NPAIHB POLICY BRIEF

FY 2013 IHS Budget & Sequestration

PREPARED BY: NORTHWEST PORTLAND AREA INDIAN HEALTH BOARD

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Congress Wraps up FY 2013 Appropriations Process and Administration begins Implementation of Sequestration: IHS Budget to lose $228 million

Finally, after a long and arduous process, Congress has completed its work to finalize the FY 2013 appropriations process by passing the Consolidated and Further Continuing Appropriations Act of 2013 (H.R. 933). The bill is a full-year Continuing Resolution (CR) that will allow the federal government to continue to operate until the end of the 2013 fiscal year. The legislation funds five Appropriations bills that include Defense, Military Construction and Veterans Affairs; Homeland Security; Commerce; Justice and Science, and; Agriculture. It also extends funding levels for other federal agencies, including the Indian Health Service (IHS), at the FY 2012 levels.

The year-long CR maintains funding for the Indian Health Service (IHS) at the enacted FY 2012 level for most programs. The bill does include a small increase of $53 million to phase in staffing for six new health facilities at Chickasaw (2), Cherokee, Southcentral, Tanana Chief, and Norton Sound. This staffing package comes from additional funds provided by Congress and likely includes an additional $3.3 million that will have to be reprogramed from other budget line items. The additional funding provided by Congress totals $49.7 million. At this writing, it is not possible to determine where this additional $3.3 million will come from since there are not enough details from the appropriation managers.

Most alarming for Indian programs is that the funding provided is subject to the President's sequestration order contained in the Budget Control Act of 2011 (BCA, P.L. 112-25). This means that certain funding provided in the 2013 Consolidated Appropriations will have to be reduced by 5 percent. "Sequestration" is a process of automatic, largely across-the-board spending reductions under which budgetary resources are permanently canceled to enforce budget policy goals. This process will require that approximately $984 billion in discretionary spending will have to be reduced from the overall FY 2013 Consolidated and Continuing Appropriations Act.

On a call with the IHS Director, Yvette Roubideaux, held earlier this week it was reported that approximately $228 million will have to be cut from the IHS budget. This represents a 5.3 percent overall reduction in the IHS budget. A graph and table accompany this brief and detail the impact of these cuts on the IHS budget.[1] While the net effect on the overall budget will be the same, there are three critical budget line items that will absorb over 73 percent of the cuts. These include the Hospital & Clinics budget which will lose $95.8 million, the

[1] Due to the final budget rescission and sequestration instructions not being available at the time of this writing, the numbers represented in this brief and attached table are close approximations of the budget cuts. This brief and attached table will be updated when the final instructions are made available.

Contract Health Service (CHS) program will lose $44.6 million, and the Contract Support Cost (CSC) line item will lose $24.9 million. Collectively these three budget line items stand to be reduced by over $165.2 million undoing years of advocacy work by Tribes to have these programs funded at adequate levels.

In addition to the sequestration, H.R. 933 requires a .189% across the board rescission to the IHS appropriation. The amount for the rescission is approximately $8.1 million, while the estimated amount for the sequestration is $219.6 million, for an estimated total of $228 million. Because these reductions will be concentrated in the second half of FY 2013—rather than spreading over the course of a full fiscal year—they will be difficult to absorb with steep programmatic reductions required to absorb the loss in the remaining fiscal year.

The amounts reported in the attached table are not precise since the IHS and appropriation managers are not clear whether the sequestration should get applied to the additional funding provided for facilities staffing. However, the amounts are close estimates but could change based on the outcome of this decision. The following highlight reductions on the impact of the rescission and sequestration:

- Overall, the IHS budget must be reduced by $228 million
- The Hospitals & Clinics budget line item will lose $95.7 million
- The CHS program will be reduced by over $44.6 million
- The overall reduction for Clinical Services will at least $163.1 million
- The Behavioral health services will lose over $14 million
- The IHS Prevention accounts will be reduced by $7.7 million
- Overall, the health services accounts (include H&C, CHS, Behavioral health, Prevention, Urban Programs, CSC, and others) will lose over $204 million

Current Services: Impact of Sequestration and maintaining the IHS program

Current services estimates' calculate mandatory costs increases necessary to maintain the current level of services. These mandatories are unavoidable and include medical and general inflation, pay costs, staff for recently constructed facilities, and population growth. Last February, the Northwest Portland Area Indian Health Board estimated the FY 2013 current services need to be approximately $403 million. The President's 2013 request was only a $115.9 million increase for the IHS, and was 71% short of funding current services need. The impact of sequestration will make the current services deficit even worse. Sequestration will also reverse many improvements that the Indian health system has been able to achieve with the significant investments that have been made over the past few years. Now that the sequestration is upon us, it is very likely that IHS, Tribal and urban Indian health programs will have to cut costs by furloughing staff, reducing the levels of health care services, restricting

