



# **Preparing for the Future: Major Challenges in Government Accountability**

**21<sup>st</sup> Biennial Forum of Government Auditors  
Kansas City, MO – May 11, 2016**

**Gene L. Dodaro  
Comptroller General of the United States**

## Overview

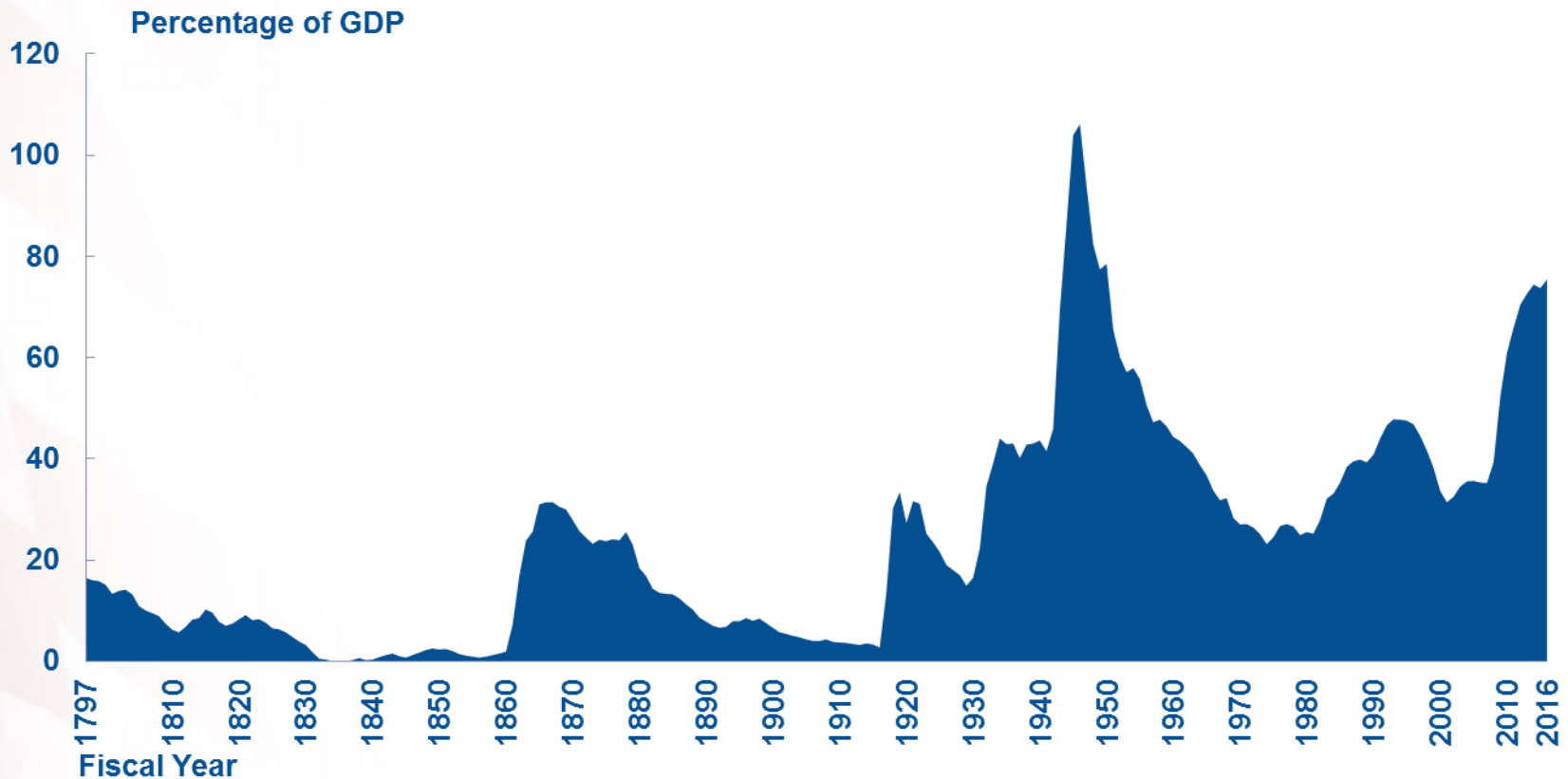
---

- Managing Finances
- Leveraging Technology
- Adapting to Change
- Securing Talent
- Assisting the Presidential Transition



# Managing Finances

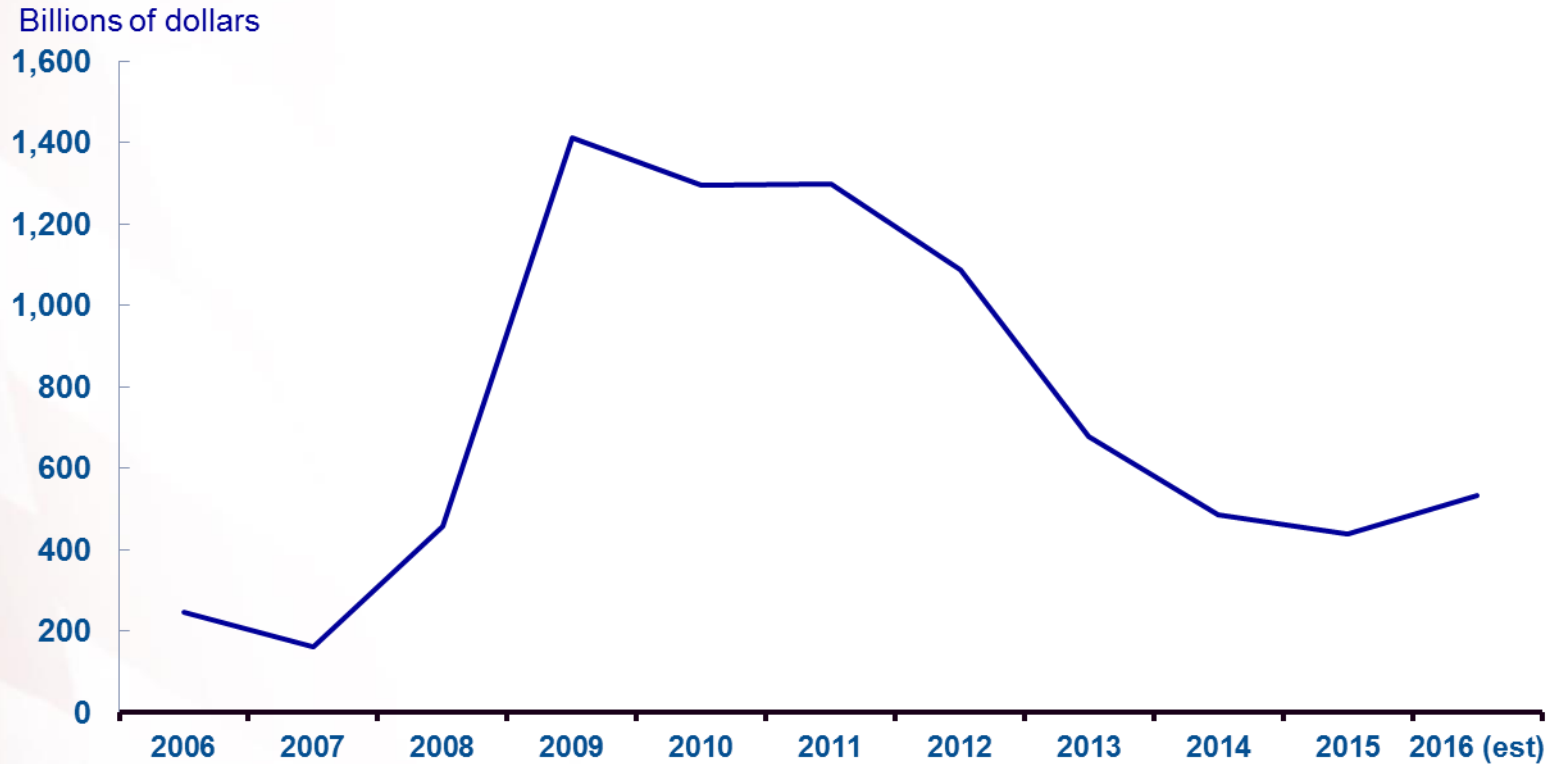
# Federal Debt Held by the Public as a Share of GDP (1797-2016)



GAO-16-684CG

Note: Data through 2015 are historical actuals from the Office of Management and Budget. The 2016 estimate is from the Congressional Budget Office's *Updated Budget Projections: 2016 to 2026* (March, 2016).

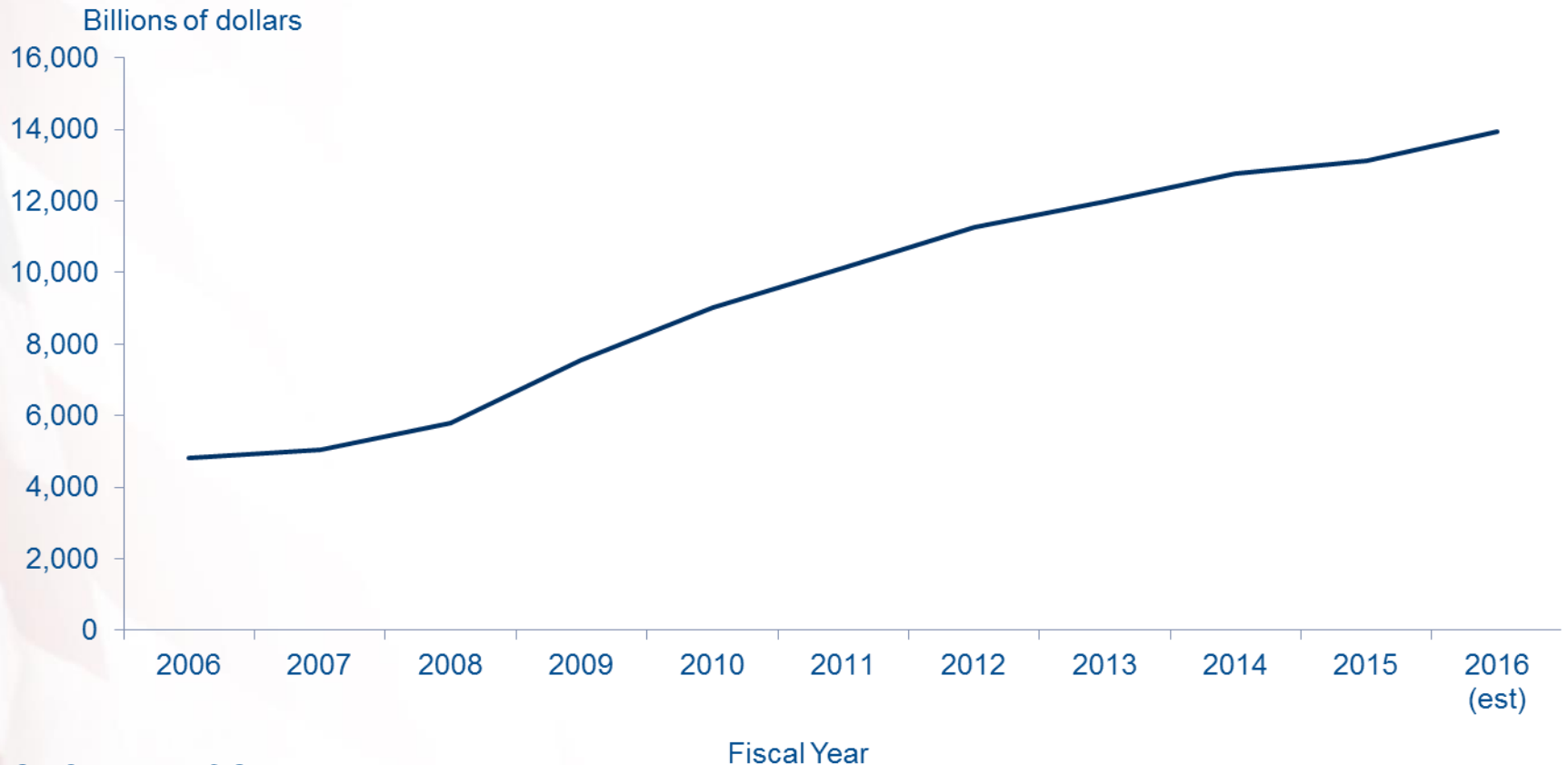
# Annual Deficit (2006-2016)



GAO-16-684CG

Note: Data from 2006-2015 are historical actuals from the Office of Management and Budget. The 2016 estimate is from the Congressional Budget Office's *Updated Budget Projections: 2016 to 2026* (March, 2016).

