEL* codes: H1, H6

Keywords: federal budget, budget reform, year-end spending, use it or lose it, government accountability



Release: September 2016

The "use it or lose it" phenomenon refers to the propensity of US government agencies to spend unused financial resources toward the end of the fiscal year. Such spending is done out of fear that leftover resources will be returned to the Department of the Treasury and will prompt future congressional budget cuts for the agency. While anecdotes and media stories of year-end spending surges are widespread,[1] empirical evidence for such surges and "use it or lose it" spending or for the motivation behind them has been significantly less available.[2] The first iteration of this paper was published in 2014. Here we have updated the data and expanded our analysis. As we discuss in the next section, the budget and spending literature that examines the efficacy of various policy solutions designed to curb year-end spending surges often lacks supporting empirical evidence. In this paper, we examine existing literature on the prevalence, consequences, wastefulness, and causes of year-end surges in spending. We then report executive departments' year-end obligated federal contract expenditure patterns, using data obtained from USASpending.gov.[3] We review literature on purported solutions to curb year-end spending and conclude with a policy recommendation.

1. For example, see David Fahrenthold, "As Congress Fights over the Budget, Agencies Go on Their 'Use It or Lose It' Shopping Spree," *Washington Post*, September 28, 2013; Matthew Sabas, "'Use It or Lose It' Shows There's More Room to Cut Spending," *Daily Signal*, November 14, 2013.
2. Jeffrey B. Liebman and Neale Mahoney, "Do Expiring Budgets Lead to Wasteful Year-End Spending? Evidence from Federal Procurement" (NBER Working Paper 19481, National Bureau of Economic Research, Cambridge, MA, 2013).
3. USASpending.gov compiles data from the General Services Administration, from the US Census Bureau, and directly from 31 departments and agencies of the executive branch through various government sources.

## LITERATURE SURVEY ON YEAR-END SPENDING SURGES: IS "USE IT OR LOSE IT" TO BLAME?

"Economists Jeffrey Liebman and Neale Mahoney analyze data . . . to show not only that a surge in federal spending occurs at the end of the year, but also that this spending is of lower quality."

Research suggests that year-end spending surges may result in wasteful spending. In a 2007 survey of Department of Defense financial management and contracting careerists, 95 percent of the respondents believe there is a problem with year-end agency spending.[4] In their 2013 paper, economists Jeffrey Liebman and Neale Mahoney analyze data from the Federal Procurement Data System and the White House's IT Dashboard to show not only that a surge in federal spending occurs at the end of the year, but also that this spending is of lower quality.[5] According to Liebman and Mahoney, at the end of a fiscal year, "the prospect of expiring funds" causes agencies to spend all their remaining resources, "even if the marginal value is below the social costs of funds (our definition of wasteful spending)."[6]

In 1998, the US General Accounting Office (GAO)[7] reported that the number of year-end spending surges had declined since 1980, when Congress and the GAO first looked at the issue.[8] Among more than 3,200 Inspectors General reports, the GAO found only one that linked poor contracting practices with a high rate of year-end spending.[9] However, the GAO cautions that its analysis is limited because of "agencies' widespread reporting noncompliance" and "the absence of complete and accurate

4. Michael F. McPherson, "An Analysis of Year-End Spending and the Feasibility of a Carryover Incentive for Federal Agencies" (MBA Professional Report, Naval Postgraduate School, Monterey, CA, 2007).
5. Liebman and Mahoney, "Do Expiring Budgets Lead to Wasteful Year-End Spending?"
6. Ibid., 1. "Our definition of wasteful spending" refers to Liebman and Mahoney's definition.
7. On July 7, 2004, the General Accounting Office's name was changed to the Government Accountability Office by the GAO Human Capital Reform Act of 2004.
8. US General Accounting Office, *Year-End Spending: Reforms Underway but Better Reporting and Oversight Needed*, GAO/AIMD-98-185 (Washington, DC: United States General Accounting Office, 1998).
9. Ibid., 7.

reporting" of agencies' spending.[10] A 2007 study partially confirmed the existence of year-end spending surges on the federal level by analyzing the spending patterns of military hospitals that are completely reliant on congressional appropriations for funding.[11]

However, some observers point out that little empirical evidence exists to prove that there is a link between year-end spending surges and the US federal budget process. A panel of budget experts at the International Public Management Network Symposium largely concluded that while year-end spending surges exist, little empirical evidence supports the "use it or lose it" phenomenon.[12] Panel member Fred Thompson of Willamette University calls the "use it or lose it" phenomenon's key premise—that fears of future budget cuts drive exhaustive spending—an urban legend.[13] He points to the timing of the budget process, explaining that budget proposals are "formulated during the prior fiscal year and enacted into law well before the books [close] on the current year."[14] He also argues that because year-end spending surges exist at agencies in state governments and in Canada, US federal budgeting patterns cannot be a unique source.[15] Panel member Robert D. Behn of Harvard University argues that year-end spending surges may in fact be "socially optimal" and doubts the assumption that they are inherently wasteful.[16]

A 2009 International Monetary Fund report found that year-end spending surges are a "commonly observed phenomenon in government administrations."[17] Such surges have occurred in Canada, Taiwan, and the United Kingdom, to name a few examples.[18]

10. Ibid., 13.
11. Ramji Balakrishnan et al., "Spending Patterns with Lapsing Budgets: Evidence from U.S. Army Hospitals," *Journal of Management Accounting Research* 19, no. 1 (2007): 1–23.
12. Lawrence R. Jones, "Outyear Budgetary Consequences of Agency Cost Savings: International Public Management Network Symposium," *International Public Management Review* 6, no. 1 (2005): 139–68.
13. Ibid., 144.
14. Ibid. However, it is worth noting that congressional action on appropriations is rarely complete by the start of the new fiscal year on temporary and limited continuing resolutions, which might disrupt any normal spending patterns.
15. Ibid.
16. Ibid., 150–51.
17. Ian Lienert and Gösta Ljungman, "Carry-Over of Budget Authority" (Public Financial Management Technical Guidance Note, Fiscal Affairs Department, International Monetary Fund, Washington, DC, 2009), 3.
18. Rowena Crawford et al., "A Survey of Public Spending in the UK" (IFS Briefing Note BN43, Institute for Fiscal Studies, London, 2009); Noel Hyndman et al., *Annuality in Public Budgeting: An Exploratory Study* (London: Chartered Institute of Management Accountants, 2005); Internal Audit Branch, "Treasury Board Secretariat Government Wide Review of Year-End Spending," Treasury Board of Canada Secretariat web archive, 1995, http://www.tbs-sct.gc.ca/report/orp/1995/gwr

On average, according to a 2009 study, 9.5 percent of UK central government funds are spent in the final month of the fiscal year.[19] UK public-sector expenditures were disproportionately high in the last quarter of fiscal year (FY) 1998 to FY 2003.[20] However, there may be positive, waste-reducing reasons for the late spending surge, such as ensuring that funds are available throughout the year.[21] Thus, while budgetary constraints similar to those in the United States may be facilitating year-end spending in the United Kingdom, the surge may not be entirely wasteful.

Some empirical evidence suggests that surges in year-end spending result in lower-quality outputs and are the result of less competitive contracting. Liebman and Mahoney examine data from the federal IT Dashboard, which tracks measured performance of federal IT projects of the 27 largest agencies. The data show that contracts initiated in the last week of the fiscal year have "substantially lower" overall project performance ratings.[22] The authors also find that year-end contracts have a "modest increase in 'risky' non-competitive and one-bid contracts."[23] The increase in risky contracts may partially explain the low performance ratings of projects contracted during the year-end spending surge.

On the US state level, a 2012 report by Missouri's state auditor indicates that an annualized budget process does impact annual agency expenditure patterns and that a "use it or lose it" phenomenon exists to a certain extent.[24] Between 2009 and 2011, various state agencies spent more than one-quarter of their total general revenue fund expenditures in the last two months of each fiscal year.[25] The audit finds that these expenditures resulted in expedited payments and higher inventory levels and that inventory was "not placed into service in a timely manner."[26] State employees expressed concern that lapsing funds would result in future agency budget cuts.[27]

-1995-eng.asp; Jinn-Yang Uang and Ching-Wan Liang, "Does Monitoring Frequency Affect Budget Execution Patterns?," *Asia Pacific Management Review* 17, no. 1 (2012): 59–75.

19. Crawford et al., "Survey of Public Spending," 12.
20. Hyndman et al., *Annuality in Public Budgeting*, 5.
21. "It is natural for budget-holders to want, if possible, to wait until the demands of the financial year are clearer before they spend their budgets," and "many budgets are, by their nature, difficult to profile so exactly, not least because three months, and especially since those three months are in the middle of the UK's winter, can be an uncertain time." Ibid., 6.
22. Liebman and Mahoney, "Do Expiring Budgets Lead to Wasteful Year-End Spending?," 18.
23. Ibid., 24.
24. Thomas A. Schweich, *Statewide Year End Spending Practices* (Report 2012-44, Office of the Missouri State Auditor, Jefferson City, 2012).
25. Ibid., 5.
26. Ibid., 18.
27. Ibid., 7.

## ANALYSIS OF YEAR-END OBLIGATED CONTRACT EXPENDITURES BY EXECUTIVE DEPARTMENTS

Given how few empirical analyses of year-end US agency spending exist, we developed our own analysis of federal contract spending trends. To do so, we obtained publicly available prime contract award spending data for executive departments from USASpending.gov.[28] We focused our analysis on this type of spending—which comprised roughly 11 percent of total 2015 federal spending[29]—because the data are readily available through the USASpending .gov Data Archive. USASpending.gov currently compiles data from the General Services Administration (GSA), from the US Census Bureau, and directly from 31 departments and agencies of the executive branch through various government sources.[30]

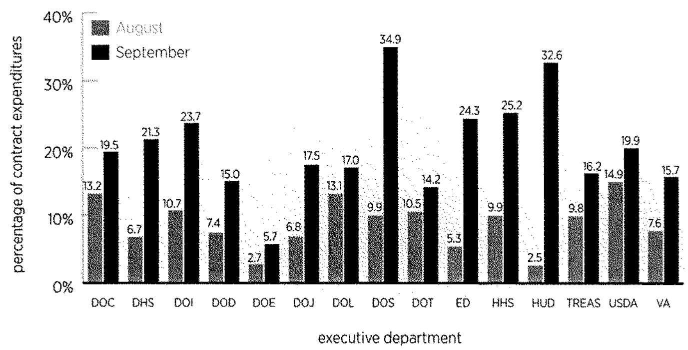
From USASpending.gov, we downloaded files containing detailed information on all contracts executed by each executive branch department for FY 2003 through FY 2015. We then summed obligated monthly contract expenditures based on the date the contract was signed and the amount obligated by the contract, by department. We also summed all obligated amounts by fiscal year to determine each year's total contract expenditures. Using these monthly and annual tallies, we calculated monthly obligated contract expenditures as a percentage of annual fiscal year obligated contract expenditures by department for the first and last two months of each fiscal year. For a full list of our findings for these monthly obligated expenditures from 2003 through 2015, see the appendix.

28. Data from FY 2003 through FY 2013 were accessed on June 30, 2014. When downloaded, all data used from FY 2003 through FY 2013 were last updated by USASpending.gov on June 17, 2014. Data from FY 2014 were accessed and last updated on May 13, 2016, and data from FY 2015 were accessed and last updated on April 17, 2016.

29. This percentage is calculated by dividing the total amount of contract spending across the entire federal government in FY 2015 ($401,326,431,229.80, as reported by USASpending.gov) by the total amount of federal government outlays during FY 2015 ($3,688.3 billion, as reported by the Office of Management and Budget). USASpending.gov, "Data Feeds, Data Archives for Prime Award Spending Data," accessed April 17, 2016, http://www.usaspending.gov/data; Office of Management and Budget, Executive Office of the President, "Summary of Receipts, Outlays, and Surpluses or Deficits (–) in Current Dollars, Constant (FY 2009) Dollars, and as Percentages of GDP: 1940–2021" (table 1.3), https://www.whitehouse.gov/omb/budget/Historicals.

30. For more information, see "Data Sources," USASpending.gov, accessed August 31, 2016, https://www.usaspending.gov/about/Pages/TheData.aspx. Data reported from FY 2003–2013 were compiled from a longer list of sources. See discussion in Jason J. Fichtner and Robert Greene, "Curbing the Surge in Year-End Federal Government Spending: Reforming 'Use It or Lose It' Rules" (Mercatus Working Paper, Mercatus Center at George Mason University, Arlington, VA, September 2014).

FIGURE 1. AUGUST AND SEPTEMBER OBLIGATED CONTRACT EXPENDITURES FOR EACH EXECUTIVE DEPARTMENT, FY 2015




Note: Bars represent percentages of each department's total obligated contract expenditures for the year. See the appendix for a key for the executive department abbreviations.

Source: USASpending.gov.

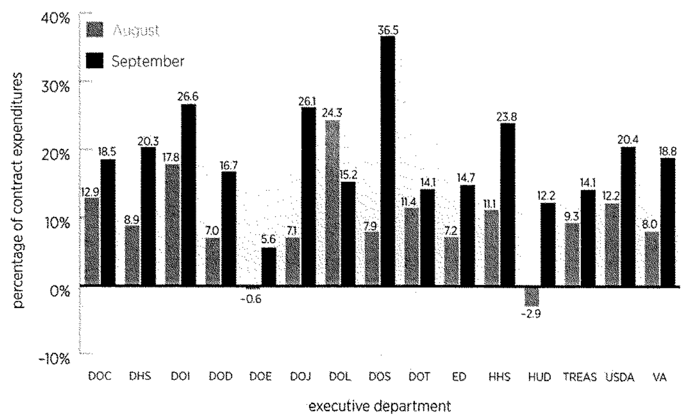
Figure 1 shows that a remarkably large percentage of executive branch contract spending occurred near the end of FY 2015. If an agency were to spread its contract spending evenly over a 12-month period, roughly 8.33 percent of spending would occur in each month. However, in the last month of FY 2015 (September),[31] the Department of State spent 34.9 percent of its contracting expenditures, and the Department of Housing and Urban Development spent 32.6 percent. Not all agencies exhibited a year-end surge in spending. For example, the Department of Energy spent only 5.7 percent of its annual contract expenditures in September 2015. But as the data show, most federal agencies were well above 8 percent and more than one-half were above 16 percent. The pattern of year-end spending surges is evident in other fiscal years as well, as figure 2 from FY 2014 shows.[32]

It is unclear why the Department of State consistently spends a high level of contract expenditures during the last month of the fiscal year. This spending may not be wasteful if the department is delaying spending throughout the fiscal year to ensure that it has enough funds to cover necessary end-of-year spending. How-

31. The federal fiscal year runs from October 1 to September 30.

32. See Fichtner and Greene, "Curbing the Surge in Year-End Federal Government Spending," 9–10, for similar figures showing FY 2012 and FY 2013 data. Data for years 2003–2015 are also included in the appendix of this paper.

FIGURE 2. AUGUST AND SEPTEMBER OBLIGATED CONTRACT EXPENDITURES FOR EACH EXECUTIVE DEPARTMENT, FY 2014




Note: Bars represent percentages of each department's total obligated contract expenditures for the year. See the appendix for a key for the executive department abbreviations. Some agencies have net negative contract expenditures in certain months when more contract dollars are deobligated than obligated. Monthly expenditures can be negative when an agency modifies a contract "award but there was no additional funding. The agency reduced or rescinded more than the original award amount; there is a negative subsidy on a loan and the funds are being returned to the Treasury; duplicate corrections reports have been submitted by the agency." See USASpending.gov, "FAQS," accessed August 7, 2016, https://www.usaspending.gov/references/Pages/FAQs.aspx#negative.

Source: USASpending.gov.