FY 2013 Current Service Requirements
Dollars in Thousands

Mandatory Cost to Maintain Current Services	*Increase Needed*
CHS Inflation estimated at 5.5%; and Population Growth	$64,112
Health Services Account (not including CHS) inflation	$167,058
Contract Support Costs (unfunded)	$99,300
Population Growth (estimated at 1.6% of Health Services accounts)	$72,722
Total Mandatory Costs	$403,192

pharmaceuticals as well as taking other cost saving measures that will result in less care and lower health quality outcomes.

When the sequestration and across the board rescission are factored with the current services' need, the net effect on the IHS budget is dramatic. These draconian cuts will result in over $631million in lost resources to to provide health care to American Indian and Alaska Native (AI/AN) people. This estimate factors the $403 million needed to maintain current services in FY 2013 and lost funding from the sequestration and rescission of $228 million. This is an unprecedented reduction in the history of the IHS budget and an abrogation of the federal duty of the United States to provide health care to AI/AN people under the federal trust relationship. Congress and the Administration are both responsible for this failure and should be ashamed of this legal and ethical violation.

In a letter to the Senate Committee on Appropriations, HHS Secretary Kathleen Sebelius, explains that the effect of sequestration will leave over 30,000 children in America without health care and over 373,000 seriously mental ill adults and seriously emotionally disturbed children. The result of this will mean increased hospitalizations and homelessness that ultimately drives up the costs of health care when hospitals pass on this uncompensated care to consumers and employers. Secretary Sebelius further explains that the sequestration cuts will reverse gains achieved by IHS and slow the efforts to improve the delivery of health care to Indian people. HHS estimates that sequestration will result in 3,000 fewer inpatient admissions and 804,000 fewer outpatient visits provided in IHS and Tribal hospitals and clinics.

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

January 14, 2013

M-13-03

MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

FROM: Jeffrey D. Zients
Deputy Director for Management

SUBJECT: Planning for Uncertainty with Respect to Fiscal Year 2013 Budgetary Resources

In the coming months, executive departments and agencies (agencies) will confront significant uncertainty regarding the amount of budgetary resources available for the remainder of the fiscal year. In particular, unless Congress acts to amend current law, the President is required to issue a sequestration order on March 1, 2013, canceling approximately $85 billion in budgetary resources across the Federal Government. Further uncertainty is created by the expiration of the Continuing Appropriations Resolution, 2013 (CR) on March 27, 2013. This memorandum directs agencies to take certain steps to plan for and manage this budgetary uncertainty.

The Administration continues to urge Congress to take prompt action to address the current budgetary uncertainty, including through the enactment of balanced deficit reduction to avoid sequestration. Should Congress fail to act to avoid sequestration, there will be significant and harmful impacts on a wide variety of Government services and operations. For example, should sequestration remain in place for an extended period of time, hundreds of thousands of families will lose critical education and wellness services through Head Start and nutrition assistance programs. The Department of Defense will face deep cuts that will reduce readiness of non-deployed units, delay needed investments in equipment and facilities, and cut services for military families. And Federal agencies will likely need to furlough hundreds of thousands of employees and reduce essential services such as food inspections, air travel safety, prison security, border patrols, and other mission-critical activities.

At this time, agencies do not have clarity regarding the manner in which Congress will address these issues or the amount of budgetary resources that will be available through the remainder of the fiscal year. Until Congress acts, agencies must continue to prepare for the possibility that they will need to operate with reduced budgetary resources.

Prior to passage of the American Taxpayer Relief Act of 2012 (ATRA), the President was required to issue a sequestration order on January 2, 2013. Although the ATRA postponed this date by two months, agencies had already engaged in extensive planning for operations under post-sequestration funding levels before this postponement was effected. In light of persistent budgetary uncertainty, all agencies should continue these planning activities, in coordination with the Office of Management and Budget (OMB), and should intensify efforts to identify actions that may be required should sequestration occur.