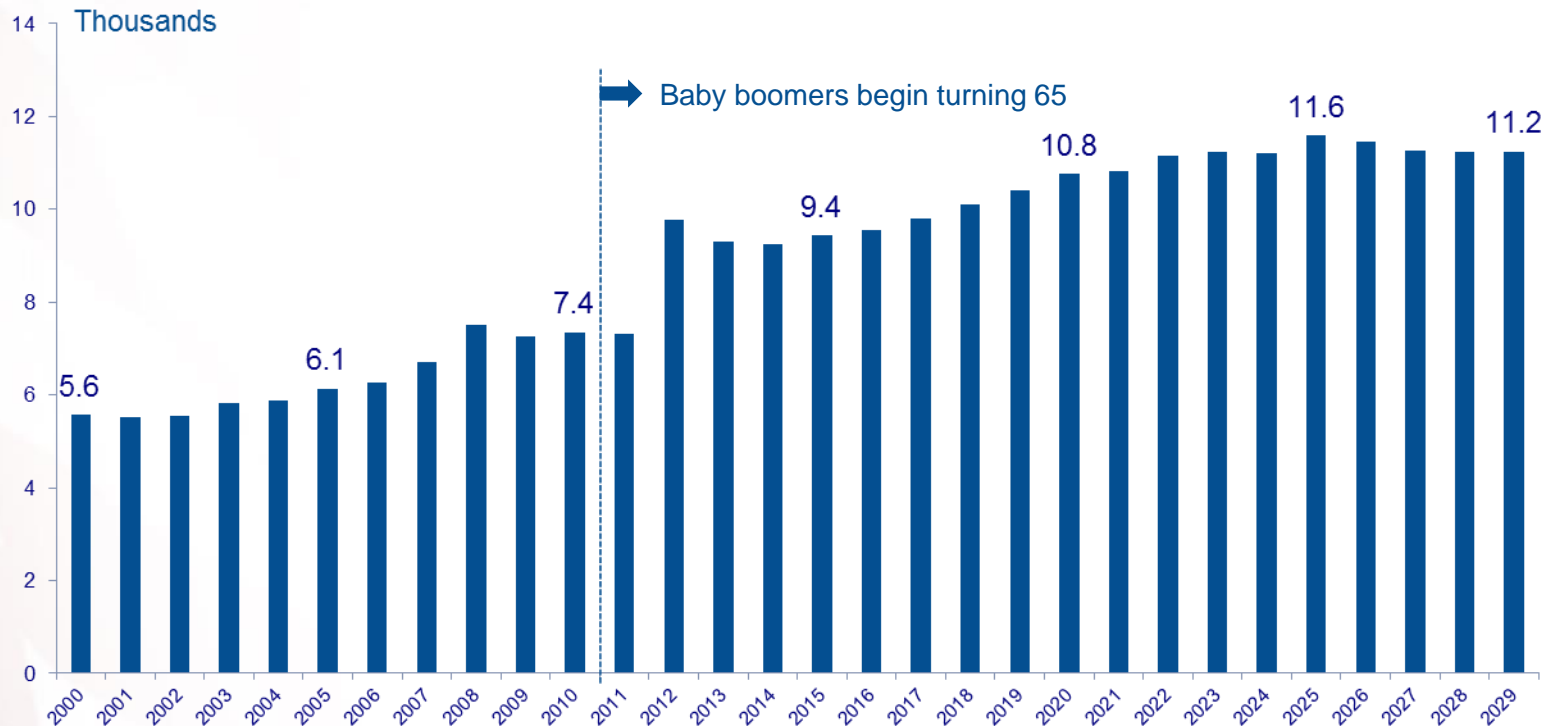
# Cumulative Debt (2006 – 2016)



GAO-16-684CG

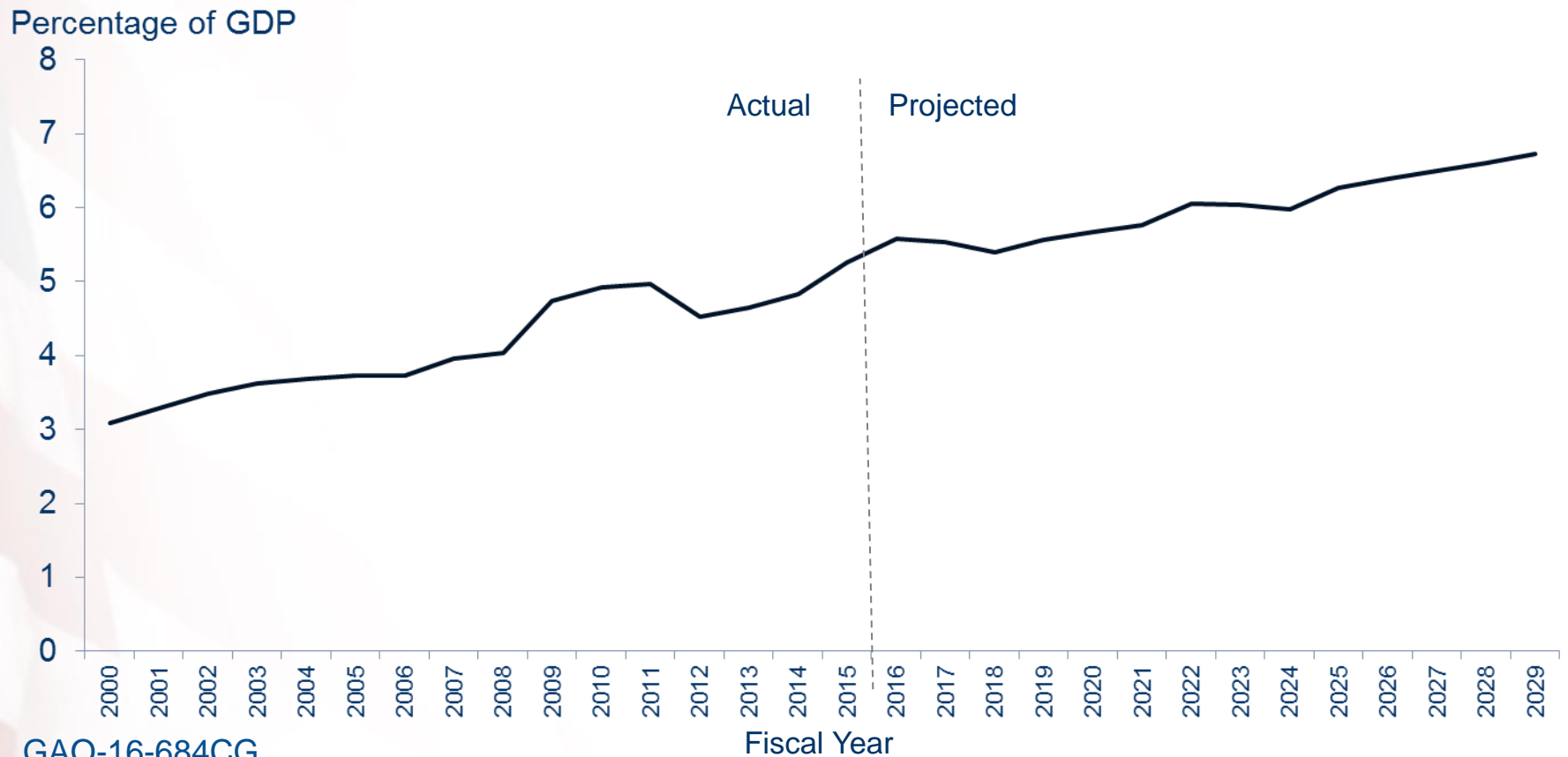
Note: Data from 2006-2015 are historical actuals from the Office of Management and Budget. The 2016 estimate is from the Congressional Budget Office's *Updated Budget Projections: 2016 to 2026* (March, 2016).

# Daily Average Number of People Turning 65



Source: GAO analysis of U.S. Census Bureau data.

# Health Care Spending

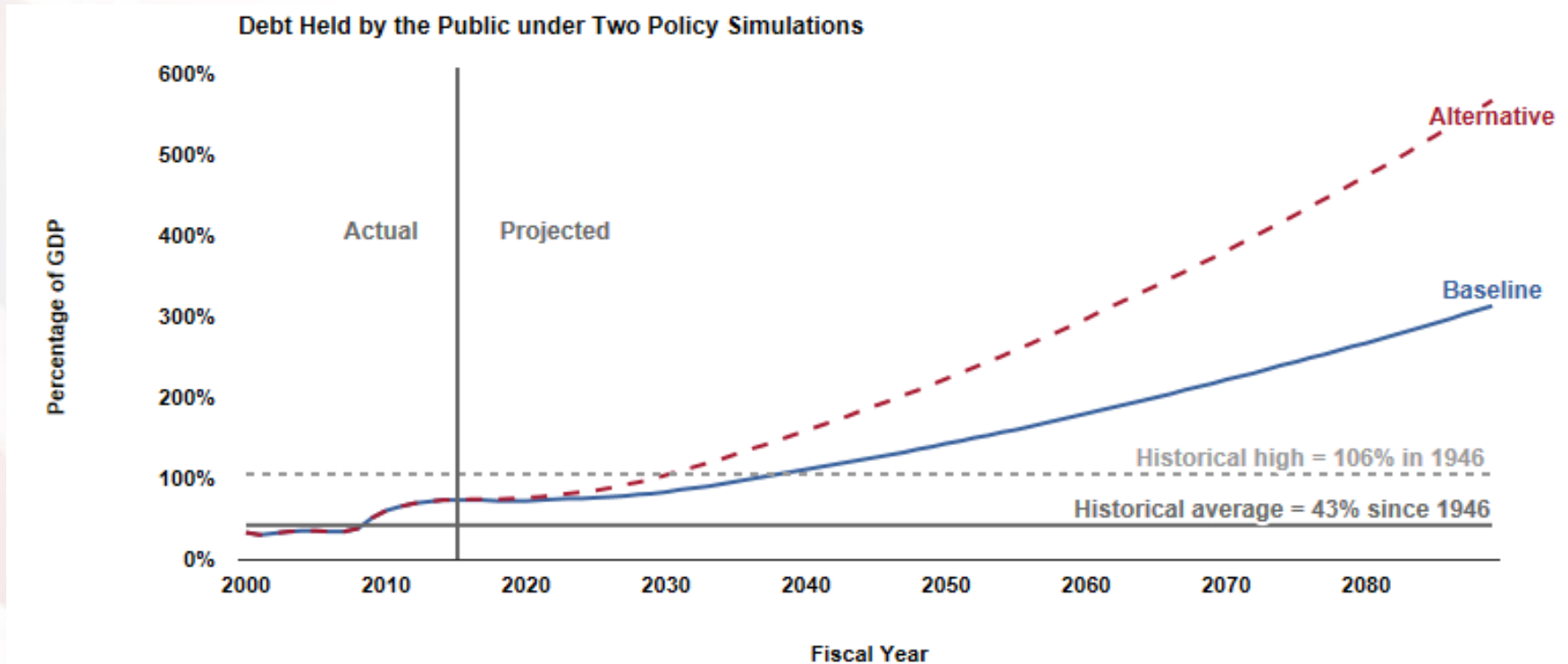


GAO-16-684CG

Note: Actual health care costs (consisting of spending for Medicare, net of premiums and offsetting receipts; Medicaid, and the Children's Health Insurance Program, and subsidies) are presented through 2015 and are based on CBO and OMB data. Costs from 2016 on are based on GAO's 2016 Alternative simulation.