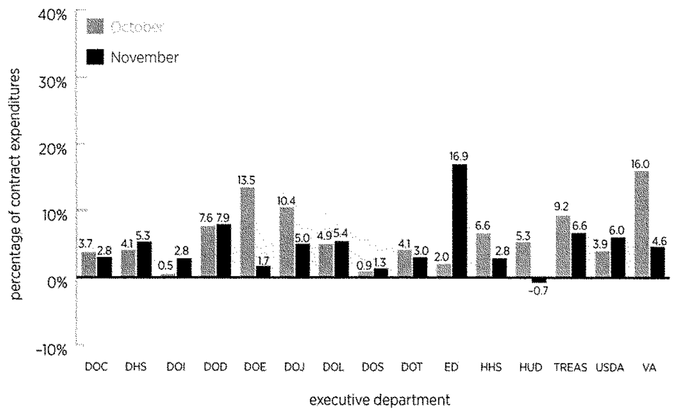
ever, news reports have suggested that some of this spending seems wasteful. For example, one article noted that the Department of State spent $1 million on a piece of granite artwork in September 2013 as the fiscal year was closing,[33] while another highlighted a $5 million expenditure on the eve of the 2013 government shutdown to enable high-end Vermont glassblower Simon Pearce "to provide 20 different styles of custom handcrafted stem and barware to the State Department for use in American embassies around the world."[34] The following year, in September 2014, the Department of State spent more than $1.5 million in 73 contracts with one company, Bernhardt Furniture, to buy furniture for its buildings.[35] An empirical study of reasons for the Department of State's high level of year-

33. Jeryl Bier, "State Department Buys Million Dollar Granite Sculpture from Irish-Born Artist," *Weekly Standard*, December 3, 2013.

34. Warren Johnston, "Simon Pearce Gets $5 Million Contract," *Valley News*, October 6, 2013.

35. Sarah Westwood, "Federal Bureaucracies Go on End-of-Year Spending Sprees to Avoid Budget Cuts," *Washington Examiner*, April 16, 2015.

FIGURE 3. OCTOBER AND NOVEMBER OBLIGATED CONTRACT EXPENDITURES FOR EACH EXECUTIVE DEPARTMENT, FY 2015




Note: Bars represent percentages of each department's total obligated contract expenditures for the year. See the appendix for a key for the executive department abbreviations. Some agencies have net negative contract expenditures in certain months when more contract dollars are deobligated than obligated.

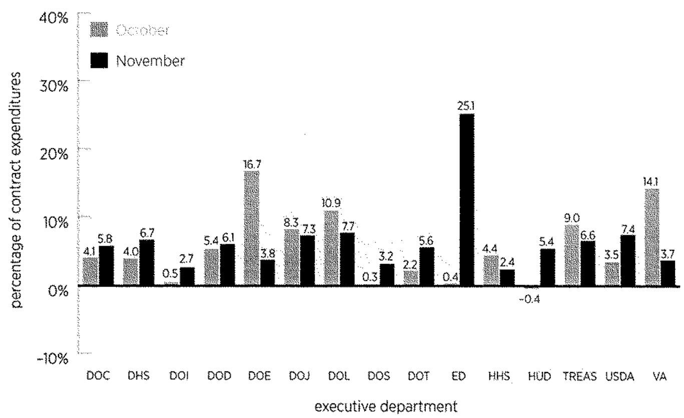
Source: USASpending.gov.

end contract spending does not exist. To address the concerns highlighted in the various news accounts, the GAO or the Department of State Inspector General should investigate the department's unusual contract spending trends to determine why these patterns occur and whether they are unusually wasteful.

Interestingly, some executive departments exhibit disproportionately high spending at the beginning of the fiscal year (see figures 3 and 4). This finding is likely due to agencies spending money as soon as budget resources become available. It could explain why some agencies spend a higher proportion of funds in the first month of the fiscal year than in the last. However, most departments spend very low proportions of their budgets in the first two months of the fiscal year.

To better understand each department's monthly spending patterns, we summed monthly expenditures by department for FY 2003 through FY 2015 and created a weighted average of each department's expenditures for every month as a percentage of its annual expenditures. As figure 5 shows, all but one executive department spent, on average, more than 8.33 percent (the percentage that would be spent by month if spending were divided evenly between

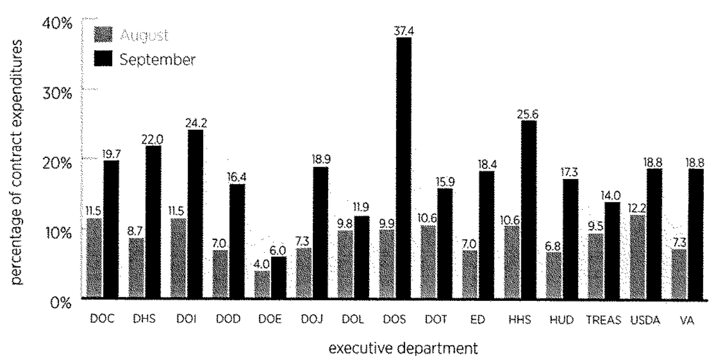
**FIGURE 4. OCTOBER AND NOVEMBER OBLIGATED CONTRACT EXPENDITURES FOR EACH EXECUTIVE DEPARTMENT, FY 2014**




Note: Bars represent percentages of each department's total obligated contract expenditures for the year. See the appendix for a key for the executive department abbreviations. Some agencies have net negative contract expenditures in certain months when more contract dollars are deobligated than obligated.

Source: USASpending.gov.

**FIGURE 5. AUGUST AND SEPTEMBER OBLIGATED CONTRACT EXPENDITURES FOR EACH EXECUTIVE DEPARTMENT, FY 2003–2015**




Note: Bars represent percentages of each department's total obligated contract expenditures for FY 2003–2015. See the appendix for a key for the executive department abbreviations.

Source: USASpending.gov.

months) of annual expenditures during September, the final month of the fiscal year. On average, from 2003 through 2015, nine departments spent more than twice that much (over 16.66 percent) during September.

Applying the same methodology, we find that between 2003 and 2015 several departments spent, on average, more than 8.33 percent during October, the first month of the fiscal year. However, as a comparison of figures 5 and 6 illustrates, September expenditures are consistently greater than October expenditures for all but two departments: the Department of Energy and the Department of Veterans Affairs.

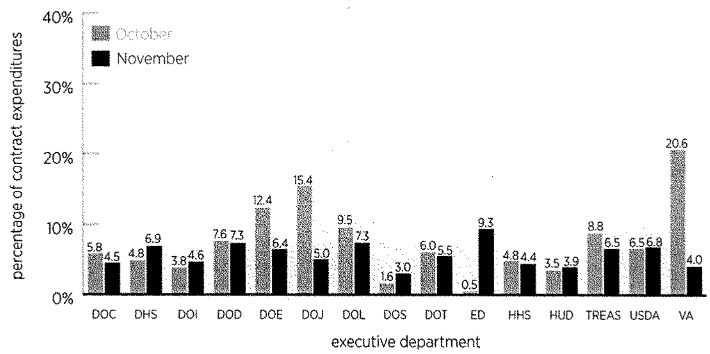
Over the years and across departments, the trend of executive departments spending a disproportionately large amount of resources in the final month of the fiscal year is apparent, regardless of administration, party control of Congress, or delays in finalizing agency appropriations. Between 2003 and 2015, across all analyzed executive departments, 16.3 percent of obligated contract expenditures occurred during the month of September (see figure 7)—close to twice what one would expect if spending were split evenly over 12 months (8.3 percent per month).

The trend of year-end spending surges is also apparent in the analysis of quarterly contract expenditures. In FY 2015, every department, except the Department of Energy, spent more during the fourth quarter than the first and, in most cases, significantly more. Dividing spending evenly between the four quarters should result in 25 percent of the budget being spent each quarter. Figure 8 shows that two agencies spent more than 50 percent of their budget in the fourth quarter of the year and that seven agencies spent more than 40 percent.

Persistent surges in year-end spending should also be accompanied by similar increases in the number of signed contracts. To confirm this trend, for the updated FY 2015 data we analyzed the number of contracts signed by each agency in each month. Similar to the expenditure analysis, we should expect to see about 8.33 percent of contracts signed in each month. Confirming the trend, figure 9 shows that 10 agencies signed close to 16 percent of their contracts in September, the last month of the fiscal year. Every single agency signed more contracts in September than in August.

In comparison to figure 9, figure 10 shows that in FY 2015 most agencies signed proportionately fewer contracts at the beginning of the fiscal year than at the end. Only the Department of Veterans Affairs signed more contracts in October than in September. Most departments signed very low proportions of their total contracts in the first two months of the fiscal year, and eight departments signed fewer than 5 percent of their contracts in October. In the FY 2015

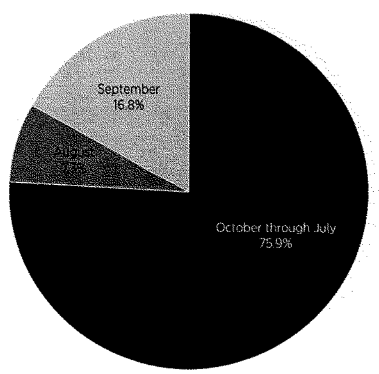
**FIGURE 6. OCTOBER AND NOVEMBER OBLIGATED CONTRACT EXPENDITURES FOR EACH EXECUTIVE DEPARTMENT, FY 2003–2015**




Note: Bars represent percentages of each department's total obligated contract expenditures for FY 2003–2015. See the appendix for a key for the executive department abbreviations.

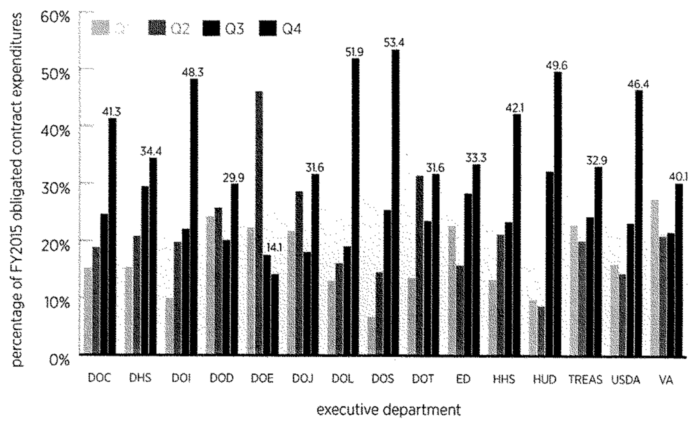
Source: USASpending.gov.

**FIGURE 7. AUGUST AND SEPTEMBER EXECUTIVE DEPARTMENT OBLIGATED CONTRACT EXPENDITURES, FY 2003–2015**




Source: USASpending.gov.

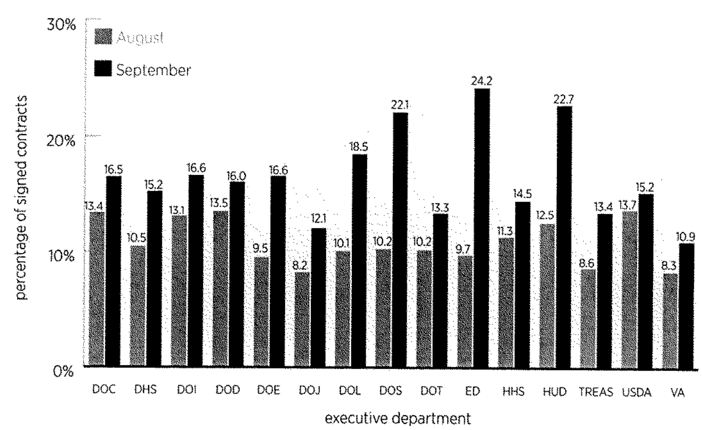
**FIGURE 8. QUARTERLY OBLIGATED CONTRACT EXPENDITURES FOR EACH EXECUTIVE DEPARTMENT, FY 2015**




Note: Bars represent percentages of each department's total obligated contract expenditures for the year. See the appendix for a key for the executive department abbreviations.

Source: USASpending.gov.

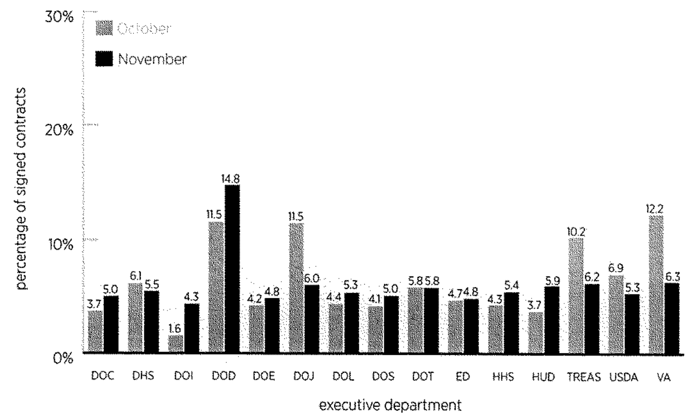
**FIGURE 9. AUGUST AND SEPTEMBER SIGNED CONTRACTS FOR EACH EXECUTIVE DEPARTMENT, FY 2015**




Note: Bars represent percentages of each department's total signed contracts for the year. See the appendix for a key for the executive department abbreviations.

Source: USASpending.gov.

FIGURE 10. OCTOBER AND NOVEMBER SIGNED CONTRACTS FOR EACH EXECUTIVE DEPARTMENT, FY 2015




Note: Bars represent percentages of each department's total signed contracts for the year. See the appendix for a key for the executive department abbreviations.

Source: USASpending.gov.

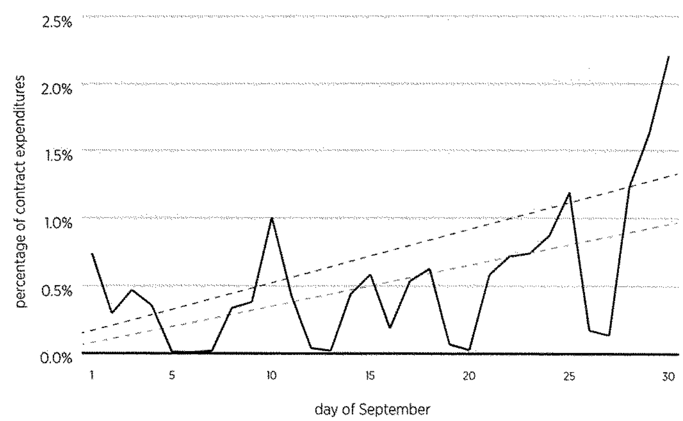
quarterly contract data (see appendix), every single department signed more contracts in the fourth quarter than in the first quarter of the fiscal year.

A closer look at daily September contracts and contract expenditures lends further support to the trend that shows how agencies rush to spend down their budgets at the end of the fiscal year. Figure 11 plots FY 2015 daily obligated contract expenditures for all 15 agencies as a percentage of the year's total contract expenditures. Both trend lines show that agencies tend to increase expenditures throughout the month. There are relatively fewer obligations signed on the weekends.[36] The top trend line shows the non-holiday weekday trend; the bottom line shows the trend for all days. In the last three days of the month, agencies spent more than 5 percent of their total yearly contract expenditures. On the last day of September, they spent 2.2 percent—the highest daily expenditure in September.

Figure 12 plots the number of contracts signed each day in September as a percentage of total FY 2015 contracts. Showing a similar trend to daily

36. The first weekend in September is Labor Day weekend, which explains the three relatively lower data points in a row from September 5 to 7, 2015.

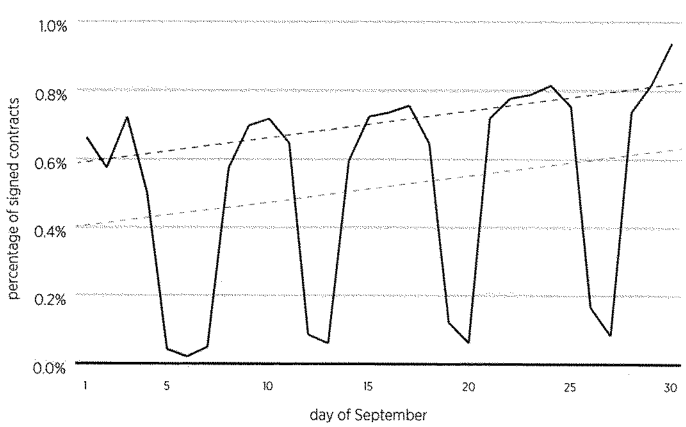
FIGURE 11. DAILY SEPTEMBER EXECUTIVE DEPARTMENT OBLIGATED CONTRACT EXPENDITURES, FY 2015




Note: The top trend line shows the non-holiday weekday trend. The bottom line shows the simple trend for all days ir the month.