Agencies should generally adhere to the following guiding principles, to the extent practicable and appropriate, in preparing plans to operate with reduced budgetary resources in the event that sequestration occurs:

- use any available flexibility to reduce operational risks and minimize impacts on the agency's core mission in service of the American people;

- identify and address operational challenges that could potentially have a significant deleterious effect on the agency's mission or otherwise raise life, safety, or health concerns;

- identify the most appropriate means to reduce civilian workforce costs where necessary – this may include imposing hiring freezes, releasing temporary employees or not renewing term or contract hires, authorizing voluntary separation incentives and voluntary early retirements, or implementing administrative furloughs (appropriate guidance for administrative furloughs can be found on the OPM website [here]); consistent with Section 3(a)(ii) of Executive Order 13522, allow employees' exclusive representatives to have pre-decisional involvement in these matters to the fullest extent practicable;

- review grants and contracts to determine where cost savings may be achieved in a manner that is consistent with the applicable terms and conditions, remaining mindful of the manner in which individual contracts or grants advance the core mission of the agency;

- take into account funding flexibilities, including the availability of reprogramming and transfer authority; and,

- be cognizant of the requirements of the Worker Adjustment and Retraining Notification (WARN) Act, 29 U.S.C. §§ 2101-2109.

While agency plans should reflect intensified efforts to prepare for operations under a potential sequestration, actions that would implement reductions specifically designed as a response to sequestration should generally not be taken at this time. In some cases, however, the overall budgetary uncertainty and operational constraints may require that certain actions be taken in the immediate- or near-term. Agencies presented with these circumstances should continue to act in a prudent manner to ensure that operational risks are avoided and adequate funding is available for the remainder of the fiscal year to meet the agency's core requirements and mission. Should circumstances require an agency to take actions that would constitute a change from normal practice and result in a reduction of normal spending and operations in the immediate- or near-term, the agency must coordinate closely with its OMB Resource Management Office (RMO) before taking any such actions.

All agencies should work with their OMB RMO on the appropriate timing to submit draft contingency plans for operating under sequestration for review. Furthermore, should Congress take action that affects the current budgetary uncertainty, OMB will provide agencies with additional guidance as appropriate.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

July 31, 2012

M-12-17

MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

FROM: Jeffrey D. Zients
Acting Director

SUBJECT: Issues Raised by Potential Sequestration Pursuant To Section 251A of the Balanced Budget and Emergency Deficit Control Act of 1985

Passed by bipartisan majorities in both houses of the Congress, the Budget Control Act of 2011 (BCA; Public Law 112-25) amended the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA) to put into place an automatic process of across-the-board reductions in budgetary resources, known as a sequestration, specified in an order to be issued on January 2, 2013, if the Joint Select Committee on Deficit Reduction failed to propose, and the Congress failed to enact, a bill containing at least $1.2 trillion in deficit reduction.

The President has made clear that the Congress should act to avoid such a sequestration. If allowed to occur, the sequestration would be highly destructive to national security and domestic priorities, as well as to core government functions. To avoid this, the President submitted a budget for 2013 that includes a comprehensive and balanced set of proposals that contain greater deficit reduction than the Congress was charged with achieving. The Administration believes the Congress should redouble its efforts to reduce the deficit in a bipartisan, balanced, and fiscally responsible manner and avoid the sequestration.

If Congress were to enact the requisite deficit reduction measures and avoid the sequestration, there would be no need to take steps to issue the sequestration order, and then to develop plans for agency operations for the remainder of FY 2013 within the constraints of that order. These sequestration planning and implementation activities, once undertaken, will necessarily divert scarce resources from other important agency activities and priorities. The President remains confident that Congress will act, but because it has not yet made progress towards enacting sufficient deficit reduction, the Office of Management and Budget (OMB) will work with agencies, as necessary, on issues raised by a sequestration of this magnitude.

To that end, OMB will be holding discussions on these issues with you and your staff over the coming months. In the near term, OMB will consult with you on such topics as the application to your agency's accounts and programs of the exemptions from sequestration contained in section 255 of BBEDCA and the applicable sequestration rules specified in section 256 of BBEDCA. These discussions should be informed by your General Counsel's analysis of how the requirements of BBEDCA, as amended by the BCA, and other statutory authorities apply to a particular issue involving your agency. OMB will also engage with agencies on anticipated reporting requirements established by Congress that are related to, but separate from, planning for or implementing a sequestration order under the BCA.