# Debt Held by the Public Under Two Policy Simulations

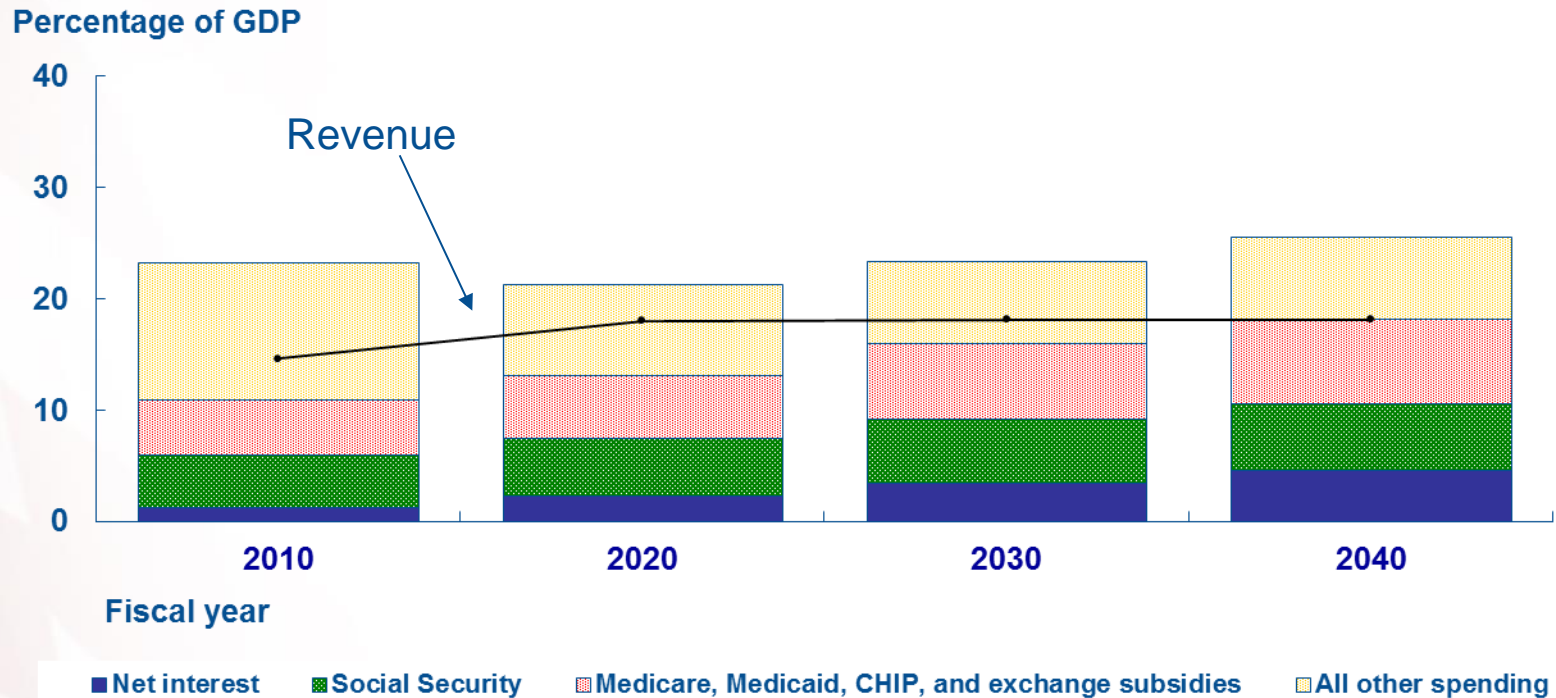


Source: GAO.

Notes: Data are from GAO's 2016 simulations. See the Assumptions and Data tab of the Federal Fiscal Outlook website for a description of the assumptions underlying this simulation. Both of GAO's simulations assume that Social Security and Disability benefits are paid in full regardless of the current projections of revenues into the Old-Age, Survivors, and Disability Insurance trust funds.

# Potential Fiscal Outcomes

## Revenues and Composition of Spending in the Baseline Extended Simulation

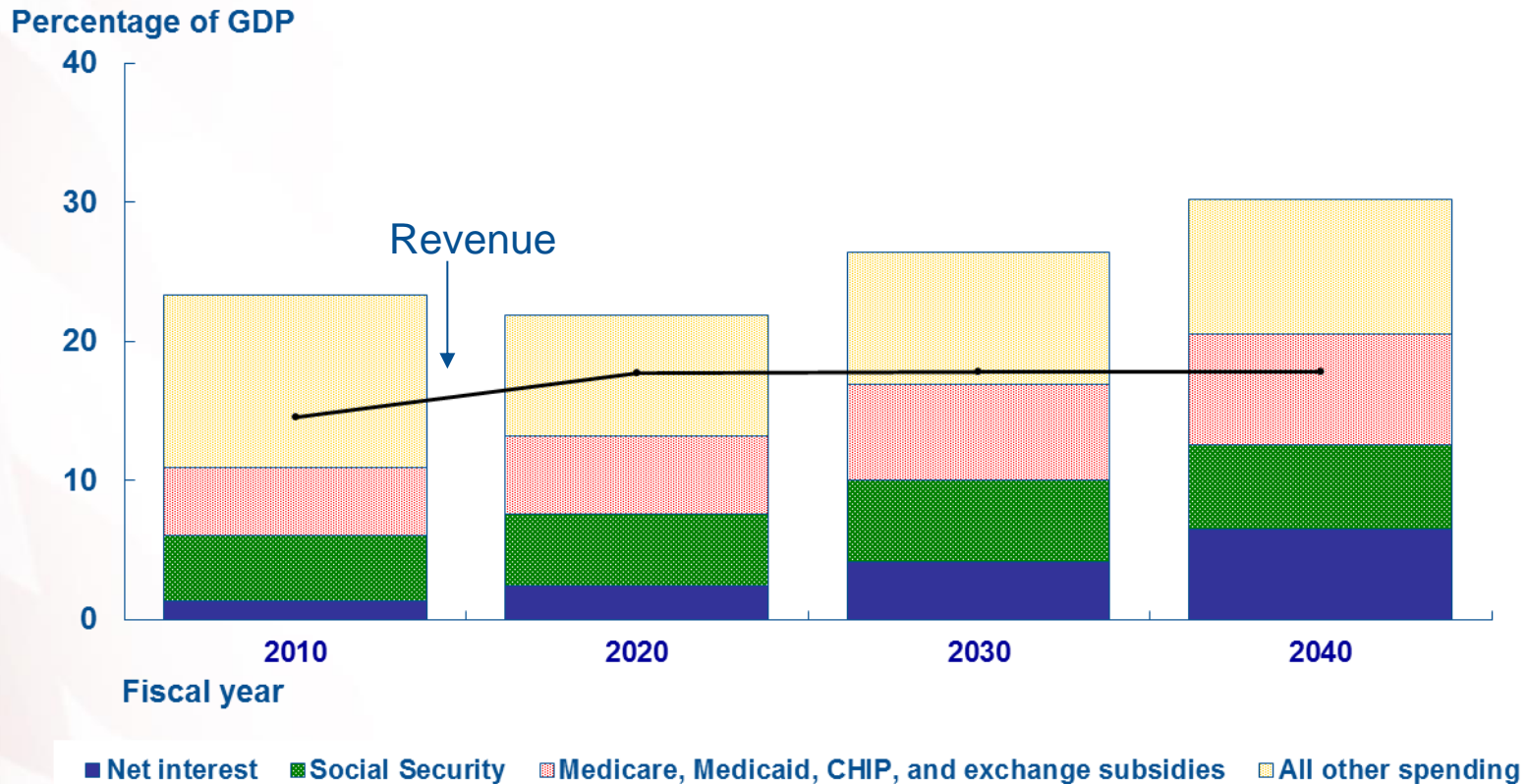


Source: GAO.

Note: Data are from GAO's 2016 Baseline Extended simulation.

# Potential Fiscal Outcomes

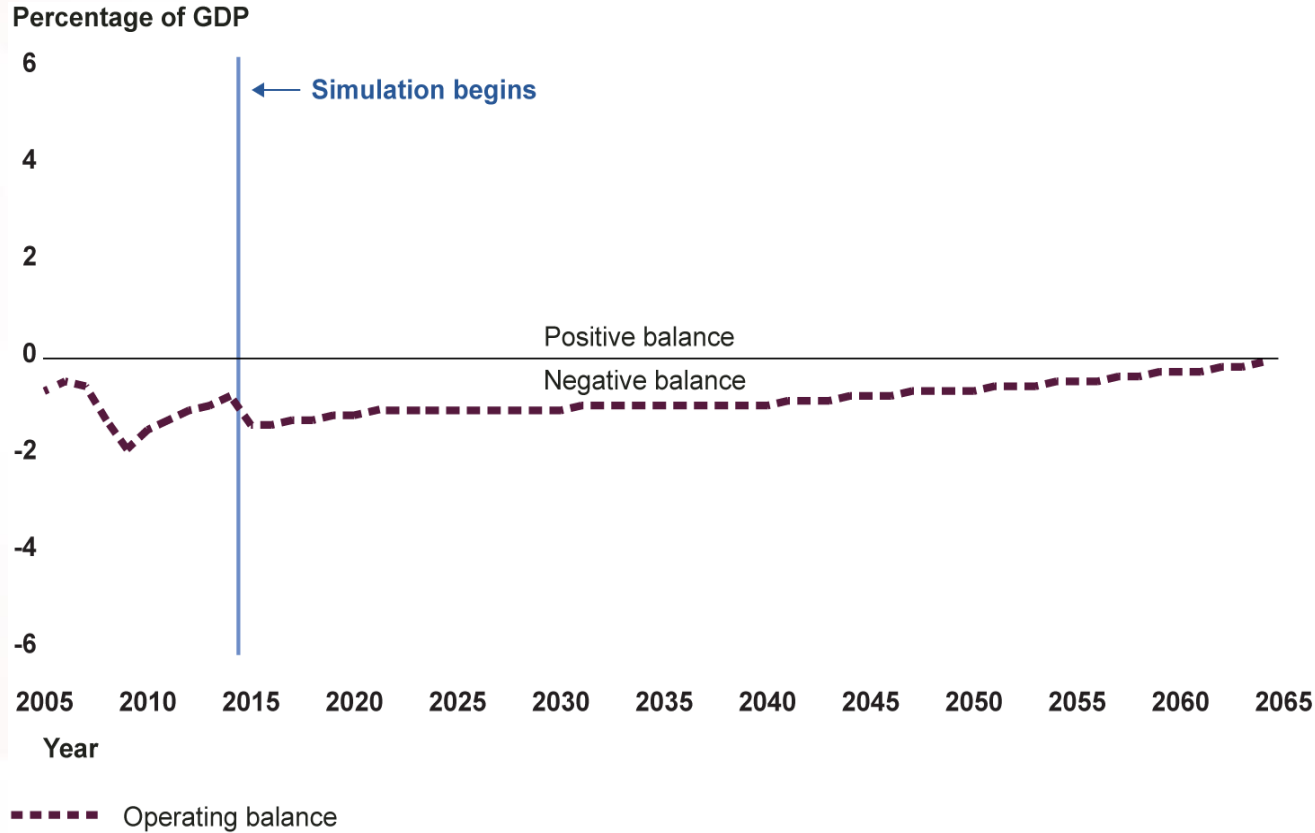
## Revenues and Composition of Spending in the Alternative Simulation



Source: GAO.