Source: USASpending.gov.

FIGURE 12. DAILY SEPTEMBER SIGNED EXECUTIVE DEPARTMENT CONTRACTS, FY 2015




Note: The top trend line shows the non-holiday weekday trend. The bottom line shows the simple trend for all days in the month.

Source: USASpending.gov.

expenditures, figure 12 indicates that the number of contracts signed steadily increased throughout the month. In the last three days of September, agencies signed 2.5 percent of their contracts, and 0.9 percent were signed on the last day. If contracts were evenly distributed, one would expect to see 0.5 percent of contracts signed each day.[37] While 0.9 percent of contracts may not appear excessive, it represents more than double the expected number of contracts signed had they been evenly distributed. Additionally, for some agencies, this number amounted to a lot of dollars. For example, although the State Department signed 2.18 percent of its total contracts on the last day of September, this amount accounted for 7.75 percent of the agency's total obligated dollars for the year.

## WASTE-REDUCING SOLUTIONS FOR YEAR-END SPENDING SURGES

Significantly more literature exists on how to curb year-end spending than empirical analyses on the extent to which such spending is wasteful. One of the most frequently discussed strategies is to grant agencies some degree of carryover authority in their budgets.

Carryover authority allows agencies to move a certain percentage of unspent funds from the fiscal year in which they were appropriated to the subsequent year. Because many carryover programs have been implemented, a sizable amount of literature has assessed their impact on year-end spending surges. The results of these studies appear to be mixed.

Because of a 1992 law, the Department of Justice (DOJ), unlike other federal agencies, is allowed to carry over unlimited portions of unobligated balances that remain at the end of the fiscal year into a working capital fund.[38] These balances may accumulate and remain in the fund for an unlimited period and are used for "the department-wide acquisition of capital equipment, development and implementation of law enforcement or litigation related automated data processing systems, and for the improvement and implementation of the Department's financial management and payroll/personnel systems."[39]

As a result of this unique exception in the federal budgeting process, the DOJ's working capital fund has been the focus of multiple studies. In their recent paper, economists Liebman and Mahoney find that the DOJ's

37. This calculation assumes 260 weekdays per year minus the 10 standard federal holidays.
38. Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act, 1992, Pub. L. No. 102-140, 28 U.S.C. § 527 note (1991).
39. Ibid.

information technology expenditures (which can tap the working capital fund) exhibit a relatively insignificant spending surge at the end of the fiscal year.[40] Year-end DOJ IT spending is also of relatively higher quality, suggesting that carryover spending authority improves quality.[41] However, Liebman and Mahoney "caution that our DOJ evidence on quality is based on a single agency and a small number of contracts."[42] Including all DOJ expenditures, they find that the DOJ, on average, spends 17.9 percent of its budget in the final month of the year—more than six other executive departments and twice the monthly amount that would be spent if agency funds were spread evenly across each month.[43] Liebman and Mahoney explain a potential problem with the DOJ's carryover arrangement: "Unless the rollover balances stay with the same part of the organization that managed to save them, agency subcomponents will still have an incentive to use up the entirety of their allocations."[44]

A 2008 study by the Senate Subcommittee on Federal Financial Management casts doubt on the effectiveness of the DOJ's carryover authority in curbing wasteful spending.[45] The study finds that the DOJ used this authority to accumulate and maintain unobligated fund balances in excess of $2.1 billion.[46] The study notes that the DOJ maintains a sizable working capital fund balance while realizing expansions in its congressionally appropriated budget.[47] It recommends that DOJ accounts with large carryover balances be subject to congressional oversight and that only 50 percent of unobligated funds be permitted to be carried over between fiscal years.[48] However, a 2012 GAO report finds that, although the DOJ's working capital fund has been unavailable for departmental priorities in recent years, it has been effectively managed in compliance with the law and has helped curb agency costs.[49]

Michael McPherson's 2007 survey of Department of Defense financial management and contracting careerists finds that 75 percent favor a carryover

40. Liebman and Mahoney, "Do Expiring Budgets Lead to Wasteful Year-End Spending?," 29.
41. Ibid.
42. Ibid., 3.
43. Ibid., 46 (table 2).
44. Ibid., 35.
45. Tom Coburn, *Justice Denied: Waste and Mismanagement at the Department of Justice* (Washington, DC: Office of Senator Tom Coburn, 2008), 82–85.
46. Ibid., 83.
47. Ibid.
48. Ibid., 85.
49. US Government Accountability Office, *Department of Justice: Working Capital Fund Adheres to Some Key Operating Principles but Could Better Measure Performance and Communicate with Customers*, GAO-12-289 (Washington, DC: US Government Accountability Office, 2012).

incentive.[50] And Robert McNab and Francois Melese argue that carryover provisions enable departments to achieve cost savings by "defeating the 'use it or lose it' behavior associated with control-oriented budgets."[51] Lawrence R. Jones concludes that allowing agencies to obligate funds beyond the one year for which they are appropriated could enable increased efficiency.[52] In 1997, Oklahoma began to allow government agencies to retain unspent appropriated funds for as long as 16.5 months.[53] James Douglas and Aimee Franklin conducted a survey of Oklahoma agency officials, which found that 72.5 percent think carryover provisions reduce wasteful year-end spending.[54] Douglas and Franklin explain that the Oklahoma legislature grants certain state agencies the authority to carry over funds each fiscal year.[55] In early June, agencies are required to estimate the amount of surplus funds they will have at the end of the fiscal year and explain why the surplus occurred.[56] Generally, carryover surpluses "must be spent on nonrecurring items to prevent agencies from relying on this type of money for regular operating expenditures."[57] However, 17.5 percent of the survey respondents found that Oklahoma's carryover law creates a costly paperwork burden,[58] and 12.5 percent worried that the use of a carryover would lead to cuts in balances and appropriations.[59]

Robert D. Behn of Harvard University expressed a similar concern at the International Public Management Network Symposium, citing multiple examples in which

"In 1998, the United Kingdom enabled government departments to carry over funds from one fiscal year to the next. Research shows that this adjustment has had little effect on the disproportionately high level of spending that takes place at the end of the fiscal year."

50. McPherson, "Analysis of Year-End Spending," 42.
51. Robert McNab and Francois Melese, "Implementing the GPRA: Examining the Prospects for Performance Budgeting in the Federal Government," *Public Budgeting and Finance* 23, no. 2 (2003): 73–95, 82.
52. Jones, "Outyear Budgetary Consequences," 167.
53. James Douglas and Aimee Franklin, "Putting the Brakes on the Rush to Spend Down End-of-Year Balances: Carryover Money in Oklahoma State Agencies," *Public Budgeting and Finance* 26 (2006): 46–64, 54.
54. Ibid., 57 (table 1).
55. Ibid., 54–55.
56. Ibid., 55.
57. Ibid., 65.
58. Ibid., 57 (table 1).
59. Ibid.

agencies saved surplus funds only to be required to give them back.[60] Thomas Gardner, administrative services director for the City of Ventura, California, from 2000 to 2005, also expressed reservations at the symposium about carryover spending authority.[61] He explained that carryover programs can incentivize "saving from over budgeting," thereby leading to the creation of a "rat hole" in which the agency annually accumulates excess funds.[62] This concern is similar to the concern expressed in the 2008 Senate subcommittee report over the DOJ's carryover authority.[63]

At the international level, the net effectiveness of carryover authority in curbing year-end expenditures and waste is similarly inconclusive. In 1998, the United Kingdom enabled government departments to carry over funds from one fiscal year to the next.[64] Research shows that this adjustment has had little effect on the disproportionately high level of spending that takes place at the end of the fiscal year.[65] In Canada, carryover authority was granted to all executive departments but was limited to 5 percent of fiscal year operating budgets.[66] An audit found that while subsequent year-end expenditures remained disproportionately high, "these expenditures were not made based on decisions to incur expenditures at year-end, but were part of the Secretariat's annual planning process."[67]

In a 2009 International Monetary Fund Technical Guidance Note, Ian Lienert and Gösta Ljungman counsel that "despite their popularity in [Organisation for Economic Co-operation and Development] countries, carry-over is generally not advisable for the vast majority of capacity-constrained countries operating basic budget systems."[68] They warn that if the size of carryovers is too large, a conflict can quickly escalate between "the spending priorities of the government and the action pursued by the budget manager."[69] For advanced countries such as the United States, the paper lists six conditions that must be met before the country implements carryover authority: (a) accurate appropriations, (b) well-developed accounting and reporting systems, (c) access to financing, (d) well-functioning internal control and external audit, (e) devolved

60. Jones, "Outyear Budgetary Consequences," 151.
61. Ibid., 156.
62. Ibid.
63. Coburn, *Justice Denied*, 82–85.
64. Crawford et al., "Survey of Public Spending," 11–12.
65. Ibid., 12.
66. Internal Audit Branch, "Treasury Board Secretariat Government Wide Review."
67. Ibid.
68. Lienert and Ljungman, "Carry-Over of Budget Authority," 13.
69. Ibid., 6.

budget management powers, and (f) medium-term approach to fiscal policy.[70] Even with these conditions met, the authors recommend that carryover be subject to a quantitative limit of 3–5 percent of the appropriation.[71]

Heightened budget transparency also may curb year-end spending. In 2002, Taiwan's government introduced a midyear budget execution review.[72] Government agencies determine the difference between amounts budgeted and actual results midway through the fiscal year (June in Taiwan, where the fiscal year ends in December).[73] The report is audited by the Ministry of Audit, then presented to the Congress, and then made public.[74] According to a 2012 study of the Taiwan Ministry of National Defense's operations and maintenance budgets, the budget execution rate of the second half year significantly decreased after the imposition of the midyear budget review.[75]

## POLICY RECOMMENDATIONS AND CONCLUSION

Although correlation is not causation, and the data presented in this paper do not prove that wasteful year-end spending exists, some anecdotal evidence suggests that the current budget rule of "use it or lose it" is not optimal and may encourage wasteful spending of taxpayer dollars. The question remains: If such spending is indeed wasteful, what can be done to reduce it?

One idea expressed in the literature and discussed previously in this paper is to allow agencies limited rollover (also known as carryover) authority for funds not spent by the end of the fiscal year. But as Liebman and Mahoney point out, if subcomponent savings are aggregated at the agency level, subcomponents have a diminished incentive to save resources.[76]

To test the merits of limited rollover authority, we recommend that the federal government begin with a pilot exercise. In certain federal departments, agency subcomponents should be given the authority to roll over up to 5 percent of the contract budget authority into the next fiscal year. McPherson notes that Canada "has had 5% carry forward limit for its federal agencies since 1987,"[77] and the 5 percent figure is along the lines suggested by Lienert and Ljungman

70. Ibid., 11–13.
71. Ibid., 14.
72. Uang and Liang, "Does Monitoring Frequency Affect Budget Execution Patterns?
73. Ibid., 64.
74. Ibid.
75. Ibid., 73.
76. Liebman and Mahoney, "Do Expiring Budgets Lead to Wasteful Year-End Spending?," 35.
77. McPherson, "Analysis of Year-End Spending," 28.

> "Even if year-end spending spikes were not inherently wasteful, enabling executive departments to manage their budgets without artificial deadlines would likely improve the efficiency of spending by the departments and their subcomponents."

in outlining best practices for agency rollover authority in advanced countries.[78] To maximize success in reducing waste, we recommend that rollover accounts of agency subcomponents be segregated. The separation of accounts increases the incentive to save, because only the agency subcomponents that achieve cost savings will be able to deploy those savings in subsequent fiscal years. Departments or agencies that wish to participate in the pilot program could submit a request to Congress, which could direct the GAO to oversee, audit, and evaluate the program.

A legitimate concern regarding carryover accounts is that they could have the perverse consequence of decreasing government accountability by serving as annual "rat holes."[79] We think midyear budget reviews could help address this concern and would further curb year-end spending surges. We recommend that executive departments be required to submit midyear budget reviews to Congress and the GAO in which they detail, by agency subcomponent, anticipated expenditures for the remainder of the fiscal year, anticipated surpluses at the end of the fiscal year, and the reasons for these surpluses. Midyear reports with similar components have yielded success in reducing "use it or lose it" pressures and year-end spending surges in Oklahoma and Taiwan.[80] Of course, such midyear reviews would have limited value if Congress failed to conduct appropriate oversight. If Congress does not conduct such oversight, these reports may just become mere paperwork—hardly our intended outcome.

To further curb waste, all rollover accounts—including the DOJ's working capital fund—should be permitted to roll over only 50 percent of their balance into the subsequent fiscal year, as recommended by the 2008 Senate subcommittee report.[81] To avoid lengthy delays in rollover

78. Lienert and Ljungman, "Carry-Over of Budget Authority," 14.
79. Jones, "Outyear Budgetary Consequences," 156.
80. Douglas and Franklin, "End-of-Year Balances" (Oklahoma); Uang and Liang, "Does Monitoring Frequency Affect Budget Execution Patterns?" (Taiwan).
81. Coburn, *Justice Denied*, 85.

fund savings being spent and to discourage large accumulations of rollover funds, we also recommend that such funds be spent within two years.

Another potential reform, presented in the Bonuses for Cost-Cutters Act of 2015 (S. 1378), is to create a cash bonus program for agency employees who identify savings and return the unspent budget authority to the Treasury (a portion of the saving is used for the bonuses). The proposal is intended to realign the incentives of individual employees who save public money. If properly implemented, these incentives could be similar to those in the private sector, where rigorous attention to costs, expenditures, and better budget management is often rewarded using bonuses.

We suggest that bonuses for waste reduction be included in the limited rollover pilot program discussed previously to test the efficacy of the new incentives. We are unaware of any literature that directly investigates the effectiveness of a bonus system for year-end cost savings in the public sector.[82] However, we suspect that coupling bonuses with rollover authority is crucial to keep the incentives of employees and managers aligned. A bonus-only program could create unproductive tension between employees who find cost savings and managers who still have a career incentive to protect their spending authority from budget cuts and who are rewarded through budget increases. In addition to bonuses and rollover authority, we also support testing the feasibility of rewarding managers who complete their programs in or under budget by scoring a high rating for fiscal responsibility on their annual performance reviews.[83]

These reforms may create undesirable new administrative burdens and could disrupt existing budgeting practices. However, we think that the short-term costs would be outweighed by the long-term benefits of relieving government agencies of (a) a perceived pressure to spend resources at the end of the fiscal year to protect their budgets from cuts and (b) the wasteful expenditures associated with that pressure. Furthermore, even if year-end spending spikes were not inherently wasteful, enabling executive departments to manage their budgets without artificial deadlines would likely improve the efficiency of spending by the departments and their subcomponents.

82. Incentive pay in the private sector is commonplace and, as a result, has a large literature. Similar incentive systems in the public sector face different constraints and would need to be appropriately designed to mitigate unnecessary year-end budget spending. There is a relatively small literature on incentive pay in public-sector services that almost exclusively investigates the provision of public services. We are unaware of any literature that investigates internal budget-based incentive pay in the public sector.

83. Dean W. Sinclair, "Changing the Culture of Wasteful Spending in the Federal Workforce" (testimony before the Subcomm. on Federal Spending Oversight and Emergency Management of the S. Comm. on Homeland Security and Government Affairs, September 30, 2015).

Although the Department of Justice already has limited rollover authority for projects associated with its unique working capital fund, the DOJ experience is not generalizable to the rest of the federal government. Furthermore, observers have pointed out potentially wasteful consequences of the DOJ's fund structure. A pilot program that gave limited rollover authority to several departments, combined with congressional and GAO oversight of rollover accounts, would be a useful experiment to see whether our proposed changes to the federal budget process would reduce wasteful year-end spending.