Over the longer term, in the absence of Congressional action on a balanced deficit reduction plan in advance of January 2, 2013, OMB will undertake additional activities related to the implementation of the BCA. OMB will work with agencies, as necessary, on issues surrounding the sequestration order and its implementation. For example, sequestrable amounts can only be calculated once FY 2013 funding levels are known; therefore, shortly before any sequestration order is issued, OMB will collect information from agencies on sequestrable amounts and, where applicable, unobligated balances, and calculate the percentage reductions necessary to implement the sequestration. In the meantime, agencies should continue normal spending and operations since more than 5 months remain for Congress to act.

The steps described above are necessary to prepare for the contingency of having to issue a sequestration order, but they do not change the fact that sequestration is bad policy, was never meant to be implemented, and should be avoided through the enactment of bipartisan, balanced deficit legislation. The Administration urges the Congress to take this course.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

May 18, 2012

M-12-13

MEMORANDUM FOR THE HEADS OF DEPARTMENTS AND AGENCIES

FROM: Jeffrey D. Zients JDZ
Acting Director

SUBJECT: Fiscal Year 2014 Budget Guidance

Last summer, the President and the Congress agreed on historic bipartisan deficit reduction by passing the Budget Control Act of 2011 (BCA). In the BCA, the President signed into law more than $2 trillion in deficit reduction and tight spending caps that would bring discretionary spending to a minimum level needed to preserve critical national priorities. The 2013 Budget request builds upon this framework, and includes a plan that, combined with the deficit reduction enacted last year, will cut the deficit by more than $4 trillion over the next decade. This plan will put the country on a path to achieve fiscal sustainability and will allow the Federal Government to stabilize the Federal debt relative to the size of the economy.

The President continues to believe that the Congress can and must act to avoid the BCA's sequester on both defense and non-defense spending, which is being prompted by the failure of the Joint Select Committee on Deficit Reduction to propose legislation reducing the deficit by at least $1.2 trillion, with a balanced package of deficit reduction. Even with this accomplished, the 2014 Budget will need to make hard choices: the BCA discretionary levels continue to sharply constrain discretionary spending. Accordingly, the 2014 Budget will build upon the BCA and the 2013 Budget's framework. The 2014 Budget must continue to cut lower-priority spending in order to create room for the most effective investments in areas critical to economic growth and job creation, including education, innovation, infrastructure, and research and development.

Therefore, while the 2014 process will represent another challenging budget year, it also provides another opportunity to make the hard decisions necessary to spur job creation and job growth and put the Nation on a path of fiscal sustainability.

2014 Discretionary Budget Submission. To achieve these goals, your 2014 budget submission to the Office of Management and Budget (OMB) should reflect the President's commitment to cut waste, set priorities among programs, and make targeted investments in critical priorities. Unless your agency has received different guidance from OMB, your overall agency request for 2014 should be 5 percent below the net discretionary total provided for your agency for 2014 in the 2013 Budget.

Your budget submission should also include a detailed list of addbacks consistent with the goals outlined above that would bring your overall submission to a level that equals the 2014 discretionary level for your agency in the 2013 Budget. These addbacks should be separately identified in your budget submission and should be ranked in priority order.

Together, your budget submission at guidance and these priority addbacks will provide the President with the options needed to make the hard choices necessary to adhere to the BCA's discretionary funding levels, invest in priority areas, and focus on programs that work.

When developing your submissions at the guidance level, please ensure that your 2014 request excludes across-the-board reductions. Your submission should also exclude reductions to mandatory spending in appropriations bills, shifts of costs to other parts of the Federal budget, reclassifications of existing discretionary spending to mandatory, or the enactment of new user fees to offset existing spending. You may, however, include these items as separate proposals for consideration on their merits or as alternative ways to achieve the guidance level.

Mandatory Budget Proposals. Agencies should review their mandatory spending with the same rigor as their discretionary spending. Your agency should use this Spring and Summer to work with OMB to review the mandatory proposals included in the 2013 Budget, identify areas for special scrutiny, and develop any new proposals prior to including them with your 2014 submission. Please note that, in general, to the extent that any new proposals are not at least budget neutral, they should be accompanied by new savings proposals to cover their costs.

Use of Evidence and Evaluation in Policymaking. Evidence-based decision-making can improve results and lower the costs of Federal programs. OMB is issuing a separate memo that encourages the increased use of evidence and evaluation. Please consult that memo for specifics on how to reflect these principles in your budget submission.

Administration's Management Agenda. Since taking office, the President has pursued an aggressive plan to cut wasteful spending and programs that do not work, strengthen and streamline what does work, leverage technology to transform government operations to save money and improve performance, and make the government more responsive and open to the needs of the American people. Since the beginning of this Administration, Federal agencies have implemented this agenda to deliver a 21st Century government, and support and reinforce a broader and integrated strategic approach to improved government management and performance. A list of the components of the Administration's management agenda, with links that provide additional guidance and details, is available as an appendix to this memorandum.