Note: Data are from GAO's 2016 Alternative simulation.

# State and Local Simulated Operating Balance Measure, as a Percentage of Gross Domestic Product



Sources: GAO calculations using Bureau of Economic Analysis data and GAO simulations, updated December 2015. | GAO-16-541T

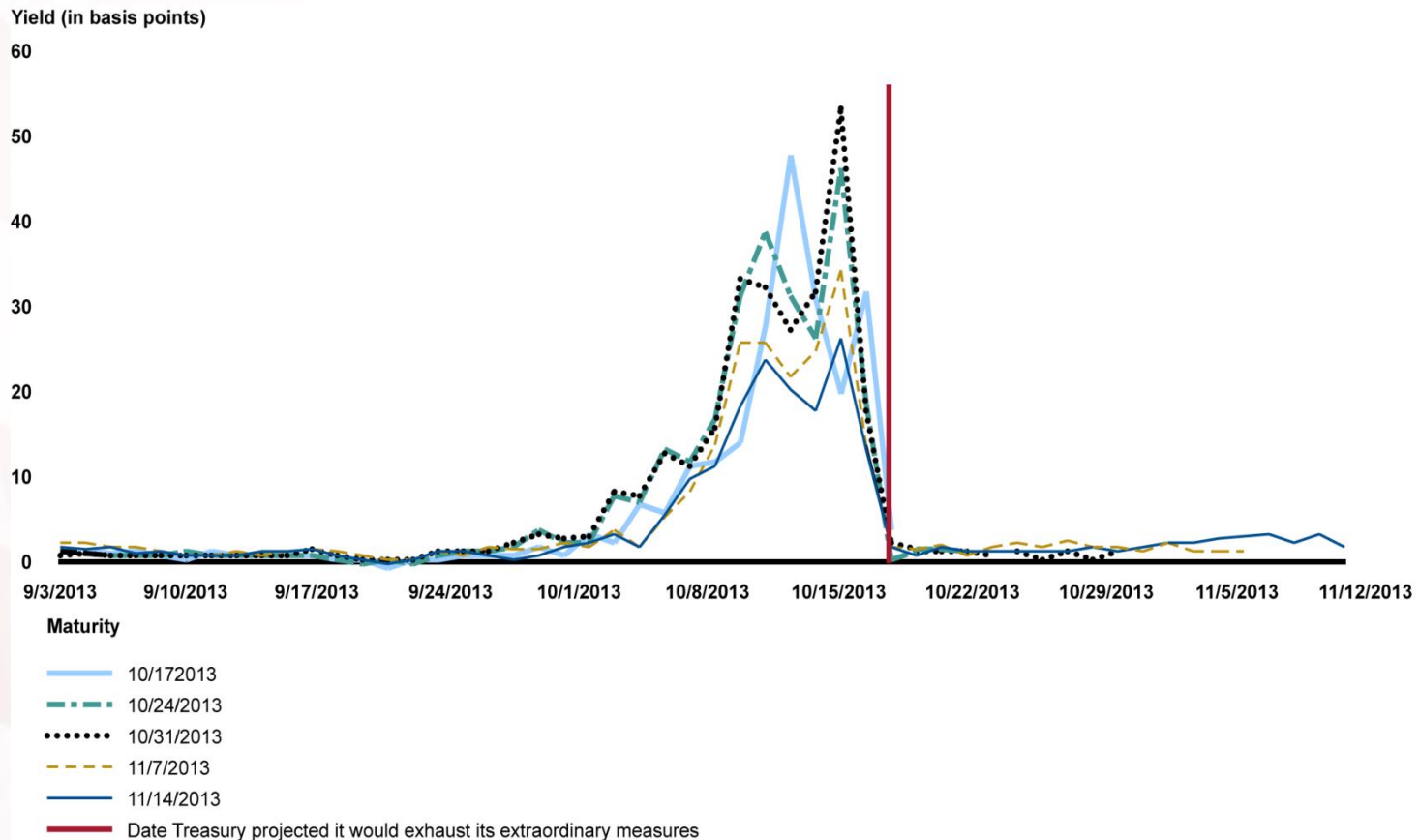
GAO-16-684CG

Notes: The simulated operating balance is a measure of the sector's ability to cover its current expenditures out of current receipts. The simulated operating balance measure is all receipts, excluding funds used for long-term investments, minus current expenditures.

# Debt Limit Impasses and Market Response

- The debt limit has been increased or temporarily suspended 13 times in the last 10 years. The debt limit:
  - Does not restrict the ability to enact spending and revenue legislation that affects the level of debt or limit the government's ability to run deficits
  - Does limit the Department of the Treasury's authority to borrow to pay the bills already legally incurred
- Delays in raising the debt limit can cause disruptions in financial markets
  - For example, during the 2013 debt limit impasse, investors reported taking the unprecedented action of systematically avoiding certain Treasury securities

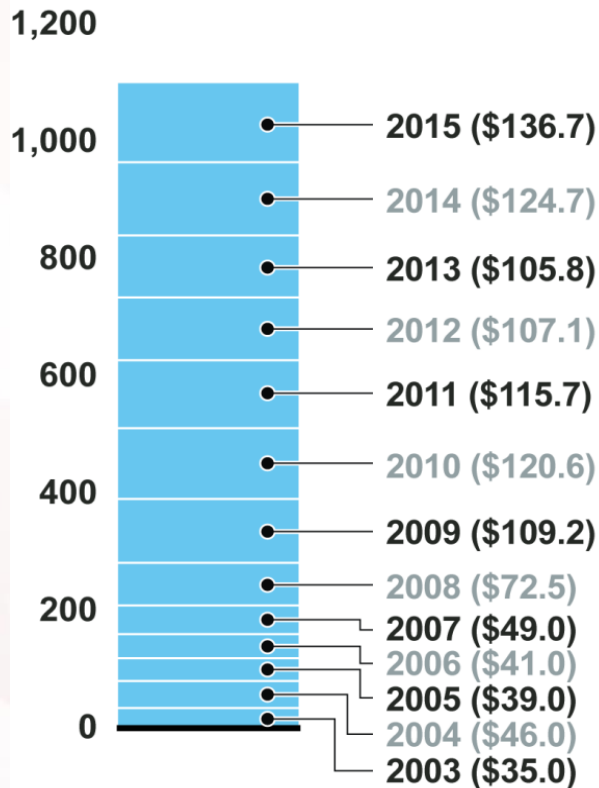
# Secondary Market Yields of Treasury Bills Maturing in Late October through Mid-November 2013 (in Basis Points)



Source: GAO analysis of Bloomberg data. | GAO-16-541T

# Improper Payments – Current Status

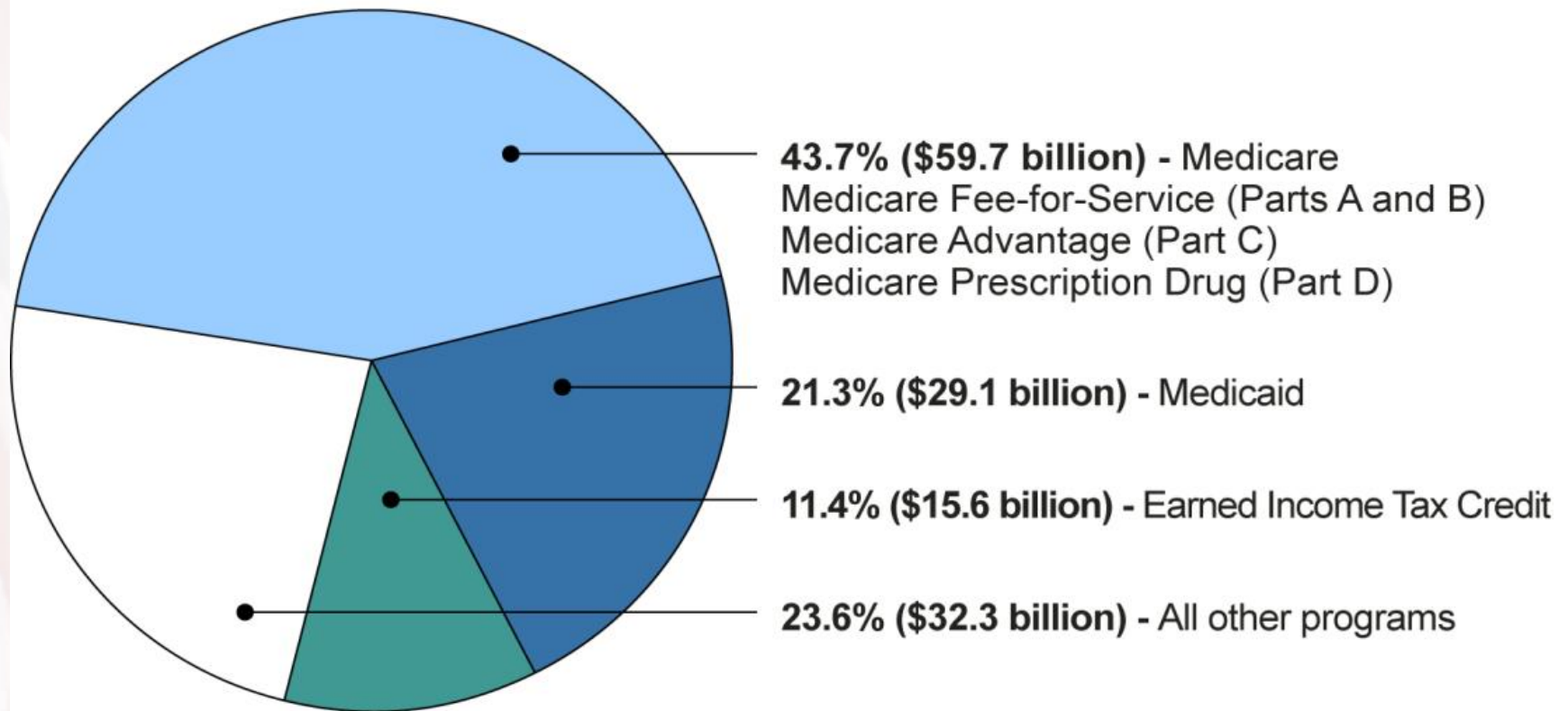
Dollars in billions



- The cumulative amount of reported improper payments since FY 2003 now exceeds \$1 trillion
- The FY 2015 government-wide improper payment estimate totaled \$136.7B, an increase of \$12B from the prior year