# APPENDIX

## Executive Department Abbreviations

| | |
|---|---|
| DOC | Department of Commerce |
| DHS | Department of Homeland Security |
| DOI | Department of the Interior |
| DOD | Department of Defense |
| DOE | Department of Energy |
| DOJ | Department of Justice |
| DOL | Department of Labor |
| DOS | Department of State |
| DOT | Department of Transportation |
| ED | Department of Education |
| HHS | Department of Health and Human Services |
| HUD | Department of Housing and Urban Development |
| TREAS | Department of the Treasury |
| USDA | Department of Agriculture |
| VA | Department of Veterans Affairs |

TABLE A1. OCTOBER, NOVEMBER, AUGUST, AND SEPTEMBER (LAST MONTH OF THE FISCAL YEAR) EXECUTIVE DEPARTMENT PRIME CONTRACT AWARD EXPENDITURES, FY 2003–2015

| Agency (by year) | Total | October | | November | | August | | September | |
|---|---|---|---|---|---|---|---|---|---|
| 2003 | | | | | | | | | |
| DOC | $1,380,195,943 | $71,982,942 | (5.2%) | $30,394,750 | (2.2%) | $97,721,341 | (7.1%) | $278,396,855 | (20.2%) |
| DHS | $4,047,582,025 | $22,733,591 | (0.6%) | $10,789,536 | (0.3%) | $322,136,896 | (8.0%) | $794,117,799 | (19.6%) |
| DOI | $3,811,946,910 | $114,519,329 | (3.0%) | $198,148,698 | (5.2%) | $380,184,151 | (10.0%) | $874,592,674 | (22.9%) |
| DOD | $212,858,910,762 | $17,568,503,908 | (8.3%) | $19,441,647,547 | (9.1%) | $14,343,732,072 | (6.7%) | $30,055,153,140 | (14.1%) |
| DOE | $30,510,088,748 | $2,392,983,632 | (7.8%) | $2,145,619,102 | (7.0%) | $585,837,243 | (1.9%) | $1,440,667,635 | (4.7%) |
| DOJ | $3,374,272,982 | $532,917,530 | (15.8%) | $141,674,386 | (4.2%) | $247,019,892 | (7.3%) | $777,941,524 | (23.1%) |
| DOL | $1,688,265,411 | $194,619,639 | (11.5%) | $235,583,535 | (14.0%) | $106,630,856 | (6.3%) | $165,709,998 | (9.8%) |
| DOS | $3,472,713,808 | $47,440,741 | (1.4%) | $72,411,634 | (2.1%) | $223,831,349 | (6.4%) | $1,875,207,654 | (54.0%) |
| DOT | $2,642,291,019 | $429,160,951 | (16.2%) | $440,087,858 | (16.7%) | $187,180,645 | (7.1%) | $228,007,896 | (8.6%) |
| ED | $1,125,490,495 | $5,753,040 | (0.5%) | $49,697,714 | (4.4%) | $93,387,667 | (8.3%) | $225,292,200 | (20.0%) |
| HHS | $7,779,572,696 | $197,161,954 | (2.5%) | $237,564,242 | (3.1%) | $638,450,243 | (8.2%) | $2,831,558,984 | (36.4%) |
| HUD | $1,062,135,157 | $7,275,677 | (0.7%) | $28,577,613 | (2.7%) | $203,014,088 | (19.1%) | $135,464,771 | (12.8%) |
| TREAS | $3,005,304,668 | $532,518,739 | (17.7%) | $139,819,237 | (4.7%) | $168,262,580 | (5.6%) | $280,868,603 | (9.3%) |
| USDA | $4,533,267,440 | $372,099,234 | (8.2%) | $256,709,534 | (5.7%) | $469,056,573 | (10.3%) | $1,169,332,206 | (25.8%) |
| VA | $6,850,650,044 | $1,169,852,223 | (17.1%) | $84,264,749 | (1.2%) | $315,423,426 | (4.6%) | $2,154,307,906 | (31.4%) |
| 2004 | | | | | | | | | |
| DOC | $1,776,052,150 | $98,704,412 | (5.6%) | $34,280,330 | (1.9%) | $142,296,693 | (8.0%) | $338,600,978 | (19.1%) |
| DHS | $7,880,856,596 | $569,490,108 | (7.2%) | $369,709,007 | (4.7%) | $865,812,057 | (11.0%) | $1,341,076,615 | (17.0%) |
| DOI | $4,681,836,397 | $354,716,815 | (7.6%) | $267,278,084 | (5.7%) | $445,093,152 | (9.5%) | $774,127,690 | (16.5%) |
| DOD | $231,083,116,330 | $28,208,189,303 | (12.2%) | $19,250,342,690 | (8.3%) | $13,518,805,466 | (5.9%) | $26,560,569,693 | (11.5%) |
| DOE | $21,825,805,821 | $1,837,519,099 | (8.4%) | $1,500,876,592 | (6.9%) | $457,026,403 | (2.1%) | $946,373,368 | (4.3%) |
| DOJ | $4,062,623,308 | $607,010,664 | (14.9%) | $152,701,330 | (3.8%) | $322,411,996 | (7.9%) | $734,731,097 | (18.1%) |
| DOL | $1,782,120,505 | $211,361,630 | (11.9%) | $168,566,712 | (9.5%) | $182,224,820 | (10.2%) | $253,529,087 | (14.2%) |
| DOS | $4,161,816,700 | $226,506,626 | (5.4%) | $175,187,804 | (4.2%) | $293,079,037 | (7.0%) | $1,490,023,310 | (35.8%) |
| DOT | $2,188,695,294 | $735,716,435 | (33.6%) | $44,709,608 | (2.0%) | $178,828,929 | (8.2%) | $286,513,600 | (13.1%) |
| ED | $1,455,270,954 | $1,476,181 | (0.1%) | $6,008,006 | (0.4%) | $98,392,570 | (6.8%) | $321,608,926 | (22.1%) |
| HHS | $8,565,520,523 | $321,338,467 | (3.8%) | $217,400,357 | (2.5%) | $1,001,622,667 | (11.7%) | $2,693,937,213 | (31.5%) |
| HUD | $1,165,518,210 | $19,678,744 | (1.7%) | $14,093,121 | (1.2%) | $61,731,387 | (5.3%) | $208,110,662 | (17.9%) |
| TREAS | $4,677,988,726 | $381,227,085 | (8.1%) | $175,246,765 | (3.7%) | $634,521,140 | (13.6%) | $1,112,723,130 | (23.8%) |
| USDA | $4,091,605,935 | $353,412,588 | (8.6%) | $244,472,537 | (6.0%) | $462,293,942 | (11.3%) | $721,553,300 | (17.6%) |
| VA | $7,640,283,084 | $2,412,455,519 | (31.6%) | $108,461,740 | (1.4%) | $350,770,360 | (4.6%) | $1,256,512,893 | (16.4%) |
| 2005 | | | | | | | | | |
| DOC | $2,064,049,763 | $94,671,398 | (4.6%) | $52,284,710 | (2.5%) | $238,336,733 | (11.5%) | $485,543,862 | (23.5%) |
| DHS | $12,786,767,783 | $468,089,764 | (3.7%) | $944,266,932 | (7.4%) | $713,468,476 | (5.6%) | $5,334,019,706 | (41.7%) |
| DOI | $4,922,637,819 | $390,957,802 | (7.9%) | $315,619,683 | (6.4%) | $450,442,960 | (9.2%) | $983,542,653 | (20.0%) |
| DOD | $270,868,494,757 | $32,752,828,084 | (12.1%) | $21,323,491,890 | (7.9%) | $14,998,896,942 | (5.5%) | $36,517,838,883 | (13.5%) |
| DOE | $23,221,641,916 | $2,505,506,258 | (10.8%) | $716,395,830 | (3.1%) | $819,212,136 | (3.5%) | $1,457,503,635 | (6.3%) |

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| Agency (by year) | Total | October | | November | | August | | September | |
|---|---|---|---|---|---|---|---|---|---|
| DOJ | $4,534,931,226 | $1,299,759,048 | (28.7%) | $203,592,426 | (4.5%) | $318,187,286 | (7.0%) | $822,078,481 | (18.1%) |
| DOL | $1,723,947,630 | $239,306,122 | (13.9%) | $93,172,671 | (5.4%) | $127,000,594 | (7.4%) | $278,681,579 | (16.2%) |
| DOS | $5,893,503,806 | $217,452,999 | (3.7%) | $103,845,547 | (1.8%) | $591,015,081 | (10.0%) | $1,864,138,907 | (31.6%) |
| DOT | $1,693,533,590 | $265,708,869 | (15.7%) | $75,845,478 | (4.5%) | $241,923,114 | (14.3%) | $246,475,532 | (14.6%) |
| ED | $1,403,739,579 | $1,607,226 | (0.1%) | $70,929,361 | (5.1%) | $148,097,419 | (10.6%) | $306,848,045 | (21.9%) |
| HHS | $10,230,108,487 | $297,694,898 | (2.9%) | $1,148,715,974 | (11.2%) | $901,057,443 | (8.8%) | $2,821,537,679 | (27.6%) |
| HUD | $1,077,171,472 | $44,365,817 | (4.1%) | $67,872,073 | (6.3%) | $56,772,632 | (5.3%) | $180,767,870 | (16.8%) |
| TREAS | $3,648,625,894 | $276,377,542 | (7.6%) | $232,156,931 | (6.4%) | $337,751,956 | (9.3%) | $540,394,811 | (14.8%) |
| USDA | $4,062,941,929 | $315,147,251 | (7.8%) | $251,006,522 | (6.2%) | $418,701,918 | (10.3%) | $636,932,617 | (15.7%) |
| VA | $9,167,942,840 | $1,970,028,167 | (21.5%) | $199,257,097 | (2.2%) | $960,057,456 | (10.5%) | $1,426,361,049 | (15.6%) |
| 2006 | | | | | | | | | |
| DOC | $2,244,435,471 | $124,856,157 | (5.6%) | $69,541,283 | (3.1%) | $206,074,348 | (9.2%) | $522,291,916 | (23.3%) |
| DHS | $16,478,953,844 | $1,387,729,168 | (8.4%) | $1,211,226,452 | (7.4%) | $1,170,465,684 | (7.1%) | $2,380,594,098 | (14.4%) |
| DOI | $4,741,022,124 | $331,359,390 | (7.0%) | $330,849,201 | (7.0%) | $436,040,204 | (9.2%) | $937,776,007 | (19.8%) |
| DOD | $300,588,766,778 | $23,351,608,232 | (7.8%) | $17,678,562,570 | (5.9%) | $20,900,883,451 | (7.0%) | $46,127,648,955 | (15.3%) |
| DOE | $22,948,865,247 | $2,080,872,303 | (9.1%) | $1,200,107,027 | (5.2%) | $2,406,282,548 | (10.5%) | $1,278,147,154 | (5.6%) |
| DOJ | $4,941,595,765 | $1,361,765,797 | (27.6%) | $228,428,845 | (4.6%) | $338,602,758 | (6.9%) | $820,386,819 | (16.6%) |
| DOL | $1,775,705,299 | $185,646,239 | (10.5%) | $171,585,442 | (9.7%) | $149,073,564 | (8.4%) | $178,257,919 | (10.0%) |
| DOS | $5,400,422,326 | $231,946,321 | (4.3%) | $241,516,784 | (4.5%) | $634,796,004 | (11.8%) | $1,606,737,400 | (29.8%) |
| DOT | $2,261,348,586 | $210,148,693 | (9.3%) | $72,048,318 | (3.2%) | $228,945,021 | (10.1%) | $544,720,361 | (24.1%) |
| ED | $1,416,793,552 | $531,448 | (0.0%) | $71,188,291 | (5.0%) | $94,243,766 | (6.7%) | $279,060,819 | (19.7%) |
| HHS | $12,656,213,687 | $723,163,258 | (5.7%) | $465,747,308 | (3.7%) | $1,235,640,393 | (9.8%) | $2,898,596,991 | (22.9%) |
| HUD | $1,094,020,530 | $60,052,358 | (5.5%) | $68,719,679 | (6.3%) | $52,795,239 | (4.8%) | $190,574,533 | (17.4%) |
| TREAS | $4,157,556,799 | $297,566,723 | (7.2%) | $224,537,058 | (5.4%) | $391,756,078 | (9.4%) | $637,541,038 | (15.3%) |
| USDA | $4,159,688,645 | $421,751,986 | (10.1%) | $291,091,752 | (7.0%) | $425,189,002 | (10.2%) | $684,732,942 | (16.5%) |
| VA | $10,612,797,849 | $4,131,765,660 | (38.9%) | $299,613,258 | (2.8%) | $571,637,622 | (5.4%) | $1,481,032,872 | (14.0%) |
| 2007 | | | | | | | | | |
| DOC | $2,243,000,396 | $61,241,410 | (2.7%) | $49,499,422 | (2.2%) | $390,731,574 | (17.4%) | $441,395,545 | (19.7%) |
| DHS | $12,459,981,568 | $616,632,827 | (4.9%) | $830,296,533 | (6.7%) | $1,832,786,523 | (14.7%) | $2,253,717,561 | (18.1%) |
| DOI | $4,093,571,712 | $250,017,211 | (6.1%) | $208,531,102 | (5.1%) | $374,580,064 | (9.2%) | $1,050,008,842 | (25.7%) |
| DOD | $333,663,116,058 | $29,288,081,423 | (8.8%) | $31,490,446,704 | (9.4%) | $23,750,571,471 | (7.1%) | $48,769,044,694 | (14.6%) |
| DOE | $23,394,695,765 | $2,032,744,485 | (8.7%) | $1,026,690,209 | (4.4%) | $1,154,570,019 | (4.9%) | $1,636,628,457 | (7.0%) |
| DOJ | $7,037,370,767 | $1,176,955,263 | (16.7%) | $251,758,214 | (3.6%) | $420,839,794 | (6.0%) | $1,057,772,438 | (15.0%) |
| DOL | $1,857,811,233 | $258,066,856 | (13.9%) | $55,510,848 | (3.0%) | $135,913,298 | (7.3%) | $173,741,119 | (9.4%) |
| DOS | $5,995,449,696 | $129,558,857 | (2.2%) | $111,466,329 | (1.9%) | $556,027,620 | (9.3%) | $2,487,474,647 | (41.5%) |
| DOT | $4,791,686,915 | $207,388,968 | (4.3%) | $230,084,160 | (4.8%) | $679,176,192 | (14.2%) | $688,491,555 | (14.4%) |
| ED | $1,448,873,321 | $1,894,923 | (0.1%) | $39,445,139 | (2.7%) | $68,291,167 | (4.7%) | $335,473,938 | (23.2%) |
| HHS | $14,321,963,135 | $768,363,763 | (5.4%) | $666,038,958 | (4.7%) | $1,205,623,242 | (8.4%) | $3,288,354,991 | (23.0%) |
| HUD | $846,076,866 | $61,983,746 | (7.3%) | $25,077,948 | (3.0%) | $59,762,769 | (7.1%) | $119,423,166 | (14.1%) |
| TREAS | $4,133,237,462 | $353,444,636 | (8.6%) | $242,263,263 | (5.9%) | $379,736,203 | (9.2%) | $543,907,600 | (13.2%) |
| USDA | $4,622,481,039 | $266,312,713 | (5.8%) | $270,335,755 | (5.8%) | $611,796,781 | (13.2%) | $818,213,705 | (17.7%) |