Your 2014 budget submission should continue to implement these management priorities in a manner that best fits your agency's objectives and priorities. In some cases, a government-wide management initiative will be a critical part of an agency's overall plan and approach. In other cases, it may have a smaller impact given an agency's unique circumstances. Furthermore, an agency may identify additional initiatives that will complement and strengthen its ability to improve management and performance. In this way, agencies have flexibility to construct the right set of priorities and activities that will maximize the fiscal benefit while maintaining the agency's ability to fulfill its mission. To this end, agencies should provide the following in their budget submission:

- A general narrative that describes the agency's overall management priorities and plan for advancing better government performance and management outcomes. Agencies are encouraged to use their annual performance plan to provide this narrative.

- Detailed information on the Administration's existing management initiatives that the agency believes will have the largest fiscal impact on the 2014 Budget. For each of these initiatives, the agency budget submission should include a detailed summary of its current and proposed fiscal year (FY) 2014 savings from and investments in the Administration's management initiatives. This information should be provided at the account level, and agencies should consult with their OMB contacts to identify which initiatives require this more detailed level of information.

- A discussion of how the agency proposes to use the savings realized from implementing the above management initiatives in order to meet budget reduction targets or increase funding for program priorities. This information should be embedded within your agency's 2014 budget justification materials, and should be provided at an account level where appropriate.

- At least three priority program reform proposals where legislative, budget, or administrative changes could significantly improve program effectiveness or efficiency, or translate into long-term cost savings.

Your agency's 2014 budget submission should also continue to look for ways to spend Federal dollars on Information Technology (IT) more efficiently. Unless your agency has received different guidance from OMB, your 2014 budget submission should achieve an agency-wide 10 percent reduction in IT spending, compared to the average spending on IT from FY 2010 through 2012, and include an explanation of how, at the investment and account level, you would achieve this reduction. Your budget submission may also propose where you would reinvest the savings from identified cuts in innovative IT solutions that would produce a favorable return on investment within 18 months or demonstrably improve citizen services or administrative efficiencies. OMB will provide additional guidance on how agencies should reflect this information in their budget submissions.

Like last year, I hope that this year's budget formulation process will be a collaborative dialogue between OMB and agencies that emphasizes the best options for improving the Government's effectiveness while lowering costs. OMB will once again strive to offer ideas and assistance to agencies where we can, and to facilitate problem-solving on issues that cross agencies.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

February 27, 2013

M-13-05

MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

FROM: Danny Werfel
Controller

SUBJECT: Agency Responsibilities for Implementation of Potential Joint Committee Sequestration

Unless Congress acts to amend current law, the President is required to issue a sequestration order on March 1, 2013, canceling $85 billion in budgetary resources across the Federal Government. Because these cuts must be achieved over the remaining seven months of the fiscal year, the Office of Management and Budget (OMB) estimates that the effective percentage reductions are approximately 9 percent for nondefense programs and 13 percent for defense programs. These reductions will result in significant and harmful impacts to national security and domestic priorities.

The President has been clear that sequestration is bad policy that was never intended to be implemented, and the Administration remains hopeful that Congress will act to avoid it through an agreement on balanced deficit reduction. However, because legislation may not be enacted to avoid sequestration before the current deadline of March 1, 2013, executive departments and agencies (agencies) with sequestrable accounts have been engaged in planning activities to operate at the lower, post-sequestration funding levels should it be necessary.

This guidance builds on prior communications with agencies about the implementation of sequestration, and addresses questions that have been raised as to certain categories of planning activities.

Agency Planning Activities

OMB Memorandum 13-03, *Planning for Uncertainty with Respect to Fiscal Year 2013 Budgetary Resources*, directed agencies to begin planning activities to operate with reduced budgetary resources in the event that sequestration occurs. Agencies' planning efforts must be guided by the principle of protecting the agency's mission to serve the public to the greatest extent practicable. Planning efforts should be done with sufficient detail and clarity to determine the specific actions that will be taken to operate under the lower level of budgetary resources required by sequestration. For example, agencies should identify any major contracts that they plan to cancel, re-scope or delay as well as any grants that they plan to cancel, delay, or for which they plan to change the payment amount. Similarly, agencies should identify the number of employees who will be furloughed, the length of expected furloughs, the timing of when furlough notices will be issued, and the manner in which furloughs will be administered. In some cases, agencies may not be able to ascertain all of this information prior to March 1. However, agencies should continue to engage in intense and thorough planning activities to determine all specific actions that will be taken as soon as practicable.