Source: GAO. | GAO-16-541T

## FY 2015 Government-wide Improper Payment Estimates (by program)



Source: GAO analysis of agencies' data. | GAO-16-541T





# FY 2015 Improper Payment Estimates: Programs Exceeding \$1 Billion

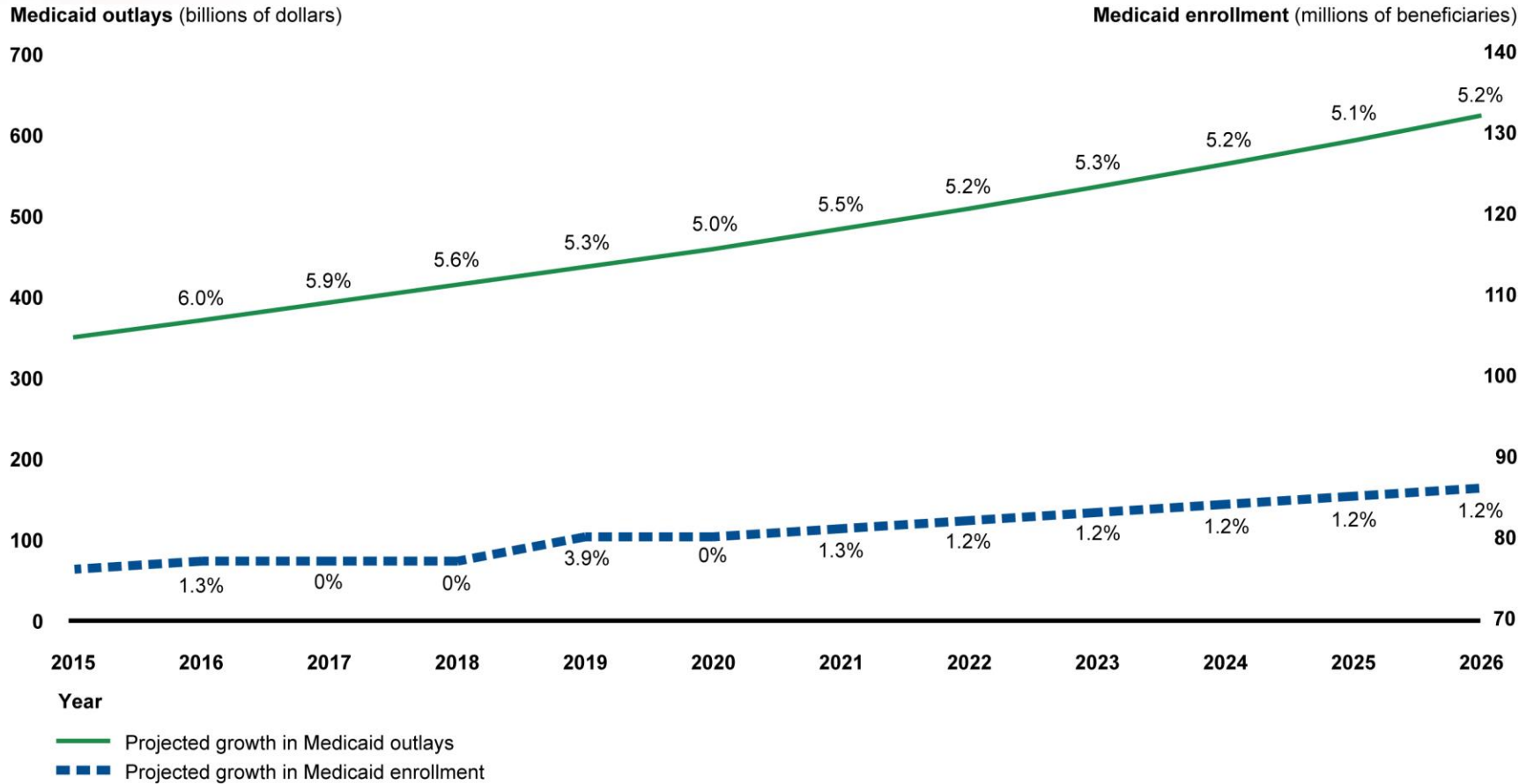
Program	Agency	Reported Improper Payment Estimates	
		Dollars (in billions)	Error rate (percent of outlays)
Medicare Fee-for-Service (Parts A and B)	HHS	\$43.3	12.1%
Medicaid	HHS	\$29.1	9.8%
Earned Income Tax Credit (EITC)	Treasury	\$15.6	23.8%
Medicare Advantage (Part C)	HHS	\$14.1	9.5%
Old Age, Survivors, and Disability Insurance (OASDI)	SSA	\$5.0	0.6%
Supplemental Security Income (SSI)	SSA	\$4.8	8.4%
Unemployment Insurance (UI)	Labor	\$3.5	10.7%
Supplemental Nutrition Assistance Program (SNAP)	USDA	\$2.6	3.7%
Medicare Prescription Drug Benefit (Part D)	HHS	\$2.2	3.6%
VA Community Care	VA	\$2.1	54.8%
National School Lunch Program (NSLP)	USDA	\$1.8	15.7%
Compensation	VA	\$1.4	2.3%
Direct Loan	Education	\$1.3	1.3%
Rental Housing Assistance Programs (RHAP)	HUD	\$1.3	4.0%

Source: GAO analysis of agencies' fiscal year 2015 agency financial reports.

## FY 2015 Improper Payment Estimates: Examples of Programs with State/Local Flow-Through

Program	Agency	Outlays (in billions)	Reported Improper Payment Estimates	
			Dollars (in billions)	Error rate (percent of outlays)
Medicaid	HHS	\$297.7	\$29.1	9.8%
Unemployment Insurance (UI)	Labor	\$32.9	\$3.5	10.7%
Supplemental Nutrition Assistance Program (SNAP)	USDA	\$70.0	\$2.6	3.7%
National School Lunch Program (NSLP)	USDA	\$11.3	\$1.8	15.7%
School Breakfast Program (SBP)	USDA	\$3.8	\$0.9	23.0%

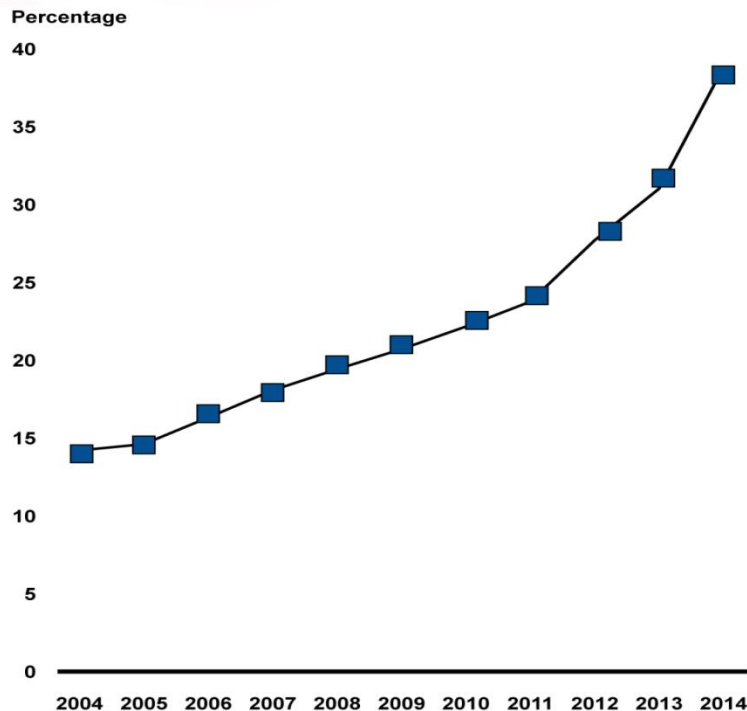
# Projected Growth of Medicaid



Source: GAO analysis of CBO data.

# Medicaid Managed Care – Current Status

**Managed Care Expenditures, as a Percentage of Overall Federal Medicaid Expenditures, FY 2004-2014**



- As of July 1, 2014, 61% of all Medicaid enrollees were enrolled in comprehensive managed care, and 77% of all enrollees were enrolled in any type of managed care.
- Expenditures for managed care represented 38% of total Federal Medicaid spending in FY2014

Source: GAO analysis of Centers for Medicare & Medicaid Services data. | GAO-16-77

# Updated Tax Gap Estimates

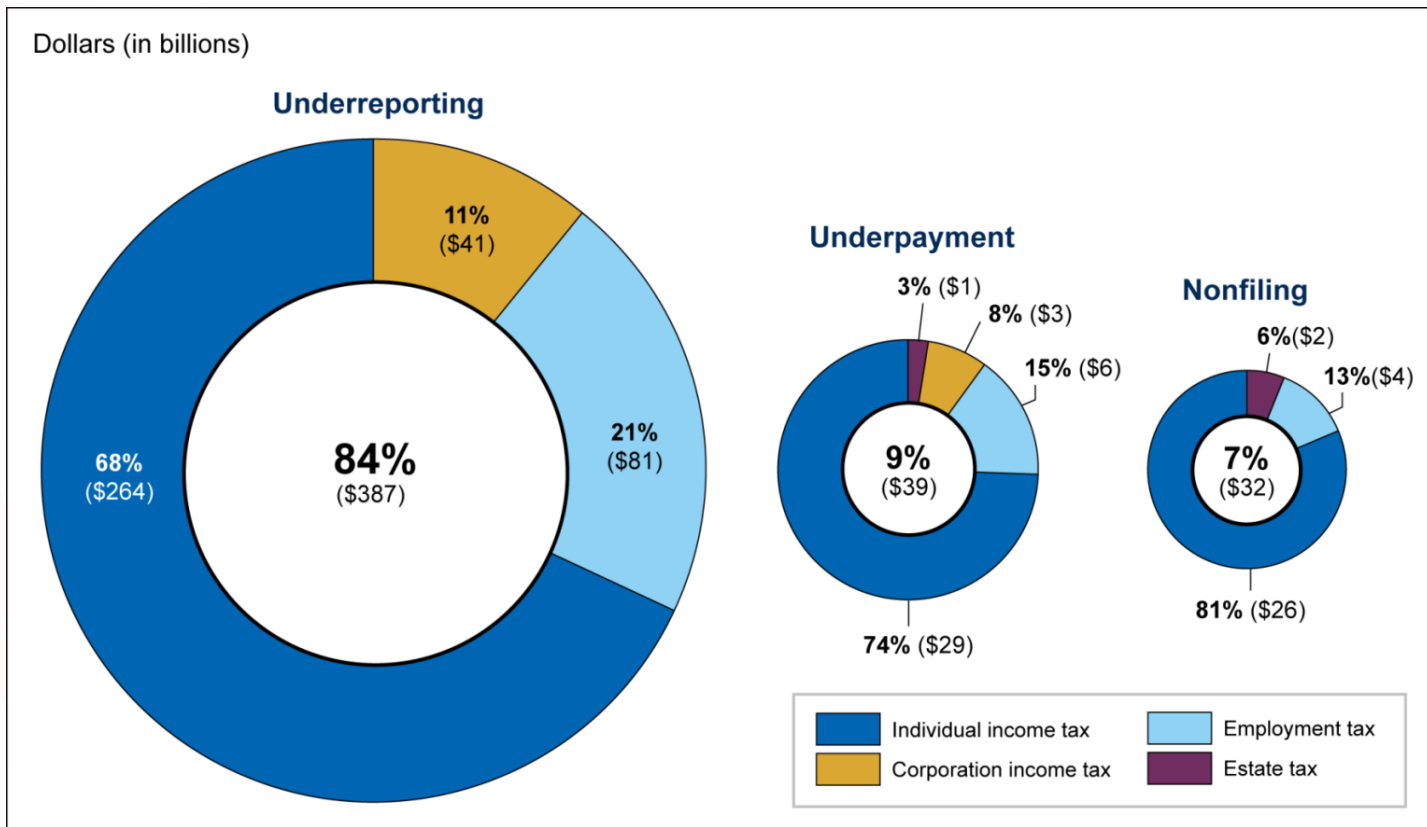
## IRS New Tax Gap Estimates Released 4-28-16

	<b>Tax Year 2006</b>	<b>Tax Years 2008 - 2010</b>
Gross Tax Gap <sup>a</sup>	\$450 billion	\$458 billion
Net Tax Gap <sup>b</sup>	\$385 billion	\$406 billion
Voluntary Compliance Rate (VCR)	83.1%	81.7%
Net Compliance Rate (NCR)	85.5%	83.7%

<sup>a</sup>The gross tax gap is the amount of true tax liability that is not paid voluntarily and timely.