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| Agency (by year) | Total | October | | November | | August | | September | |
|---|---|---|---|---|---|---|---|---|---|
| VA | $12,698,469,425 | $1,797,940,763 | (14.2%) | $555,833,105 | (4.4%) | $1,166,202,777 | (9.2%) | $2,894,085,700 | (22.8%) |
| 2008 | | | | | | | | | |
| DOC | $2,492,941,301 | $72,824,710 | (2.9%) | $124,881,444 | (5.0%) | $239,947,713 | (9.6%) | $598,412,290 | (24.0%) |
| DHS | $14,033,454,696 | $691,533,642 | (4.9%) | $571,732,840 | (4.1%) | $1,121,996,114 | (8.0%) | $3,216,972,430 | (22.9%) |
| DOI | $3,803,206,804 | $172,428,465 | (4.5%) | $153,851,970 | (4.0%) | $421,702,499 | (11.1%) | $979,960,991 | (25.8%) |
| DOD | $397,497,817,762 | $26,371,865,019 | (6.6%) | $25,988,788,404 | (6.5%) | $29,120,595,768 | (7.3%) | $84,379,529,870 | (21.2%) |
| DOE | $24,194,359,764 | $1,792,970,116 | (7.4%) | $1,398,004,913 | (5.8%) | $1,060,415,557 | (4.4%) | $1,491,675,595 | (6.2%) |
| DOJ | $5,893,464,182 | $874,784,863 | (14.8%) | $316,637,822 | (5.4%) | $369,363,264 | (6.3%) | $1,083,218,426 | (18.4%) |
| DOL | $1,839,807,842 | $159,789,389 | (8.7%) | $155,473,686 | (8.5%) | $165,868,399 | (9.0%) | $139,664,941 | (7.6%) |
| DOS | $6,185,436,092 | $120,698,113 | (2.0%) | $168,247,144 | (2.7%) | $656,493,968 | (10.6%) | $2,119,023,863 | (34.3%) |
| DOT | $5,696,223,135 | $348,193,874 | (6.1%) | $252,633,590 | (4.4%) | $448,647,827 | (7.9%) | $1,094,957,588 | (19.2%) |
| ED | $1,379,118,056 | $11,147,769 | (0.8%) | $62,136,141 | (4.5%) | $61,440,814 | (4.5%) | $189,413,235 | (13.7%) |
| HHS | $13,832,674,327 | $1,070,885,962 | (7.7%) | $508,548,388 | (3.7%) | $1,237,535,420 | (8.9%) | $3,483,550,118 | (25.2%) |
| HUD | $990,128,306 | $98,522,280 | (10.0%) | $6,069,500 | (0.6%) | $56,687,503 | (5.7%) | $213,480,220 | (21.6%) |
| TREAS | $4,561,017,940 | $357,159,236 | (7.8%) | $320,313,202 | (7.0%) | $417,772,132 | (9.2%) | $530,743,837 | (11.6%) |
| USDA | $5,337,927,668 | $440,702,437 | (8.3%) | $377,239,173 | (7.1%) | $670,207,124 | (12.6%) | $857,107,711 | (16.1%) |
| VA | $14,924,536,098 | $5,956,881,399 | (39.9%) | $397,070,152 | (2.7%) | $772,372,263 | (5.2%) | $3,118,293,411 | (20.9%) |
| 2009 | | | | | | | | | |
| DOC | $3,213,034,372 | $254,223,686 | (7.9%) | $158,911,149 | (4.9%) | $207,044,933 | (6.4%) | $613,352,563 | (19.1%) |
| DHS | $14,286,606,249 | $865,065,295 | (6.1%) | $1,172,024,433 | (8.2%) | $1,017,378,667 | (7.1%) | $3,068,370,674 | (21.5%) |
| DOI | $4,342,778,484 | $170,488,001 | (3.9%) | $271,961,508 | (6.3%) | $409,600,788 | (9.4%) | $1,465,420,795 | (33.7%) |
| DOD | $373,208,447,472 | $30,527,212,743 | (8.2%) | $26,968,720,107 | (7.2%) | $26,141,856,854 | (7.0%) | $61,528,278,813 | (16.5%) |
| DOE | $31,656,515,505 | $5,398,467,318 | (17.1%) | $854,706,614 | (2.7%) | $1,325,291,524 | (4.2%) | $3,066,341,762 | (9.7%) |
| DOJ | $7,617,069,978 | $1,338,903,026 | (17.6%) | $335,214,733 | (4.4%) | $462,894,162 | (6.1%) | $1,647,414,679 | (21.6%) |
| DOL | $2,047,850,645 | $163,836,674 | (8.0%) | $104,581,504 | (5.1%) | $172,520,513 | (8.4%) | $226,451,326 | (11.1%) |
| DOS | $7,479,746,657 | $57,026,507 | (0.8%) | $216,653,492 | (2.9%) | $716,998,253 | (9.6%) | $2,735,641,007 | (36.6%) |
| DOT | $5,802,045,197 | $344,236,811 | (5.9%) | $427,365,857 | (7.4%) | $598,970,908 | (10.3%) | $1,022,886,726 | (17.6%) |
| ED | $1,507,616,631 | $7,917,332 | (0.5%) | $114,255,653 | (7.6%) | $101,911,673 | (6.8%) | $187,398,030 | (12.4%) |
| HHS | $19,538,083,037 | $1,037,674,356 | (5.3%) | $535,241,919 | (2.7%) | $2,106,257,740 | (10.8%) | $4,740,437,242 | (24.3%) |
| HUD | $868,865,796 | $100,482,655 | (11.6%) | $31,528,664 | (3.6%) | $51,768,509 | (6.0%) | $216,452,214 | (24.9%) |
| TREAS | $4,895,087,737 | $482,087,542 | (9.8%) | $341,541,562 | (7.0%) | $379,253,356 | (7.7%) | $721,879,318 | (14.7%) |
| USDA | $5,417,054,539 | $420,523,508 | (7.8%) | $379,270,133 | (7.0%) | $500,498,433 | (9.2%) | $1,051,030,110 | (19.4%) |
| VA | $14,810,192,007 | $4,185,780,355 | (28.3%) | $601,222,245 | (4.1%) | $1,059,276,531 | (7.2%) | $2,497,823,676 | (16.9%) |
| 2010 | | | | | | | | | |
| DOC | $3,952,524,574 | $407,369,804 | (10.3%) | $389,834,283 | (9.9%) | $460,946,166 | (11.7%) | $570,230,630 | (14.4%) |
| DHS | $13,576,479,219 | $593,733,418 | (4.4%) | $798,251,625 | (5.9%) | $1,033,055,104 | (7.6%) | $3,143,322,305 | (23.2%) |
| DOI | $6,165,230,029 | $176,563,667 | (2.9%) | $284,496,307 | (4.6%) | $562,705,875 | (9.1%) | $1,418,940,197 | (23.0%) |
| DOD | $367,962,894,340 | $21,904,811,763 | (6.0%) | $25,169,667,353 | (6.8%) | $25,693,994,437 | (7.0%) | $65,431,500,254 | (17.8%) |
| DOE | $25,692,022,456 | $1,730,061,111 | (6.7%) | $8,243,055,792 | (32.1%) | $1,060,902,543 | (4.1%) | $1,474,287,716 | (5.7%) |
| DOJ | $6,751,935,837 | $928,758,683 | (13.8%) | $367,004,086 | (5.4%) | $544,930,388 | (8.1%) | $1,098,397,957 | (16.3%) |

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| Agency (by year) | Total | October | | November | | August | | September | |
|---|---|---|---|---|---|---|---|---|---|
| DOL | $2,239,037,335 | $91,313,902 | (4.1%) | $188,134,738 | (8.4%) | $186,904,201 | (8.3%) | $225,974,265 | (10.1%) |
| DOS | $8,137,422,558 | $64,099,785 | (0.8%) | $226,125,669 | (2.8%) | $905,392,852 | (11.1%) | $3,152,027,024 | (38.7%) |
| DOT | $6,322,029,932 | $189,016,249 | (3.0%) | $340,330,780 | (5.4%) | $690,848,766 | (10.9%) | $1,068,724,961 | (16.9%) |
| ED | $1,835,448,675 | $1,145,496 | (0.1%) | $86,007,380 | (4.7%) | $67,409,746 | (3.7%) | $361,416,076 | (19.7%) |
| HHS | $19,131,133,732 | $1,282,725,641 | (6.7%) | $676,845,059 | (3.5%) | $1,642,141,793 | (8.6%) | $4,988,361,263 | (26.1%) |
| HUD | $1,673,229,217 | $6,612,930 | (0.4%) | $7,745,967 | (0.5%) | $223,394,639 | (13.4%) | $228,790,523 | (13.7%) |
| TREAS | $6,089,314,957 | $569,592,972 | (9.4%) | $365,116,232 | (6.0%) | $554,955,055 | (9.1%) | $721,712,042 | (11.9%) |
| USDA | $6,136,997,239 | $282,341,906 | (4.6%) | $407,105,251 | (6.6%) | $736,140,656 | (12.0%) | $937,736,411 | (15.3%) |
| VA | $16,235,855,987 | $2,363,248,165 | (14.6%) | $900,129,399 | (5.5%) | $1,498,870,552 | (9.2%) | $2,567,188,619 | (15.8%) |
| 2011 | | | | | | | | | |
| DOC | $2,382,062,297 | $173,199,571 | (7.3%) | $68,070,487 | (2.9%) | $356,914,983 | (15.0%) | $522,911,390 | (22.0%) |
| DHS | $14,240,554,935 | $580,594,566 | (4.1%) | $1,384,454,854 | (9.7%) | $1,435,874,871 | (10.1%) | $3,507,241,766 | (24.6%) |
| DOI | $4,176,984,153 | $111,885,150 | (2.7%) | $140,602,205 | (3.4%) | $549,678,375 | (13.2%) | $1,099,389,055 | (26.3%) |
| DOD | $374,160,151,829 | $23,750,771,433 | (6.3%) | $26,115,939,042 | (7.0%) | $29,564,937,020 | (7.9%) | $64,668,063,888 | (17.3%) |
| DOE | $25,091,037,810 | $2,785,938,092 | (11.1%) | $500,961,980 | (2.0%) | $1,418,593,707 | (5.7%) | $1,476,274,323 | (5.9%) |
| DOJ | $7,322,861,881 | $918,892,629 | (12.5%) | $390,699,439 | (5.3%) | $572,708,464 | (7.8%) | $1,343,965,720 | (18.4%) |
| DOL | $1,964,143,750 | $70,645,920 | (3.6%) | $224,252,413 | (11.4%) | $242,784,760 | (12.4%) | $221,430,855 | (11.3%) |
| DOS | $9,179,887,383 | $42,843,107 | (0.5%) | $241,882,000 | (2.6%) | $1,146,582,096 | (12.5%) | $3,238,722,075 | (35.3%) |
| DOT | $6,310,227,606 | $187,643,888 | (3.0%) | $286,347,153 | (4.5%) | $589,309,264 | (9.3%) | $1,117,733,978 | (17.7%) |
| ED | $1,864,906,980 | $19,940,528 | (1.1%) | $181,000,965 | (9.7%) | $91,784,482 | (4.9%) | $355,295,902 | (19.1%) |
| HHS | $19,574,913,448 | $656,808,149 | (3.4%) | $1,190,524,366 | (6.1%) | $2,239,673,894 | (11.4%) | $4,576,575,247 | (23.4%) |
| HUD | $1,697,197,350 | $9,958,532 | (0.6%) | $225,933,629 | (13.3%) | $67,011,087 | (3.9%) | $279,665,707 | (16.5%) |
| TREAS | $7,228,010,478 | $495,185,899 | (6.9%) | $482,894,172 | (6.7%) | $825,780,174 | (11.4%) | $1,002,180,652 | (13.9%) |
| USDA | $5,281,304,649 | $286,033,070 | (5.4%) | $324,849,742 | (6.2%) | $732,078,680 | (13.9%) | $1,113,222,548 | (21.1%) |
| VA | $17,503,218,907 | $2,989,702,911 | (17.1%) | $714,257,316 | (4.1%) | $1,261,332,471 | (7.2%) | $3,698,439,446 | (21.1%) |
| 2012 | | | | | | | | | |
| DOC | $2,361,406,667 | $93,041,680 | (3.9%) | $139,890,360 | (5.9%) | $316,642,959 | (13.4%) | $369,924,309 | (15.7%) |
| DHS | $12,409,034,172 | $307,475,488 | (2.5%) | $799,256,698 | (6.4%) | $1,224,746,884 | (9.9%) | $2,409,720,036 | (19.4%) |
| DOI | $4,147,643,054 | $44,467,062 | (1.1%) | $97,233,196 | (2.3%) | $697,039,649 | (16.8%) | $1,118,660,592 | (27.0%) |
| DOD | $361,593,594,294 | $19,171,341,588 | (5.3%) | $21,448,097,502 | (5.9%) | $24,758,239,233 | (6.8%) | $62,111,393,731 | (17.2%) |
| DOE | $25,155,984,021 | $2,370,205,294 | (9.4%) | $1,468,281,334 | (5.8%) | $1,056,646,440 | (4.2%) | $1,260,889,900 | (5.0%) |
| DOJ | $6,648,176,935 | $901,336,403 | (13.6%) | $380,071,195 | (5.7%) | $487,639,677 | (7.3%) | $1,363,142,562 | (20.5%) |
| DOL | $2,014,770,774 | $159,514,285 | (7.9%) | $135,343,375 | (6.7%) | $101,927,100 | (5.1%) | $246,582,741 | (12.2%) |
| DOS | $8,315,467,866 | $53,454,888 | (0.6%) | $478,842,365 | (5.8%) | $721,670,698 | (8.7%) | $3,646,548,452 | (43.9%) |
| DOT | $6,404,053,760 | $206,679,561 | (3.2%) | $311,055,456 | (4.9%) | $702,084,447 | (11.0%) | $971,690,730 | (15.2%) |
| ED | $2,061,985,966 | $918,806 | (0.0%) | $154,894,411 | (7.5%) | $197,721,998 | (9.6%) | $352,159,338 | (17.1%) |
| HHS | $19,238,618,782 | $398,632,235 | (2.1%) | $1,557,160,577 | (8.1%) | $2,880,260,355 | (15.0%) | $4,687,013,243 | (24.4%) |
| HUD | $1,451,823,200 | $80,347,664 | (5.5%) | $33,700,154 | (2.3%) | $182,257,525 | (12.6%) | $297,304,988 | (20.5%) |
| TREAS | $5,911,528,160 | $505,106,035 | (8.5%) | $450,445,924 | (7.6%) | $621,363,425 | (10.5%) | $817,306,245 | (13.8%) |
| USDA | $5,248,763,530 | $304,071,951 | (5.8%) | $332,975,385 | (6.3%) | $699,076,084 | (13.3%) | $1,178,881,401 | (22.5%) |
| VA | $17,285,288,474 | $2,495,335,542 | (14.4%) | $1,303,860,813 | (7.5%) | $1,182,525,441 | (6.8%) | $3,307,602,035 | (19.1%) |