Communications

To the extent permitted by law, agencies should inform their various partners and stakeholders in a timely and complete manner of the impact of sequestration so that third parties are able to adjust their operations and plans as appropriate. Accordingly, at this time, agencies should be actively and continuously communicating with affected stakeholders—including States, localities, tribal governments, Federal contractors, Federal grant recipients, and Federal employees—regarding elements of the agency's planning that have a direct impact on these groups. These communications will vary greatly by agency and by stakeholder, but agencies should be as specific as possible in order to provide sufficient detail to be helpful to these stakeholders in understanding the implications of the reduced budget authority resulting from sequestration.

With regard to any planned personnel actions to reduce Federal civilian workforce costs, consistent with Section 3(a)(ii) of Executive Order 13522, agencies must allow employees' exclusive representatives to have pre-decisional involvement in these matters to the fullest extent practicable and permitted under the law. In particular, in instances where agencies are considering potential furloughs, agencies have a duty to notify their exclusive representatives and, upon request, bargain over any negotiable impact and implementation proposals the union may submit, unless the matter of furloughs is already covered by a collective bargaining agreement. Agencies should ensure that they are fully aware of and in compliance with any and all collective bargaining requirements, and should consult with their General Counsel or appropriate labor relations office for questions regarding these requirements and appropriate interaction with employees and unions on these matters.

Acquisition

Due to the Government's large acquisition footprint, sequestration will inevitably affect agency contracting activities and require agencies to reduce contracting costs where appropriate. As with all actions taken as a result of sequestration, agencies should ensure that any contract actions are both cost-effective and minimize negative impact on the agency's mission to the extent practicable.

Program, acquisition, financial/budget management, information technology, and legal personnel should work together to make determinations regarding contracts in light of sequestration. As a general matter, agencies should only enter into new contracts or exercise options when they support high-priority initiatives or where failure to do so would expose the government to significantly greater costs in the future. Agencies may also consider de-scoping or terminating for convenience contracts that are no longer affordable within the funds available for Fiscal Year 2013, should no other options exist to reduce contracting costs in these instances. Should such steps be necessary, agencies must evaluate the associated costs and benefits of such actions, and appropriately inform and negotiate with contractors. Finally, agencies should take all appropriate steps to minimize to the extent practicable the impact on small businesses of reduced contracting activities.

Financial Assistance

Given the widespread use of grants, loans and other Federal financial assistance to non-federal entities (e.g., State, local and tribal governments, non-profit organizations, and companies), sequestration will impact the funding of these activities.

As a general matter, agencies should ensure that any new financial assistance obligations or funding increases under existing agreements are consistent with the need to protect the agency's mission at the post-sequestration level. In light of sequestration, agencies may also consider delaying awarding of new financial assistance obligations, reducing levels of continued funding, and renegotiating or reducing the current scope of assistance. Agencies may be forced to reduce the level of assistance provided through formula funds or block grants. Should any such steps be necessary, agencies should evaluate the associated costs and benefits of such actions and appropriately engage and inform recipient(s) as early as possible.

Increased Scrutiny of Certain Activities

In determining the appropriate manner to achieve funding reductions, agency heads must also ensure that their agencies have risk management strategies and internal controls in place that provide heightened scrutiny of certain types of activities funded from sequestered accounts. To the extent these accounts remain at the post-sequestration funding level, increased scrutiny should apply to:

- hiring new personnel;[1]
- issuing discretionary monetary awards to employees, which should occur only if legally required until further notice; and
- incurring obligations for new training, conferences, and travel (including agency-paid travel for non-agency personnel).

In light of the reduced budgetary resources available due to sequestration, expending funds on these activities at this time would in many circumstances not be the most effective way to protect agency mission to the extent practicable. Therefore, agency leadership should review processes and controls around these activities, and ensure that these activities are conducted only

[1] Agencies must also ensure that appropriate controls are in place to prevent the increased use of contractors to perform work due to any restrictions on hiring. Agencies should bear in mind the statutory restrictions contained in 10 U.S.C. 2461 and 41 U.S.C. 1710 on the conversion of functions from performance by Federal employees to performance by contractors.

to the extent they are the most cost-effective way to maintain critical agency mission operations under sequestration.

Please contact your OMB Resource Management Office (RMO) if you have any questions about or need assistance with this guidance.