<sup>b</sup>The net tax gap is the gross tax gap less tax that will be subsequently collected—either paid voluntarily or as the result of IRS administrative and enforcement activities. It is the portion of the gross tax gap that will not be paid.

# Estimated Average Annual Gross Tax Gap Noncompliance by Source and Type (Tax Years 2008-2010)

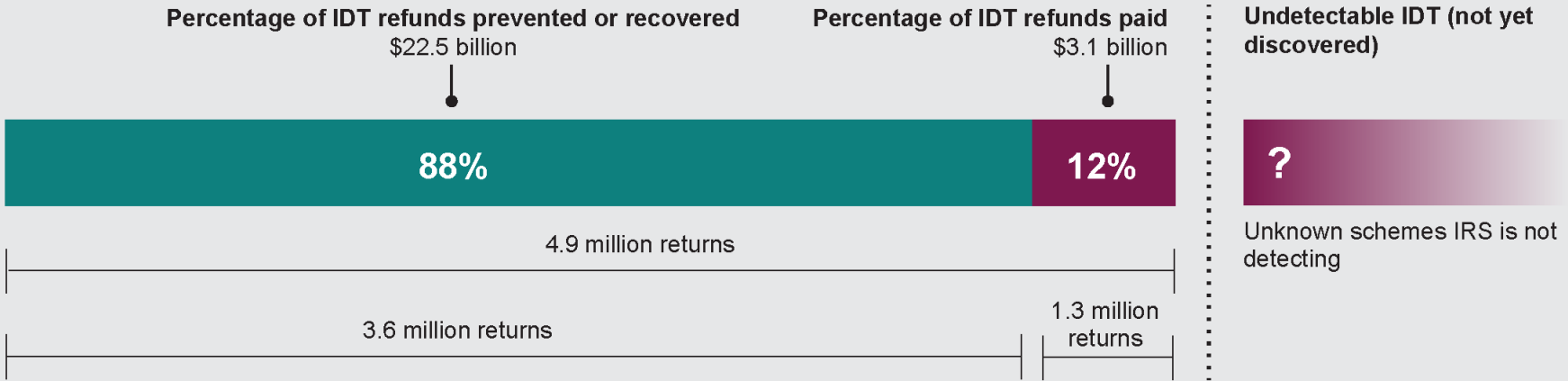


Source: GAO analysis of IRS information.

Note: Individual income tax includes individual business income tax. Estate tax underreporting noncompliance is not shown in this graphic because it represents less than one-half percent of total underreporting noncompliance. Excise tax is not shown in this graphic because IRS does not have excise tax underreporting noncompliance or nonfiling noncompliance estimates, and its estimate for excise tax underpayment noncompliance represents less than one-half percent of total underpayment noncompliance. In addition, IRS does not have an corporation income tax estimate for nonfiling noncompliance.

# Identity Theft Refund Fraud

Total attempted identity theft (IDT) refund fraud estimated by IRS in 2014: \$25.6 billion



Source: GAO analysis of IRS data. | GAO-16-578T

---

# U.S. Government's Consolidated Financial Statement Audit Results

---

- 21 of 24 CFO Act agencies received unmodified (“clean”) opinions on their respective entities’ FY 2015 financial statements
- 3 agencies received disclaimers of opinion on their FY2015 financial statements
  - Department of Defense (DOD)
  - Department of Housing and Urban Development
  - U.S. Department of Agriculture
- 3 major impediments prevent rendering an opinion on government’s accrual-based consolidated financial statements
  - DOD’s inability to accurately account for assets or costs
  - Intragovernmental activity and balances between federal entities not adequately reconciled
  - Ineffective process for preparing the consolidated financial statements



---

# DOD Financial Management Issues

---

- As the federal government's largest department, as of Sept. 30, 2015, DOD represented about
  - 30 percent of reported federal assets and
  - 15 percent of reported federal net cost.
- Despite decades of financial management improvement efforts, DOD has yet to obtain an opinion on its financial statements.
- The effects of DOD's financial management problems also adversely affect the economy, efficiency, and effectiveness of its operations.
- Given the federal government's continuing fiscal challenges, reliable, useful, and timely financial and performance information is important to help federal managers ensure fiscal responsibility and demonstrate accountability.

# Sustainability Financial Statements

---

- Includes
  - 2015 Statement of Long-Term Fiscal Projections - a new comprehensive basic financial statement and related disclosures that provide information on the federal government's long-term financial condition
  - Statements of Social Insurance and Changes in Social Insurance Amounts
- Disclaimer of opinion due to (1) significant uncertainties, primarily related to the achievement of projected reductions in Medicare cost growth\*, and (2) for the new Statement of Long-Term Fiscal Projections, a material weakness in internal control over financial reporting

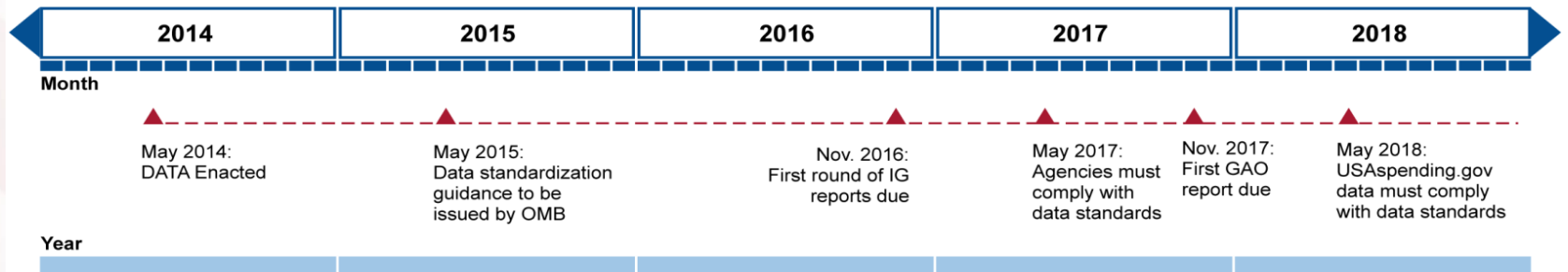
\* HHS also received a disclaimer on its Statements of Social Insurance and Changes in Social Insurance

# Digital Accountability and Transparency Act (DATA Act)

## DATA Act covers four primary areas:

- Expands reporting of federal funds in machine readable and downloadable formats
- Establishes government-wide data standards
- Requires OMB to conduct a pilot on recipient reporting burden
- Increases accountability for data quality by requiring Inspectors General (IG) and GAO to conduct reviews

DATA Timeline



Source: GAO Analysis of Pub. L. 113-101, 128 Stat. 1146.

Note: IGs and GAO are required to report two additional times—at two and four years after their respective initial reports. If the guidance is issued earlier than one year after passage, dates that follow would move up commensurately.



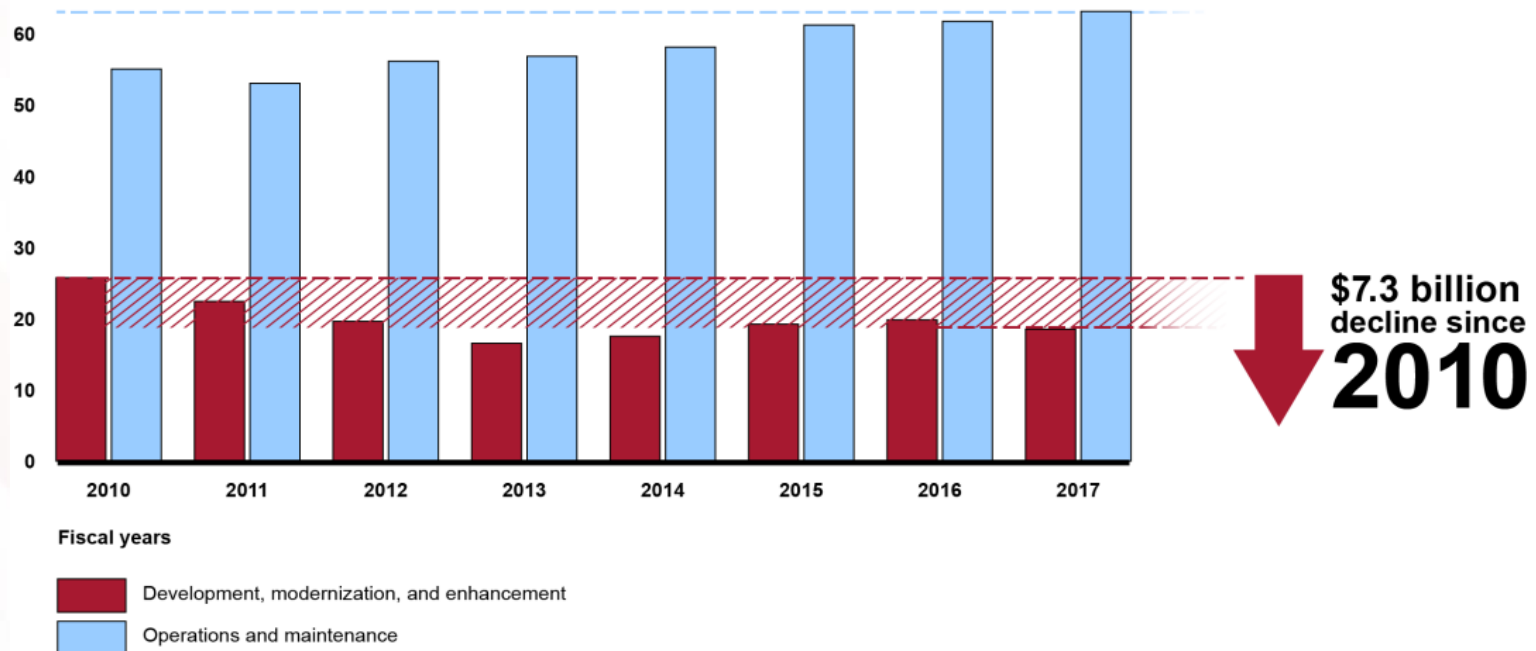
# Leveraging Technology

# **GAO High Risk List: IT Acquisitions and Operations**

- Area added to GAO's High Risk List in February 2015
- Federal IT investments frequently fail or incur cost overruns and schedule slippages while adding little to mission-related outcomes.
- There have been numerous initiatives aimed at addressing these issues, including an emphasis on incremental development, a transparency initiative, an effort to consolidate data centers, and an effort to streamline agencies' IT portfolios.
- However, implementation of these initiatives has been inconsistent. In the last 6 years we have made about 800 recommendations to address these issues. About 33% have been implemented.