*continued on next page*

| Agency (by year) | Total | October | | November | | August | | September | |
|---|---|---|---|---|---|---|---|---|---|
| 2013 | | | | | | | | | |
| DOC | $2,298,565,529 | $193,709,775 | (8.4%) | $82,075,898 | (3.6%) | $273,238,263 | (11.9%) | $509,541,651 | (22.2%) |
| DHS | $12,230,567,804 | $589,479,567 | (4.8%) | $1,360,716,558 | (11.1%) | $1,208,787,907 | (9.9%) | $2,429,640,659 | (19.9%) |
| DOI | $3,687,124,139 | $21,844,600 | (0.6%) | $148,663,378 | (4.0%) | $627,152,666 | (17.0%) | $962,790,034 | (26.1%) |
| DOD | $308,242,488,005 | $22,742,796,036 | (7.4%) | $24,485,720,752 | (7.9%) | $22,165,840,927 | (7.2%) | $56,406,263,800 | (18.3%) |
| DOE | $23,954,010,428 | $8,005,081,960 | (33.4%) | $598,317,428 | (2.5%) | $1,199,582,770 | (5.0%) | $1,430,564,041 | (6.0%) |
| DOJ | $7,267,817,297 | $1,063,497,250 | (14.6%) | $333,896,624 | (4.6%) | $736,421,256 | (10.1%) | $1,211,767,270 | (16.7%) |
| DOL | $1,958,350,398 | $317,108,145 | (16.2%) | $36,898,968 | (1.9%) | $97,672,493 | (5.0%) | $181,932,367 | (9.3%) |
| DOS | $7,334,415,105 | $90,891,163 | (1.2%) | $214,457,398 | (2.9%) | $857,767,119 | (11.7%) | $2,843,646,433 | (38.8%) |
| DOT | $6,095,962,285 | $237,929,113 | (3.9%) | $415,439,590 | (6.8%) | $716,426,411 | (11.8%) | $906,049,255 | (14.9%) |
| ED | $2,627,989,210 | $13,097,963 | (0.5%) | $185,864,139 | (7.1%) | $293,523,353 | (11.2%) | $365,391,502 | (13.9%) |
| HHS | $19,973,620,522 | $772,044,857 | (3.9%) | $770,842,458 | (3.9%) | $2,405,105,317 | (12.0%) | $5,727,069,754 | (28.7%) |
| HUD | $1,582,129,780 | $2,503,937 | (0.2%) | $57,306,621 | (3.6%) | $71,692,234 | (4.5%) | $142,642,021 | (9.0%) |
| TREAS | $6,870,628,676 | $560,287,387 | (8.2%) | $617,818,099 | (9.0%) | $514,156,537 | (7.5%) | $678,541,852 | (9.9%) |
| USDA | $5,145,656,679 | $391,367,791 | (7.6%) | $526,479,728 | (10.2%) | $698,223,719 | (13.6%) | $861,217,033 | (16.7%) |
| VA | $18,277,463,787 | $2,758,836,858 | (15.1%) | $704,382,781 | (3.9%) | $1,376,881,471 | (7.5%) | $3,755,005,687 | (20.5%) |
| 2014 | | | | | | | | | |
| DOC | $2,959,881,787 | $121,083,003 | (4.1%) | $172,093,299 | (5.8%) | $381,879,365 | (12.9%) | $547,885,831 | (18.5%) |
| DHS | $12,860,174,183 | $509,006,700 | (4.0%) | $860,594,892 | (6.7%) | $1,139,385,561 | (8.9%) | $2,610,438,033 | (20.3%) |
| DOI | $4,190,893,957 | $21,489,775 | (0.5%) | $111,928,207 | (2.7%) | $746,072,845 | (17.8%) | $1,115,843,238 | (26.6%) |
| DOD | $284,313,879,940 | $15,333,892,659 | (5.4%) | $17,230,666,849 | (6.1%) | $19,848,385,866 | (7.0%) | $47,443,783,091 | (16.7%) |
| DOE | $25,453,060,374 | $4,255,878,707 | (16.7%) | $958,422,287 | (3.8%) | -$140,611,178 | -(0.6%) | $1,430,889,172 | (5.6%) |
| DOJ | $7,200,783,411 | $596,418,073 | (8.3%) | $527,403,566 | (7.3%) | $510,345,445 | (7.1%) | $1,882,884,969 | (26.1%) |
| DOL | $2,143,433,952 | $234,335,309 | (10.9%) | $165,147,766 | (7.7%) | $520,630,976 | (24.3%) | $325,711,718 | (15.2%) |
| DOS | $9,068,469,889 | $24,853,581 | (0.3%) | $289,918,074 | (3.2%) | $719,934,841 | (7.9%) | $3,311,801,735 | (36.5%) |
| DOT | $6,222,784,624 | $135,791,013 | (2.2%) | $348,885,223 | (5.6%) | $709,599,977 | (11.4%) | $879,371,597 | (14.1%) |
| ED | $2,937,355,896 | $10,710,053 | (0.4%) | $737,997,358 | (25.1%) | $210,990,114 | (7.2%) | $432,604,109 | (14.7%) |
| HHS | $20,209,144,147 | $898,012,678 | (4.4%) | $483,554,778 | (2.4%) | $2,249,104,169 | (11.1%) | $4,812,674,295 | (23.8%) |
| HUD | $1,206,066,431 | -$5,086,919 | -(0.4%) | $65,378,755 | (5.4%) | -$34,887,158 | -(2.9%) | $146,942,757 | (12.2%) |
| TREAS | $5,577,101,793 | $501,276,784 | (9.0%) | $367,965,379 | (6.6%) | $517,487,116 | (9.3%) | $785,636,448 | (14.1%) |
| USDA | $5,387,142,318 | $189,459,240 | (3.5%) | $400,427,192 | (7.4%) | $655,223,846 | (12.2%) | $1,096,665,835 | (20.4%) |
| VA | $19,042,860,113 | $2,691,687,160 | (14.1%) | $711,971,617 | (3.7%) | $1,526,791,716 | (8.0%) | $3,572,352,028 | (18.8%) |
| 2015 | | | | | | | | | |
| DOC | $3,141,960,514 | $117,110,178 | (3.7%) | $88,332,653 | (2.8%) | $415,084,452 | (13.2%) | $611,529,659 | (19.5%) |
| DHS | $13,411,456,145 | $546,147,198 | (4.1%) | $711,663,563 | (5.3%) | $903,354,608 | (6.7%) | $2,859,731,693 | (21.3%) |
| DOI | $4,154,793,667 | $21,662,376 | (0.5%) | $116,850,742 | (2.8%) | $444,506,210 | (10.7%) | $985,008,129 | (23.7%) |
| DOD | $273,503,736,574 | $20,792,205,534 | (7.6%) | $21,559,412,800 | (7.9%) | $20,105,213,366 | (7.4%) | $41,100,957,550 | (15.0%) |
| DOE | $25,155,408,606 | $3,384,585,552 | (13.5%) | $420,279,644 | (1.7%) | $682,835,800 | (2.7%) | $1,424,743,479 | (5.7%) |
| DOJ | $7,697,901,884 | $801,536,620 | (10.4%) | $383,632,604 | (5.0%) | $522,824,851 | (6.8%) | $1,345,912,698 | (17.5%) |
| DOL | $2,197,950,922 | $108,754,866 | (4.9%) | $118,169,038 | (5.4%) | $288,438,475 | (13.1%) | $374,610,877 | (17.0%) |

*continued on next page*

| Agency (by year) | Total | October | | November | | August | | September | |
|---|---|---|---|---|---|---|---|---|---|
| DOS | $8,374,067,912 | $73,477,899 | (0.9%) | $111,402,289 | (1.3%) | $827,910,385 | (9.9%) | $2,920,821,187 | (34.9%) |
| DOT | $6,098,432,827 | $247,089,573 | (4.1%) | $181,758,230 | (3.0%) | $639,111,571 | (10.5%) | $863,479,312 | (14.2%) |
| ED | $2,669,682,267 | $53,822,909 | (2.0%) | $451,843,979 | (16.9%) | $140,743,011 | (5.3%) | $648,133,484 | (24.3%) |
| HHS | $21,870,437,825 | $1,435,826,930 | (6.6%) | $622,427,449 | (2.8%) | $2,164,261,358 | (9.9%) | $5,503,207,276 | (25.2%) |
| HUD | $1,169,796,297 | $62,028,028 | (5.3%) | -$8,674,851 | -(0.7%) | $29,767,290 | (2.5%) | $380,949,367 | (32.6%) |
| TREAS | $5,692,397,246 | $524,641,007 | (9.2%) | $376,211,809 | (6.6%) | $558,922,142 | (9.8%) | $922,077,590 | (16.2%) |
| USDA | $6,117,011,342 | $240,435,802 | (3.9%) | $365,159,077 | (6.0%) | $911,005,523 | (14.9%) | $1,218,756,052 | (19.9%) |
| VA | $20,071,397,203 | $3,201,564,191 | (16.0%) | $916,298,110 | (4.6%) | $1,528,940,476 | (7.6%) | $3,142,016,175 | (15.7%) |
| 2003–2015 | | | | | | | | | |
| DOC | $32,558,153,085 | $1,884,018,727 | (5.8%) | $1,460,090,066 | (4.5%) | $3,731,716,105 | (11.5%) | $6,428,084,674 | (19.7%) |
| DHS | $161,647,101,944 | $7,747,711,334 | (4.8%) | $11,024,983,924 | (6.8%) | $14,002,710,345 | (8.7%) | $35,972,164,926 | (22.3%) |
| DOI | $56,927,957,575 | $2,182,399,642 | (3.8%) | $2,646,014,280 | (4.6%) | $6,544,982,543 | (11.5%) | $13,766,569,063 | (24.2%) |
| DOD | | $311,764,107,726 | (7.7%) | $298,151,504,211 | (7.4%) | $285,007,492,864 | (7.0%) | $634,559,788,321 | (15.6%) |
| DOE | $329,695,661,044 | $40,572,813,928 | (12.3%) | $21,031,718,753 | (6.4%) | $13,090,730,895 | (4.0%) | $19,817,777,930 | (6.0%) |
| DOJ | $80,231,614,831 | $12,402,535,849 | (15.5%) | $4,012,715,271 | (5.0%) | $5,815,886,568 | (7.2%) | $15,228,411,171 | (19.0%) |
| DOL | $25,217,088,938 | $2,394,298,977 | (9.5%) | $1,852,420,695 | (7.3%) | $2,477,093,051 | (9.8%) | $2,989,445,379 | (11.9%) |
| DOS | $89,352,696,649 | $1,380,250,586 | (1.5%) | $2,651,956,529 | (3.0%) | $8,870,087,962 | (9.9%) | $33,441,921,610 | (37.4%) |
| DOT | $62,770,276,395 | $3,744,704,000 | (6.0%) | $3,426,591,302 | (5.5%) | $6,604,725,517 | (10.5%) | $9,920,906,094 | (15.8%) |
| ED | $24,346,479,187 | $129,963,675 | (0.5%) | $2,211,268,537 | (9.1%) | $1,667,949,317 | (6.9%) | $4,422,499,098 | (18.2%) |
| HHS | $207,522,749,716 | $9,860,333,148 | (4.8%) | $9,080,611,834 | (4.4%) | $21,925,069,463 | (10.6%) | $52,985,060,963 | (25.5%) |
| HUD | $16,701,544,456 | $548,725,449 | (3.3%) | $623,328,872 | (3.7%) | $1,248,891,936 | (7.5%) | $2,734,161,732 | (16.4%) |
| TREAS | $66,753,768,607 | $5,836,471,586 | (8.7%) | $4,336,329,633 | (6.5%) | $6,314,210,074 | (9.5%) | $9,385,018,774 | (14.1%) |
| USDA | $65,218,879,548 | $4,283,659,476 | (6.6%) | $4,427,121,783 | (6.8%) | $7,945,796,377 | (12.2%) | $12,333,346,047 | (18.9%) |
| VA | $185,100,436,900 | $38,125,078,913 | (20.6%) | $7,496,622,382 | (4.1%) | $13,574,531,745 | (7.3%) | $34,896,763,082 | (18.9%) |

TABLE A2. OCTOBER, NOVEMBER, AUGUST, AND SEPTEMBER EXECUTIVE DEPARTMENT PRIME CONTRACTS SIGNED, FY 2015

| Agency | Total contracts signed | October | | November | | August | | September | |
|---|---|---|---|---|---|---|---|---|---|
| DOC | 26,075 | 963 | (3.7%) | 1,308 | (5.0%) | 3,485 | (13.4%) | 4,297 | (16.5%) |
| DHS | 82,268 | 5,051 | (6.1%) | 4,491 | (5.5%) | 8,598 | (10.5%) | 12,541 | (15.2%) |
| DOI | 71,528 | 1,114 | (1.6%) | 3,099 | (4.3%) | 9,337 | (13.1%) | 11,884 | (16.6%) |
| DOD | 2,097,269 | 242,053 | (11.5%) | 309,917 | (14.8%) | 283,133 | (13.5%) | 336,567 | (16.0%) |
| DOE | 13,506 | 566 | (4.2%) | 655 | (4.8%) | 1,284 | (9.5%) | 2,238 | (16.6%) |
| DOJ | 152,347 | 17,450 | (11.5%) | 9,151 | (6.0%) | 12,519 | (8.2%) | 18,358 | (12.1%) |
| DOL | 7,998 | 348 | (4.4%) | 425 | (5.3%) | 806 | (10.1%) | 1,477 | (18.5%) |
| DOS | 96,453 | 3,981 | (4.1%) | 4,853 | (5.0%) | 9,885 | (10.2%) | 21,297 | (22.1%) |
| DOT | 22,351 | 1,295 | (5.8%) | 1,288 | (5.8%) | 2,273 | (10.2%) | 2,982 | (13.3%) |
| ED | 3,531 | 165 | (4.7%) | 170 | (4.8%) | 343 | (9.7%) | 854 | (24.2%) |
| HHS | 90,550 | 3,851 | (4.3%) | 4,891 | (5.4%) | 10,229 | (11.3%) | 13,089 | (14.5%) |
| HUD | 3,419 | 126 | (3.7%) | 203 | (5.9%) | 429 | (12.5%) | 777 | (22.7%) |
| TREAS | 25,040 | 2,562 | (10.2%) | 1,543 | (6.2%) | 2,156 | (8.6%) | 3,360 | (13.4%) |
| USDA | 68,548 | 4,758 | (6.9%) | 3,619 | (5.3%) | 9,394 | (13.7%) | 10,411 | (15.2%) |
| VA | 214,412 | 26,146 | (12.2%) | 13,466 | (6.3%) | 17,785 | (8.3%) | 23,416 | (10.9%) |

**TABLE A3. QUARTERLY EXECUTIVE DEPARTMENT PRIME CONTRACT AWARD EXPENDITURES AND CONTRACTS SIGNED, FY 2015**

Panel A. Expenditures

| Agency | Total expenditures | Q1 | | Q2 | | Q3 | | Q4 | |
|---|---|---|---|---|---|---|---|---|---|
| DOC | $3,141,960,514 | $478,163,225 | (15.2%) | $591,328,706 | (18.8%) | $774,478,105 | (24.6%) | $1,297,990,478 | (41.3%) |
| DHS | $13,411,456,145 | $2,054,869,977 | (15.3%) | $2,794,516,205 | (20.8%) | $3,951,021,377 | (29.5%) | $4,611,048,586 | (34.4%) |
| DOI | $4,154,793,667 | $412,445,181 | (9.9%) | $820,070,734 | (19.7%) | $916,240,994 | (22.1%) | $2,006,036,758 | (48.3%) |
| DOD | $273,503,736,574 | $66,231,561,696 | (24.2%) | $70,465,887,433 | (25.8%) | $54,969,226,880 | (20.1%) | $81,837,060,565 | (29.9%) |
| DOE | $25,155,408,606 | $5,606,074,283 | (22.3%) | $11,606,516,219 | (46.1%) | $4,392,915,048 | (17.5%) | $3,549,903,056 | (14.1%) |
| DOJ | $7,697,901,884 | $1,674,063,290 | (21.7%) | $2,204,729,593 | (28.6%) | $1,386,597,642 | (18.0%) | $2,432,511,358 | (31.6%) |
| DOL | $2,197,950,922 | $285,339,042 | (13.0%) | $353,903,866 | (16.1%) | $418,239,567 | (19.0%) | $1,140,468,448 | (51.9%) |
| DOS | $8,374,067,912 | $562,546,711 | (6.7%) | $1,216,678,966 | (14.5%) | $2,125,385,951 | (25.4%) | $4,469,456,285 | (53.4%) |
| DOT | $6,098,432,827 | $823,684,496 | (13.5%) | $1,912,423,940 | (31.4%) | $1,433,123,024 | (23.5%) | $1,929,201,368 | (31.6%) |
| ED | $2,669,682,267 | $604,150,011 | (22.6%) | $421,298,544 | (15.8%) | $754,441,042 | (28.3%) | $889,792,670 | (33.3%) |
| HHS | $21,870,437,825 | $2,903,944,000 | (13.3%) | $4,645,255,158 | (21.2%) | $5,105,275,264 | (23.3%) | $9,215,963,404 | (42.1%) |
| HUD | $1,169,796,297 | $113,691,783 | (9.7%) | $100,777,911 | (8.6%) | $375,397,842 | (32.1%) | $579,928,760 | (49.6%) |
| TREAS | $5,692,397,246 | $1,295,798,446 | (22.8%) | $1,141,664,136 | (20.1%) | $1,379,437,305 | (24.2%) | $1,875,497,359 | (32.9%) |
| USDA | $6,117,011,342 | $983,332,433 | (16.1%) | $878,851,281 | (14.4%) | $1,417,112,973 | (23.2%) | $2,837,714,654 | (46.4%) |
| VA | $20,071,397,203 | $5,496,468,303 | (27.4%) | $4,201,787,371 | (20.9%) | $4,323,622,231 | (21.5%) | $6,049,519,298 | (30.1%) |