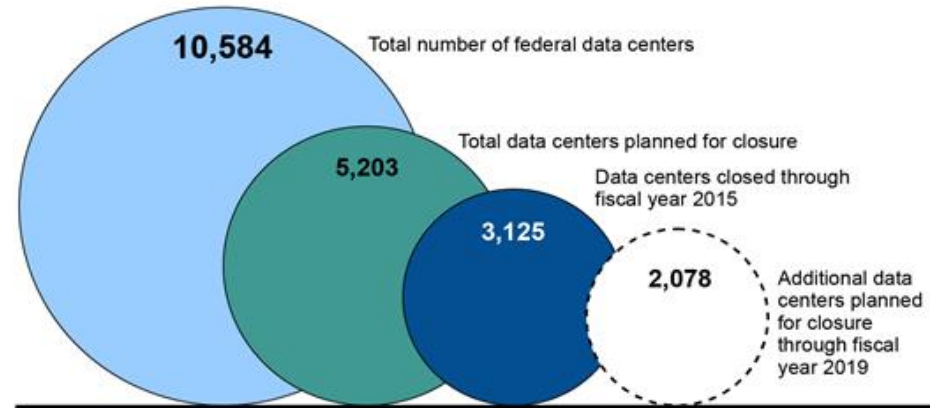
# Federal IT Acquisition and Operations

- Operations and maintenance spending has increased, while the amount invested on developing new systems has decreased \$7.3 billion over the past 7 years.

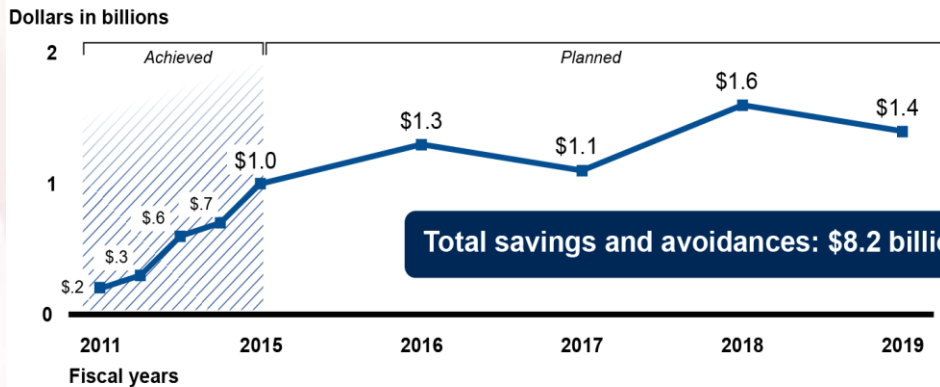


# FITARA – Data Center Consolidation

- 3,125 data centers closed
  - Agriculture, Defense, the Interior, and the Treasury accounted for 84% of the closures
- 2,078 additional closures planned through FY2019



Source: GAO analysis of agency data. | GAO-16-323



Source: GAO analysis of agency data. | GAO-16-323

- \$2.8 billion in savings achieved
  - Commerce, Defense, Homeland Security, and the Treasury accounted for 86% of the savings
- \$8.2 billion in total planned savings through FY2019

## FITARA – Ongoing Related Work

- **Office of Management and Budget’s IT Dashboard**
  - Provides detailed information on major investments at federal agencies, including ratings from Chief Information Officers (CIO) that should reflect the level of risk facing an investment.

### Scope of GAO’s work

- Assess the risks associated with 96 major investments across 15 agencies and analyze any differences with the CIO ratings.
- **Incremental Development**
  - Agencies’ investments are expected to deliver functionality every 6 months to reduce investment risk.

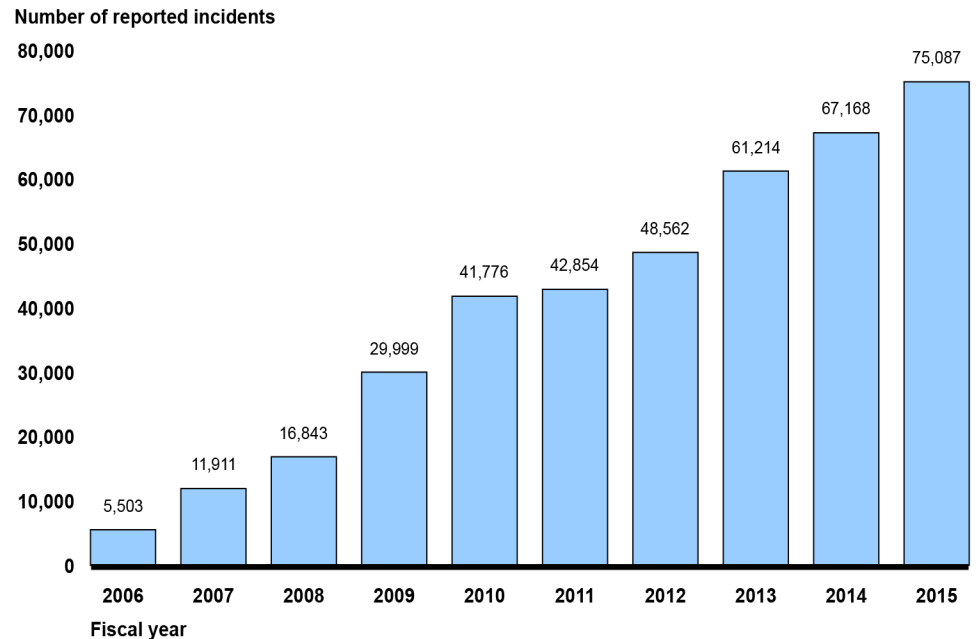
### Scope of GAO’s work

- Determine the number of major investments primarily in development reporting delivery of functionality every 6 months.
- Assess seven selected departments’ delivery of incremental functionality.



# Security Incidents Continue to Rise

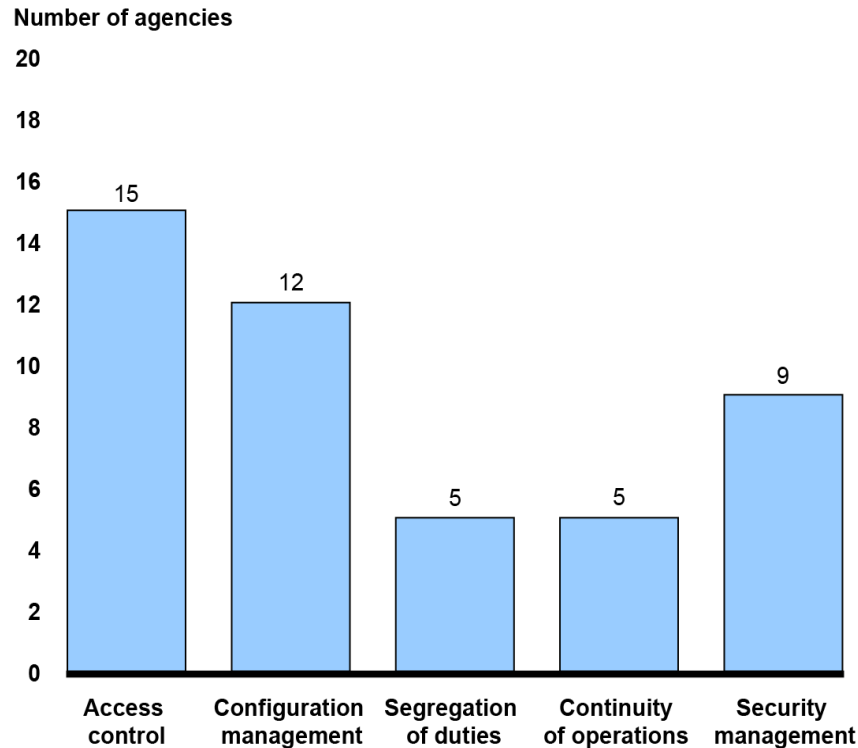
- Information security incidents reported by federal agencies rose 1,264 percent since FY 2006 to 75,087 in FY2015.
- Most prevalent types of incidents in fiscal year 2015 include:
  - 21% were malicious code/social engineering/unauthorized access/suspicious network activity
  - 15% were policy violations/improper usage
  - 16% were non-cyber incidents involving personal information
- Impact of incidents can be significant (OPM, IRS)



Source: GAO analysis of United States Computer Emergency Readiness Team data for fiscal years 2006-2014 and Office of Management and Budget data for fiscal year 2015.

# Agency Financial Systems Remain Vulnerable

- **19 of 24 CFO Act agencies reported information security as significant deficiency (10) or material weakness (9) for financial reporting purposes in FY 2015.**
- **22 of 24 IGs cited information security as a major management challenge.**
- **Information security continues to be a government-wide high risk area.**



Source: GAO analysis of agencies' annual financial reports and performance and accountability reports for fiscal year 2015.



# Adapting to Change

---

# Global Financial Markets and Regulatory Reform

---

- INTOSAI Working Group on Financial Modernization and Regulatory Reform – established in 2012
- 24 global members
- 3 areas of focus
  - Tools and knowledge-sharing opportunities for evaluating national reforms
  - Mechanisms for sharing information on the progress of reforms
  - Tracking reforms at national and international levels and identifying gaps and emerging risks where additional study is needed

# Global Financial Markets and Regulatory Reform

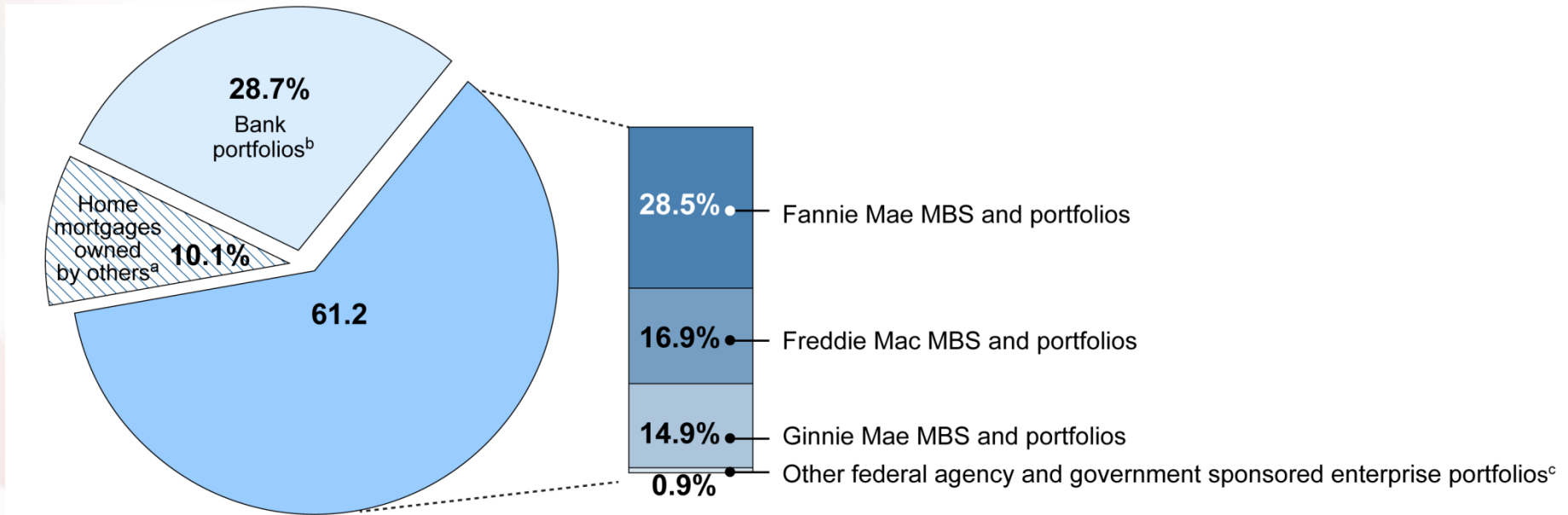
---

Key challenges and emerging issues identified by the Working Group

- Uncertainties in the macroeconomic outlook and the effects of low interest rates and low oil prices
- Increasing reliance on nonbank, or market-based, financing (which includes shadow banking)
- Other areas, including cross-border impacts of reforms

# Federal Housing Support: Market Share

Percentage of Home Mortgages Owned or Guaranteed by Entity, as of 2015 Q2



Source: GAO analysis of data on the unpaid principal balance of outstanding home mortgage loans from the Board of Governors of the Federal Reserve System. | GAO-16-278

<sup>a</sup>Home mortgages owned by others are home mortgage loans owned by households and nonprofits; nonfinancial businesses; state and local governments, including state and local government employee retirement funds; life insurance companies; private pension funds; issuers of asset backed securities (such as private-label securities); finance companies; and real estate investment trusts.

<sup>b</sup>Bank portfolios are loans owned by federal- and state-chartered depository institutions, credit unions, foreign banking offices in the U.S., and banks in U.S. affiliated areas.

<sup>c</sup>Other federal agencies and government sponsored enterprises that own home mortgage loans are the Federal Housing Administration, the Department of Veterans Affairs, the Federal Deposit Insurance Corporation, the Department of Agriculture, the Farm Credit System, and the Federal Home Loan Banks.

# Globalization and Medical Product Safety

---

- The rapid pace of globalization has complicated FDA's efforts to oversee medical product safety. For example:
  - About 80 percent of the manufacturers producing active pharmaceutical ingredients for the U.S. market are located abroad.
  - Nearly 40 percent of finished drugs and about 50 percent of all medical devices are made overseas.
  - China has the largest number of foreign, FDA-registered, drug manufacturing establishments, followed by India.

# Globalization and Medical Product Safety

---

- Long-standing concerns with FDA's ability to inspect foreign establishments that market drugs and medical devices for the U.S. market.
- GAO is currently studying FDA's progress in responding to globalization, particularly as it relates to drug safety, and will provide an update in the next edition of our High-Risk Series due to be issued in early 2017.



---

# Imported Food Safety

---

- Almost 20 percent of food consumed in the United States is imported.
- GAO is conducting two reviews focused on imported food safety:
  - FDA efforts to target higher risk shipments
  - Federal oversight of seafood
- Future work will address 2011 FDA Food Safety Modernization Act (FSMA) provisions on enhancing imported food safety.

## Federal Fiscal Exposures from Climate Risks

- Significant financial risks for the federal government, which owns infrastructure, insures property, and provides emergency disaster aid.
  - Defense infrastructure estimated at about \$850 billion.
  - Federally-insured property valued at \$1.4 trillion.
- The federal government needs a cohesive national strategy with the authority to manage risks government-wide, and which is coordinated with state, local, and private-sector decisions.

## Resilience at State and Local Level

- The federal government annually invests billions of dollars in vulnerable infrastructure that state and local governments plan, construct, and maintain.
- In 2015, we reviewed efforts to strengthen disaster resilience—including adapting to climate change—during Hurricane Sandy Recovery in 12 affected states.
  - State and local officials effectively leveraged federal programs to enhance their resilience, but faced challenges.
  - There is no comprehensive strategic approach to identifying, prioritizing, and implementing disaster resilience investments.

## Climate Information

- The federal government plays a critical role in producing the climate information needed to inform local adaptation decisions.
- In 2016, we reviewed federal climate information efforts in the context of local decision-making.
  - State and local climate information needs were not fully met by federal efforts.
  - State and local decision makers need authoritative locally-focused climate information and technical assistance to help them use the information in local planning processes.

---

# International Coordination

---

- Key INTOSAI Initiatives
  - Professional standards
  - Capacity building
  - Knowledge sharing task forces & working groups
    - Financial modernization and regulatory reform
    - Environmental audit
    - IT audit
    - Extractive industries
    - Public debt
    - Procurement and contract audit
  - UN Sustainable Development Goals (SDGs)



## Center for Audit Excellence

- Promotes good governance and helps build the institutional capacity of domestic and international accountability organizations.
- Provides affordable, high quality training, technical assistance, and related products and services to local, state, federal and international audit organizations.
- Delivers fee-based services in four core areas including:

<b>Performance Audits</b>	<b>Institutional Capacity Building</b>
<b>Financial Audits</b>	<b>Leadership and Supervision</b>

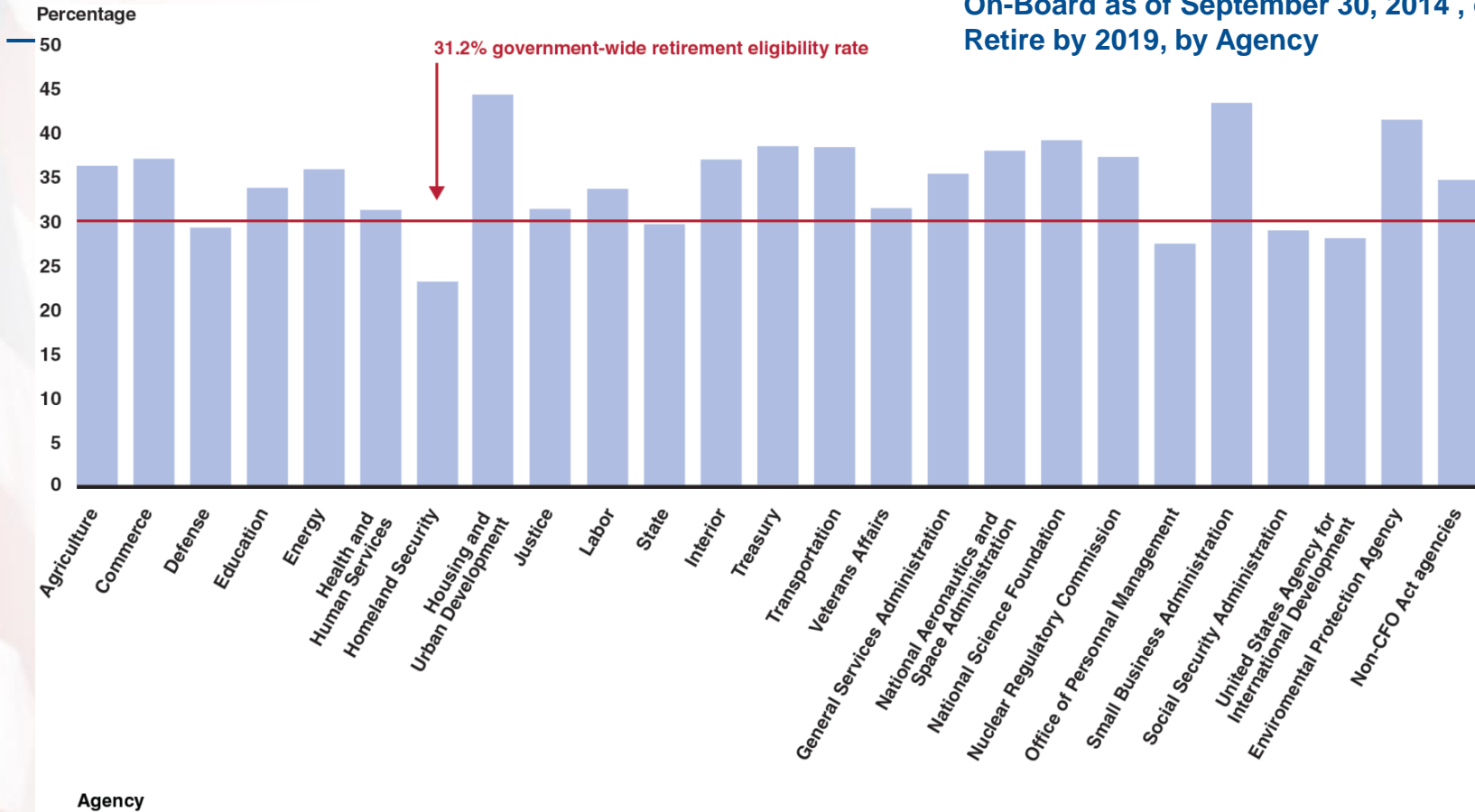
- Center can also provide training and technical assistance on other specialized topics such as internal control, procurement, and audit methodologies.
- For more information, visit website at [www.gao.gov/resources/centerforauditexcellence/overview](http://www.gao.gov/resources/centerforauditexcellence/overview) or email the Center at [centerforauditexcellence@gao.gov](mailto:centerforauditexcellence@gao.gov)



# Securing Talent

# Agencies Face Critical Human Capital Management Challenges

Percentage of Career Permanent Employees On-Board as of September 30, 2014 , eligible to Retire by 2019, by Agency



Source: GAO analysis of data from the OPM Enterprise Human Resources Integration Statistical Data Mart. | GAO-15-619T



# Skills Gap & Succession Planning

---

**Going forward, it will be important for agencies to address mission critical skills gaps through such actions as:**

- Workforce planning and data driven reviews
- Close skills gaps through rigorous succession planning—don't just backfill vacancies; recruit people with the skills and competencies needed to address future mission requirements
- Address recruitment and hiring challenges
- Strengthen employee engagement to bolster retention and employee commitment



# Assisting Presidential Transition

## GAO's Role in the Transition

- The Presidential Transition Act of 2000
- GAO efforts include:
  - Mobile app for presidential and congressional transition teams
  - Comprehensive website
    - Priority recommendations
    - Key issues
    - Proposed management agenda
  - Supporting Congress with testimonies on preparations and progress of transition



---

## **GAO on the Web**

Web site: <http://www.gao.gov/>

## **Congressional Relations**

Katherine Siggerud, Managing Director, [siggerudk@gao.gov](mailto:siggerudk@gao.gov)  
(202) 512-4400, U.S. Government Accountability Office  
441 G Street, NW, Room 7125, Washington, DC 20548

## **Public Affairs**

Chuck Young, Managing Director, [youngc1@gao.gov](mailto:youngc1@gao.gov)  
(202) 512-4800, U.S. Government Accountability Office  
441 G Street, NW, Room 7149, Washington, DC 20548

## **Copyright**

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.