Panel B. Contracts

| Agency | Total contracts signed | Q1 | | Q2 | | Q3 | | Q4 | |
|---|---|---|---|---|---|---|---|---|---|
| DOC | 26,075 | 3,888 | (14.9%) | 5,164 | (19.8%) | 6,445 | (24.7%) | 10,578 | (40.6%) |
| DHS | 82,268 | 14,779 | (18.0%) | 17,862 | (21.7%) | 20,949 | (25.5%) | 28,678 | (34.9%) |
| DOI | 71,528 | 8,883 | (12.4%) | 16,915 | (23.6%) | 16,897 | (23.6%) | 28,833 | (40.3%) |
| DOD | 2,097,269 | 534,122 | (25.5%) | 444,924 | (21.2%) | 498,523 | (23.8%) | 619,700 | (29.5%) |
| DOE | 13,506 | 2,098 | (15.5%) | 3,076 | (22.8%) | 3,637 | (26.9%) | 4,695 | (34.8%) |
| DOJ | 152,347 | 38,844 | (25.5%) | 35,742 | (23.5%) | 35,099 | (23.0%) | 42,662 | (28.0%) |
| DOL | 7,998 | 1,417 | (17.7%) | 1,600 | (20.0%) | 1,959 | (24.5%) | 3,022 | (37.8%) |
| DOS | 96,453 | 14,888 | (15.4%) | 19,648 | (20.4%) | 22,276 | (23.1%) | 39,641 | (41.1%) |
| DOT | 22,351 | 4,242 | (19.0%) | 5,593 | (25.0%) | 5,255 | (23.5%) | 7,261 | (32.5%) |
| ED | 3,531 | 507 | (14.4%) | 640 | (18.1%) | 939 | (26.6%) | 1,445 | (40.9%) |
| HHS | 90,550 | 14,976 | (16.5%) | 21,233 | (23.4%) | 22,113 | (24.4%) | 32,228 | (35.6%) |
| HUD | 3,419 | 583 | (17.1%) | 642 | (18.8%) | 704 | (20.6%) | 1,490 | (43.6%) |
| TREAS | 25,040 | 5,924 | (23.7%) | 6,130 | (24.5%) | 5,675 | (22.7%) | 7,311 | (29.2%) |
| USDA | 68,548 | 12,774 | (18.6%) | 12,992 | (19.0%) | 16,871 | (24.6%) | 25,911 | (37.8%) |
| VA | 214,412 | 56,161 | (26.2%) | 49,866 | (23.3%) | 49,629 | (23.1%) | 58,756 | (27.4%) |

## ABOUT THE AUTHORS

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## ACKNOWLEDGMENT

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## ABOUT THE MERCATUS CENTER AT GEORGE MASON UNIVERSITY

The Mercatus Center at George Mason University is the world's premier university source for market-oriented ideas—bridging the gap between academic ideas and real-world problems.

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SECTION 809 PANEL Streamlining and Codifying Acquisition

# 809 PANEL TESTIMONY - END-YEAR SPENDING IN DOD

*Testimony for Dr. Allan Burman*

*Senate Homeland Security and Government Affairs Committee (HSGAC)*

*Federal Spending Oversight and Emergency Management (FSO) Subcommittee*

*Hearing on End-Year Spending, 2017-09-20*

Chairman Paul, Ranking Member Peters, and other members of the subcommittee: Thank you very much for this invitation to speak about the important issue of end-year federal spending surges. I will provide the subcommittee with an overview of some of the trends the Section 809 Panel has observed in Department of Defense (DoD) acquisition spending and briefly present some of the options the panel is considering for addressing the issue.

A little about my background: I served as administrator for federal procurement policy under Presidents Reagan, Bush and Clinton, and served on the Section 800 Panel and Service Acquisition Reform Act Panel—predecessors to the Section 809 Panel. I am currently president of the firm Jefferson Solutions and chairman of the Procurement Round Table.

## Section 809 Panel

I represent the Section 809 Panel, established by Congress under the FY 2016 National Defense Authorization Act to review and provide recommendations on defense acquisition reform. In the course of our work, we intend to provide specific, data-driven recommendations that will:

- Enable DoD to be more adaptable in the face of a rapidly changing threat environment;
- Make DoD a more attractive customer in the new, dynamic defense marketplace;
- Enable DoD to use scarce resources more efficiently;
- Simplify the acquisition process so goods and services can be purchased in a timely manner without unnecessary burden; and
- Incentivize the defense acquisition workforce to make sound, mission-driven decisions.[1]

Since the Section 809 Panel was established, we have formed about a dozen research teams to look at key issues affecting defense acquisition. These issues include barriers to entry, key characteristics of successful programs, IT acquisition, and budgeting practices.

[1] Advisory Panel on Streamlining and Codifying Acquisition Regulations, "Section 809 Panel Interim Report," May 2017, https://section809panel.org/wp-content/uploads/2017/05/Sec809Panel_Interim-Report_May2017_FINAL-for-web.pdf, accessed September 7, 2017.

I lead the team looking at budget issues. Key research topics for us include portfolio-level budget management and the reprogramming process. We have also focused in particular on the incentives that produce end-year spending and the effects of end-year spending on effectiveness and efficiency in defense acquisition.

## Defense Acquisition in Context

To put defense acquisition spending into context, in FY 2016 the U.S. government expended approximately $3.8 trillion. Of this total, DoD spending accounted for about $565 billion, or 15 percent. In FY 2016, DoD obligated $298 billion toward procurement of products and services—more than half of its total outlays for that year. In other words, defense acquisition on its own represented around 8 percent of all annual agency spending.[2]

## End-Year Spending Surges in DoD

If defense acquisition funds were obligated evenly across each point in the fiscal year, we would expect to observe about 8 percent in each month and about 2 percent in each week. Instead, we saw in September 2016 – the final month of the fiscal year – obligations of more than 14 percent of the annual total. In the final week of the fiscal year – from September 24 to 30 – DoD obligated about 7 percent of the annual total.[3]

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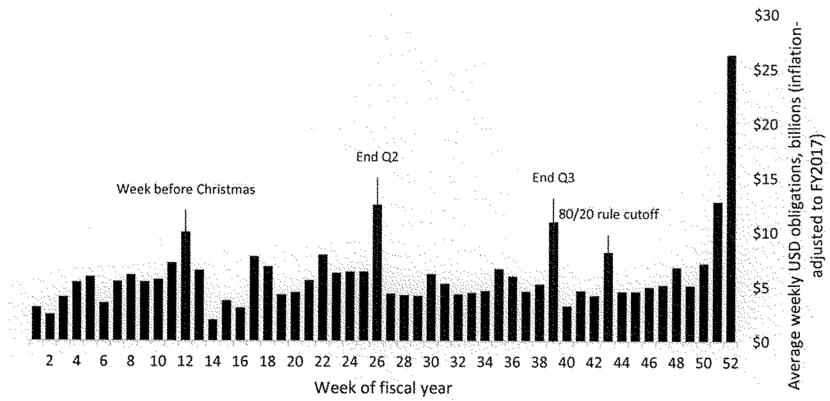
[2] Office of Management and Budget Table 3.2, Outlays by Function and Superfunction 1962-2022, https://www.whitehouse.gov/omb/budget/Historicals, accessed September 7, 2017.
Federal Procurement Data System, https://www.fpds.gov, accessed September 7, 2017.
[3] Federal Procurement Data System, https://www.fpds.gov, accessed September 7, 2017.

**Weekly DoD contract obligations, average FY 2012 to FY 2016[4]**




These end-year surges are particularly concentrated in certain areas of DoD. For instance, we observe relatively large surges in information technology as well as building construction and maintenance.

Reasons for surges across different economic sectors vary. For instance, some stakeholders have suggested to us that IT surges exist because of the ease with which IT products can be purchased on short notice—allowing an easy way to obligate dollars at the last minute.

With respect to building construction and repair, other stakeholders have told us that at any given time there are many facilities in need of repairs. This situation leads to a large and lengthy work backlog, and uncertainty about whether a given project will receive funding until the last minute—hence the end-year surges.

For the Department of the Air Force and the Department of the Navy, September obligation surges in FY 2016 were much lower than for the Army. However, the absence of large *end*-year spending surges does not mean there are no end-period surges in *mid*-year. We see Air Force and Navy surges at the end of March, mid-way through the fiscal year, suggesting the existence of service-level policies that simply alter the dates at which surges occur.

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[4] Data from Federal Procurement Data System, https://www.fpds.gov, accessed April 28, 2017. Average of weekly totals from FY2012 to FY2016. To ensure comparability of data, each weekly period contains the same days of the week. The first day of the fiscal year (or first two days for leap years) are omitted. Figures in FY2017 USD, adjusted for inflation using DoD Non-Pay Deflators from Comptroller Greenbook.

## Key Research Questions

Clearly, DoD faces a pattern of end-period spending surges similar to those we observe in many other agencies. This pattern raises three major questions, which the Section 809 Panel intends to further research and report on in coming months:

- Do end-year defense acquisition spending surges indicate a problem? Is end-year contract spending less effective or less efficient than contract spending at other points in the year?
- What incentives are spurring these surges? Are acquisition professionals incentivized to spend more at end-year by certain laws, regulations, and policies?
- What can Congress and DoD do to mitigate any negative effects from end-year surges?

These are all complex questions. The Section 809 Panel's budget research is ongoing, but at this point I can lay out the basics of existing research and provide some of our preliminary findings from data analysis and interviews with DoD stakeholders.

## Are End-Year Surges Bad?

*Are end-year spending surges a problem for DoD?*

It is our view that end-year spending surges are not a problem in and of themselves. They are produced by certain incentives, and it is those incentives that may represent problems for the government and DoD. If we wish to solve those problems, we must address the root causes of behavior. If we focus solely on smoothing out spending across the fiscal year, we run the risk of treating a symptom rather than the problem itself.

We have spoken to individuals in DoD who do not believe end-year spending indicates a major problem. Some have stated that the quality of products and services procured at end-year is no different from any other time of year.

Others suggest that end-year spending may be used to purchase lower-quality products and services than spending at other points in the year, but this may not be a problem. This argument presumes that acquisition professionals have high-priority and lower-priority lists of items, all of which are needed but some of which are more needed than others. Officials may buy high-priority items as soon as they are able, but avoid spending money on lower-priority items in case an emergency requires the rapid reallocation of that money. In this case, the end-year spending would buy items that are less immediately critical for DoD operations but will still be needed eventually.

There is a substantial body of analysis – including work by Dr. Jason Fichtner – suggesting that end-year spending may provide less efficient acquisition outcomes than spending at other points in the fiscal year.[5] A well-known study several years ago included analysis of federal IT spending that showed a correlation between lower-quality IT projects and end-year spending.[6] We have heard anecdotal evidence and statements from senior defense officials that support this conclusion.

## What Causes End-Year Surges?

*What causes end-year and end-period surges? Why does the DoD acquisition community obligate more money at the end of certain periods than within those periods?*

Answering these questions requires analysis of the many tiers through which obligation authority flows before it reaches the lowest level. Congress appropriates money for use by DoD from one fiscal year to the next. OMB, the DoD comptroller, service-level comptrollers, and lower-level resourcing authorities play roles in funding distribution as well. Once funding reaches a DoD contracting office, these tiered organizations may have divided obligation authority on a quarterly, monthly, or even weekly basis. A program manager or contracting officer may be expected to ensure the spending of a specific amount of money within a specific month or week of the fiscal year.

It appears that at both high-level and low-level tiers, these expectations are driven by a fear that budgets will be swept—in other words, reduced in a future appropriation—if funding is not fully spent by the end of the year. This fear incentivizes higher-tier authorities to create minimum obligation targets for lower-tier authorities, which in turn incentivizes the lower-tier authorities to create minimum obligation targets for the tiers below them.

One consequence of these obligation targets may be that officials fear the prospect of being caught without sufficient funding to address an unexpected emergency in a specific quarter, month, or week. This prospect would create incentives to save money until the very end of the period to which spending targets are applied, producing the surges we observe at the end of time periods.

## How Should We Respond to End-Year Surges?

*What options might be available to Congress for addressing the issues raised by end-year spending surges?*

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[5] Jason Fichtner and Adam Michel, "Curbing the Surge in Year-End Federal Government Spending" (page 23), September 2016, https://www.mercatus.org/system/files/mercatus-fichtner-year-end-spending-v1.pdf, accessed September 11, 2017.

[6] Jeffrey B. Liebman and Neale Mahoney, "Do Expiring Budgets Lead to Wasteful Spending? Evidence from Federal Procurement," National Bureau of Economic Research, September 2013: http://www.nber.org/papers/w19481.pdf, accessed April 26, 2017.

Congress has historically addressed defense acquisition end-year surges via several means. The two mechanisms regularly written into defense appropriation law are multiyear appropriations and the 80/20 rule.

- Multiyear appropriation accounts exist for R&D, procurement, and military construction. These accounts are partly meant to provide sufficient flexibility to mitigate the incentive to hoard money until the end of the year; however, DoD applies obligation targets to these accounts in ways that effectively make the majority of funding single-year. In doing so, DoD may limit the effect that multiyear appropriations have on end-year surges.
- The 80/20 rule, written annually into appropriations bills, requires DoD spend no more than 20 percent of operation and maintenance funding in the last 2 months of the fiscal year. By limiting spending in the last two months, end-year spending may be pushed back to the end of July instead of September. By targeting end-year surges rather than root incentives, it may also represent a treatment of symptoms rather than the problem itself. In the 1980s, the Government Accountability Office testified that the 80/20 rule could result in constraints that were difficult to administer at the agency-level and failed to address the real problem.

Congress has considered—and, in some cases, implemented—other measures for addressing end-year surges. These include incentive pay for identifying wasteful spending, working capital funds, and carry-over (or rollover).

- Incentive pay for government employees who identify wasteful spending has been supported in several bills, including of course the Bonuses for Cost-Cutters Act supported by several members of this committee. Such an incentive payment system would have the advantage of directly targeting wasteful spending rather than end-year spikes themselves. This focus on the problem rather than the symptom is admirable. To make such a system effective within the defense acquisition system, however, several concerns would need to be addressed:
    1) The concern that some employees could be incentivized to adopt overly-liberal definitions of waste in hopes of a cash bonus.
    2) The concern that such a program could lead to misaligned incentives between program leadership and lower-level employees.
    3) The many levels of review within the DoD programming and budget cycles on the funds appropriated to any program—suggesting that identification of wasteful spending should occur during these reviews, with both leadership and employees involved in the program.
- In some instances, Congress has supported the establishment of working capital funds within the DoD acquisition system. By adopting a model of effectively selling products and services to the military departments, working capital funds allow for the use of non-directly appropriated funds, which may mitigate the appearance of end-year spending surges.

- Congress has, in limited cases, approved the use of carry-over within DoD. In the FY 2016 appropriations bill, Congress approved a 1-year, 1 percent carryover authority for operation and maintenance spending by the Defense Health Agency (DHA). Our analysis of DHA data showed that contract obligations in September 2016, as a percentage of the FY 2016 total, declined by approximately 3 percentage points relative to previous years. DHA's midyear obligation surge in March (which is consistently higher than the agency's September surge) also declined by about 3 percentage points.[7]

The Section 809 Panel is examining all of these approaches as potential ways to address the end-period and end-year spending problem. Thank you very much for the opportunity to testify today about this important issue. I look forward to answering any follow-up questions you might have.

[7] Federal Procurement Data System, https://www.fpds.gov, accessed September 11, 2017.

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Federal Spending Oversight and Emergency Management, Committee on Homeland Security and Governmental Affairs, U.S. Senate

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# BUDGET ISSUES

# Budget Uncertainty and Disruptions Affect Timing of Agency Spending

Statement of Heather Krause, Director, Strategic Issues

GAO-17-807T

# GAO Highlights

Highlights of GAO-17-807T, a testimony before the Subcommittee on Federal Spending Oversight and Emergency Management, Committee on Homeland Security and Governmental Affairs, U.S. Senate

## Why GAO Did This Study

Given the fiscal pressures facing the nation, the need to identify opportunities for savings, better leverage resources, and increase accountability has become even more critical to the success of federal agencies and the programs they administer. At the same time, federal decision makers must effectively and efficiently manage resources in an era of considerable budget uncertainty.

Congress exercises its constitutional power of the purse by appropriating funds and prescribing conditions governing their use. As funds approach the end of their period of availability for obligation, a "use-it or lose-it" mentality can set in, creating an incentive to rush to obligate. However, higher obligations in the fourth quarter of a fiscal year do not necessarily indicate a problem with wasteful spending—such spending may be the result of planned spending intended by Congress and the agencies.

This statement is primarily based on GAO's prior reports and testimonies on agency budgeting issued between 2009 and 2016. It addresses (1) strategies federal managers have used to execute their budgets in response to various budget uncertainties and disruptions, and (2) the legal constraints and other considerations agency managers must balance when executing their budgets.

View GAO-17-807T. For more information, contact Heather Krause at (202) 512-6806 or krauseh@gao.gov.

September 20, 2017

# BUDGET ISSUES

## Budget Uncertainty and Disruptions Affect Timing of Agency Spending

## What GAO Found

Agency responses to budget uncertainties affect timing of spending. Due to uncertainties about the total funding ultimately available in a given year, prior GAO work has found that agency officials limit their spending early in the fiscal year because final funding decisions may be less than anticipated. GAO's prior work has identified three key sources of budget uncertainty and disruption.

- **Continuing resolutions.** In all but 4 of the last 40 years, Congress has passed continuing resolutions (CR) to enable agencies to continue operating if all regular appropriation bills have not been enacted on time. In 2009, GAO reported that challenges caused by CRs continued at the selected agencies reviewed even after they had received their full year appropriations. Officials from selected agencies reported that they delayed hiring or contracts during the CR period, potentially reducing the level of services these agencies provided and increasing costs. Agency officials reported taking varied actions to manage inefficiencies resulting from CRs, including shifting contract and grant cycles to later in the fiscal year to avoid repetitive work.
- **Sequestration.** In 2014, GAO reported that agencies that historically obligated most of their funding in the latter half of the fiscal year had more flexibility to implement sequestration.
- **Lapse in appropriations.** In 2014, GAO reported on the effects of a 2013 lapse in appropriations (or government shutdown) on agencies' ability to manage their resources. In managing the implementation of the shutdown, the agencies GAO reviewed experienced budget and programmatic delays.

GAO has also previously reported that while agency managers leverage flexibilities available to them as they execute their budgets, Congress has established controls that agencies must follow throughout the year to ensure accountability and fiscal control. Legal constraints regarding the purpose, amount, and time of the funds available affect how the funds can be spent throughout the year. These include:

- The fiscal characteristics of the funding, including the period of availability of the funds, influence how agencies manage their resources.
- An agency may not obligate current appropriations for the needs of future fiscal years. Commonly referred to as the *bona fide* needs rule, an agency must point to a genuine need for the expenditure, not a mere need to use up remaining dollars before the end of the fiscal year.
- Two laws in particular require agencies to walk a fine line throughout the fiscal year, avoiding both over-obligating and under-obligating funds. The Antideficiency Act prohibits an agency from incurring obligations or expenditures in advance of or in excess of an appropriation. Conversely, the Impoundment Control Act generally bars agencies from refusing to obligate the amounts that Congress has appropriated for their use. Sometimes obligation delays are due to legitimate programmatic reasons or the result of outside forces not under the agency's control.

Chairman Paul, Ranking Member Peters, and Members of the Subcommittee:

Thank you for the opportunity to discuss our work on year-end spending and agency responses to budget uncertainties and disruptions. Given the fiscal pressures facing the nation, the need to identify opportunities for savings, better leverage resources, and increase accountability has become even more critical to the success of federal agencies and the programs they administer. At the same time, federal decision makers must effectively and efficiently manage federal resources in an era of considerable budget uncertainty.

Congress exercises its constitutional power of the purse by appropriating funds and prescribing conditions governing their use. Federal funding may be available to obligate for one-year, multiple years, or until expended (no-year). As funds approach the end of their period of availability for obligation, a "use-it or lose-it" mentality can set in among agencies, creating an incentive to rush to obligate. Moreover, the incremental nature of budgeting—that is, using past years' appropriations levels to set new appropriations—can also create an incentive to fully obligate funds. On the other hand, higher obligations in the fourth quarter of a fiscal year do not necessarily indicate a problem with wasteful spending—such spending may be the result of planned spending intended by Congress and the agencies.

Our prior work on year-end spending has emphasized the importance of accurate and available data for effective monitoring of budget execution.[1] Our body of work on federal budgeting has stressed the importance of budget data quality and availability for both management and oversight of budget execution. It also has focused on agencies' management strategies during budget uncertainty and disruption.[2]

My remarks today focus on (1) strategies federal managers have used to execute their budgets in response to various budget uncertainties and disruptions, and (2) the legal constraints and other considerations agency managers must balance when executing their budgets. My testimony today is primarily based on our prior reports and testimonies on agency

[1]GAO, *Year-End Spending: Reforms Underway But Better Reporting and Oversight Needed*, GAO/AIMD-98-185 (Washington, D.C.: July 31, 1998).

[2]https://www.gao.gov/key_issues/federal_budgeting/issue_summary.

budgeting issued between 2009 and 2016. The examples we use in this statement illustrate the types of challenges agencies may encounter even today. We used multiple methodologies to develop the findings, conclusions, and recommendations for these prior products. A more detailed discussion of the prior reports' objectives, scope, and methodologies, including our assessment of data reliability, is available in the reports cited throughout this statement.

The work upon which this testimony is based was conducted 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.

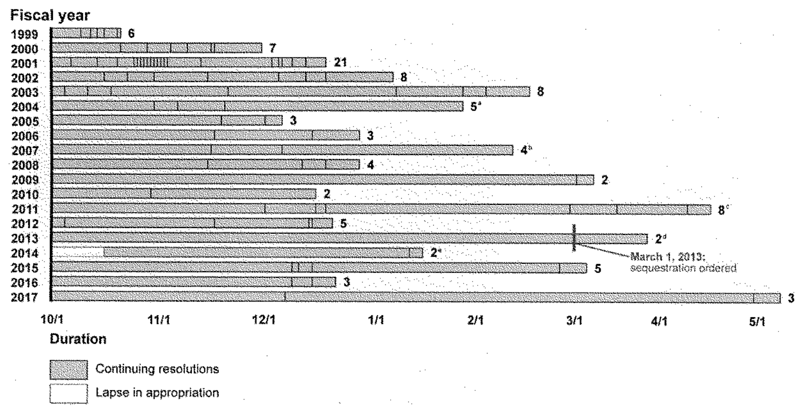
## Agency Responses to Budget Uncertainties and Disruptions Affect Timing of Spending

Budget uncertainty and disruptions affect spending patterns. Due to uncertainties about the level of funding that will ultimately be available in a given year, our prior work has found that agency officials limit their spending early in the fiscal year because final funding decisions may be less than anticipated.

### Continuing Resolutions

Continuing resolutions (CR) provide funding that allows agencies to continue operations until agreement is reached on their final appropriations, but they also create uncertainty for agencies. This presents challenges for federal agencies continuing to carry out their missions and plan for the future. Moreover, during a CR, agencies are often required to take the most limited funding actions. In all but 4 of the last 40 years, Congress has passed CRs when all regular appropriations bills have not been enacted before the beginning of the new fiscal year. See figure 1 for the duration and number of CRs since 1999.

**Figure 1: Duration and Number of Continuing Resolutions (Fiscal Years 1999-2017)**




Source: GAO analysis of Congressional Research Service data. | GAO-17-807T

Notes: Modified from GAO-13-464T

[a]The fifth CR, P.L. 108-185, amended the original CR with substantive provisions but did not extend the CR period.

[b]In February 2007, Congress enacted a 227-day CR that provided funding for the remainder of the fiscal year; this CR is not included in the figure.

[c]In April 2011, Congress enacted a 168-day CR that provided funding for the remainder of the fiscal year. This CR is not included in the figure.

[d]In March 2013, Congress enacted a 189-day CR that provided funding for the remainder of the fiscal year; this CR is not included in the figure.

[e]In October 2013, the federal government partially shut down for 16 days because of a lapse in appropriations.

In 2009 we reported that challenges caused by CRs continued even after the agencies we reviewed had received their full year appropriations.[3] In general, we found that longer CRs can make it more difficult for agencies to implement unexpected changes in their regular appropriations, because agencies have a limited time to do so. In addition, longer CRs can contribute to distortions in agencies' spending as agencies rush to obligate funds late in the fiscal year. Agency officials said that if the agency does not have enough time to spend its funding on high-priority needs (such as hiring new staff) because of a lengthy CR, the agency ultimately may spend funds on a lower priority item that can be procured quickly.

Officials from the selected agencies reviewed said that they delayed hiring or contracts during the CR period, potentially reducing the level of services agencies provided and increasing costs. Selected agency officials stated that, absent a CR, they would have hired additional staff sooner for government services such as grant processing and oversight, food and drug inspections, intelligence analysis, prison security, claims processing for veterans' benefits, or general administrative tasks, such as financial management and budget execution. Officials also said that if hiring was delayed during the CR period, it was difficult to fill positions by the end of the fiscal year, particularly after a longer CR period. Several of the selected agencies also reported delaying contracts during the CR period, which could increase costs. Some agency officials said that contracting delays resulting from longer CRs also affected their ability to fully compete and award contracts in the limited time remaining in the fiscal year after the agency had received its regular appropriation. Agency officials reported taking varied actions to manage inefficiencies resulting from CRs. These actions included shifting contract and grant cycles to later in the fiscal year to avoid repetitive work, and providing guidance on spending rather than allotting specific dollar amounts during CRs to provide more flexibility and reduce the workload associated with changes in funding levels.

[3]GAO, *Continuing Resolutions: Uncertainty Limited Management Options and Increased Workload in Selected Agencies*, GAO-09-879 (Washington, D.C.: Sept. 24, 2009). The six agencies we reviewed were the Department of Health and Human Services' Administration for Children and Families and the Food and Drug Administration, the Department of Veterans Affairs' Veterans Health Administration and Veterans Benefits Administration, and the Department of Justice's Bureau of Prisons and the Federal Bureau of Investigation.

## Sequestration

Not only do agencies often limit their spending under a CR because final funding decisions for the fiscal year may be less than anticipated, but across the government in 2013, agency officials were directed to implement budget cuts under sequestration in the middle of the fiscal year. On March 1, 2013, pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), the President ordered an across-the-board cancellation of budgetary resources—known as sequestration—to achieve $85.3 billion in reductions across federal government accounts.[4]

Budget uncertainties may lead agencies to plan a higher level of obligations during the latter half of a fiscal year. In our 2014 report on agency actions to implement sequestration, we found that agencies that historically obligated most of their funding in the latter half of the fiscal year had more flexibility to implement sequestration.[5] In 2016, when we again reported on sequestration, we found that in certain cases, according to officials, sequestration added further uncertainty to pre-existing budgetary restrictions on agencies' programs.[6]

## Lapse in Appropriations

When regular appropriations or CRs are not passed, it results in a lapse in appropriations (or government shutdown), which affects agencies' ability to manage their resources and resulting delays in budget and programmatic activities.[7] In 2014, we reported on the effects of the 2013 shutdown on three agencies.[8] Some officials said time spent preparing for

[4]BBEDCA has been amended many times, including by the Budget Enforcement Act of 1990, the Statutory Pay-As-You-Go Act of 2010, the Budget Control Act of 2011, and the American Taxpayer Relief Act of 2012. This body of law is classified in sections 900 through 907d in title 2 of the U.S. Code.

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

[6]GAO, *2014 Sequestration: Opportunities Exist to Improve Transparency of Progress Toward Deficit Reduction Goals*, GAO-16-263 (Washington, D.C.: Apr. 14, 2016).

[7]Over the past 25 years, there have been federal lapses in appropriations that led to government shutdowns. The most recent government shutdown occurred at the beginning of fiscal year 2014 and lasted for 16 calendar days, from October 1 to 16, 2013. The Office of Management and Budget reported that 40 percent of the civilian federal workforce were furloughed for at least part of the shutdown.

[8]GAO, *2013 Government Shutdown: Three Departments Reported Varying Degrees of Impacts on Operations, Grants, and Contracts*, GAO-15-86 (Washington, D.C.: Oct. 15, 2014). We reviewed the impacts of the 2013 shutdown on the Departments of Energy, Health and Human Services, and Transportation.

the shutdown led to a loss of productivity. Even the threat of a government shutdown may require planning that could serve as a distraction to obligating funds towards the end of the fiscal year. For example, officials at the Department of Energy's Office of Environmental Management estimated that budget, procurement, and management officials spent at least 50 percent of their time in September 2013 preparing for the shutdown. Department of Energy officials told us that annually, during August and September, they prepare to address potential budget uncertainty that would impact their agency's operations and services in anticipation of a potential CR or other situations affecting funds.

## Agency Managers Must Balance Multiple Considerations When Executing Their Budgets

As we have previously reported, agency managers leverage flexibilities available to them as they execute their budgets, but Congress has established controls that agencies must follow throughout the year to ensure accountability and fiscal control. As agencies manage their budgets, there are certain legal constraints regarding the purpose, amount, and time of the funds available that affect how the funds can be spent throughout the year.[9]

- **Fiscal characteristics of funds:** In any given year, the total budgetary resources available in an agency's budget account consist of unobligated funds carried forward from previous years, if applicable, plus funds newly available for obligation in that fiscal year. Based on the total available budget authority in the account, agencies may then obligate funds throughout the fiscal year.[10] The fiscal characteristics of the funding, including the time limits imposed upon the funds (period of availability for obligation) influence how agencies manage resources. Some factors that affect the timing of budget spending are within an agency's control and some are not. For example, agencies may choose to award contracts or grants annually at the end of a fiscal year. However, an agency may be compelled to

[9]See generally GAO, *Principles of Appropriations Law*, available at www.gao.gov/legal/red-book.

[10]An obligation is a definite commitment that creates a legal liability of the federal government for the payment of goods and services. For example, an agency incurs an obligation when it places an order, signs a contract, awards a grant or purchases a service. Payment may be made immediately or in the future. Only when funds are actually disbursed for payment—that is, the obligation is liquidated—does an obligation become an outlay.

spend at the end of the fiscal year due to external events beyond the agency's control, such as natural disasters or economic crises.

- ***Bona fide* needs:** A fixed period appropriation is available only to fulfill a genuine or *bona fide* need continuing or arising during the period of availability for which it was made. Thus, an agency may not obligate current appropriations for the *bona fide* needs of future fiscal years. This bedrock of appropriations law is commonly referred to as the *bona fide* needs rule. An agency must point to a *bona fide* need for the expenditure, not a mere need to use up remaining dollars before the end of the fiscal year.[11]
- **Antideficiency Act and Impoundment Control Act:** Two laws in particular require agencies to walk a fine line throughout the fiscal year, avoiding both over-obligating and under-obligating funds. The Antideficiency Act prohibits an agency from incurring obligations or expenditures in advance of or in excess of an appropriation.[12] Conversely, the Impoundment Control Act generally bars agencies from refusing to obligate the amounts that Congress has appropriated for their use.[13] Sometimes obligation delays are due to legitimate programmatic reasons or the result of outside forces not under the agency's control; for example, if an agency administering a grant program receives no grant applications so no grants can be made.

Chairman Paul, Ranking Member Peters, and members of the Subcommittee, this concludes my prepared remarks. I look forward to answering any questions you may have.

[11] 31 U.S.C. § 1502(a); B-322455, Aug. 16, 2013 (finding that an agency violated the *bona fide* needs rule when it modified a cost-reimbursement contract in the last few days of fiscal year 2008 to add services that did not begin until fiscal year 2009); B-309530, Sept. 17, 2007 (finding that an agency violated the *bona fide* needs rule when it obligated fiscal year 2006 funds to renew database subscriptions that were not due to expire until one month into fiscal year 2007).

[12] 31 U.S.C. § 1341(a)(1).

[13] Pub. L. No. 93–344, title X, 88 Stat. 297, 332 (July 12, 1974), *classified at* 2 U.S.C. §§ 681–688.