
Perspectives on Fiscal and Performance Challenges Facing the Federal Government

**Washington AGA Chapter and the
Greater Washington Society of CPAs
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Outline

I. Context – Budget Environment

- Near-term: recent steps; competing demands
- Long-term fiscal challenge
- Debt limit

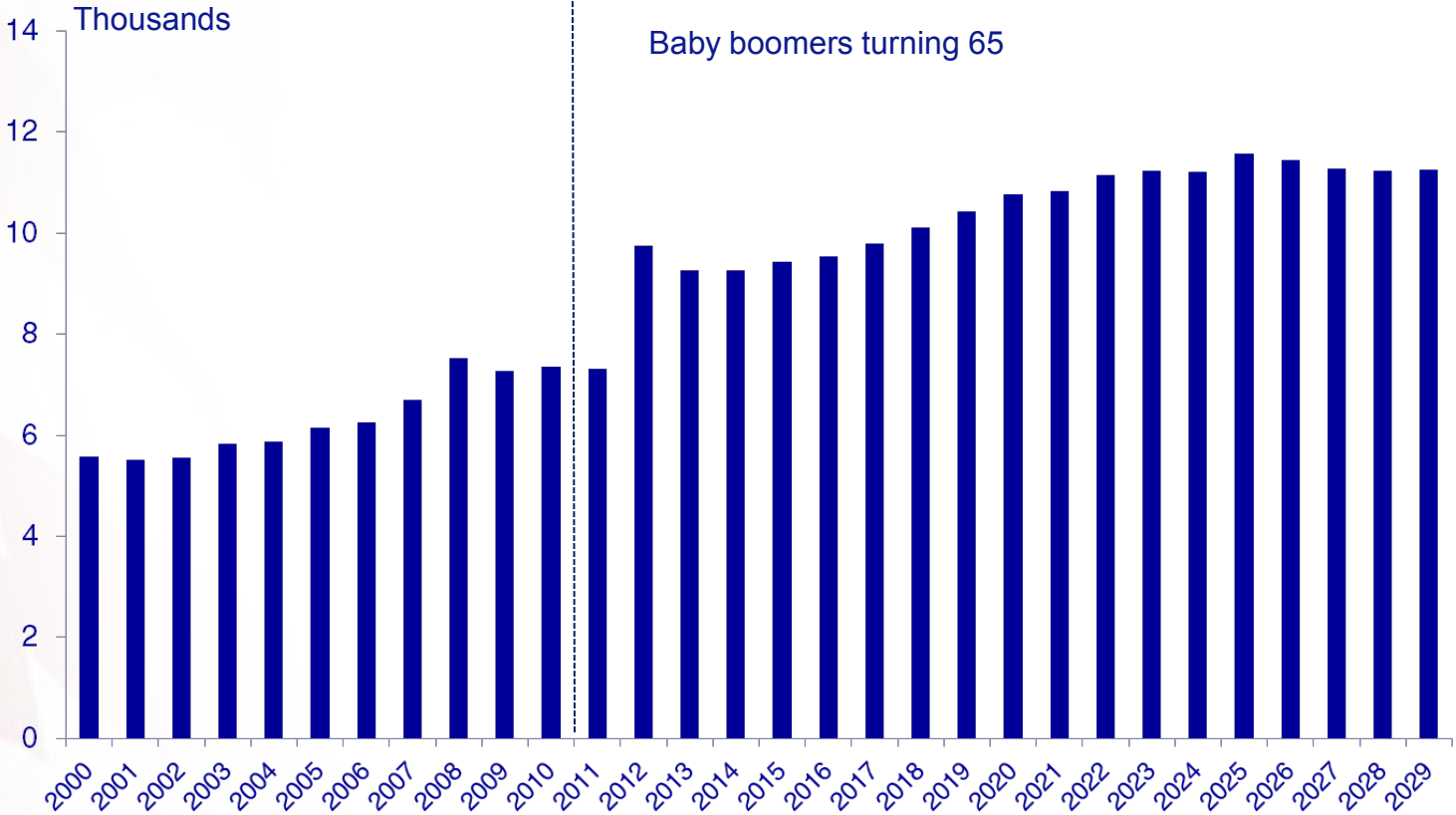
II. How the Accountability Community Can Help

- Prevent & detect improper payments
- Improve financial information
- Update internal controls
- Act to narrow the tax gap
- Fix known high risk areas
- Address areas of overlap/duplication and opportunities for cost savings/revenue enhancement

Context: Overall Budget Environment in the Near and Long Term

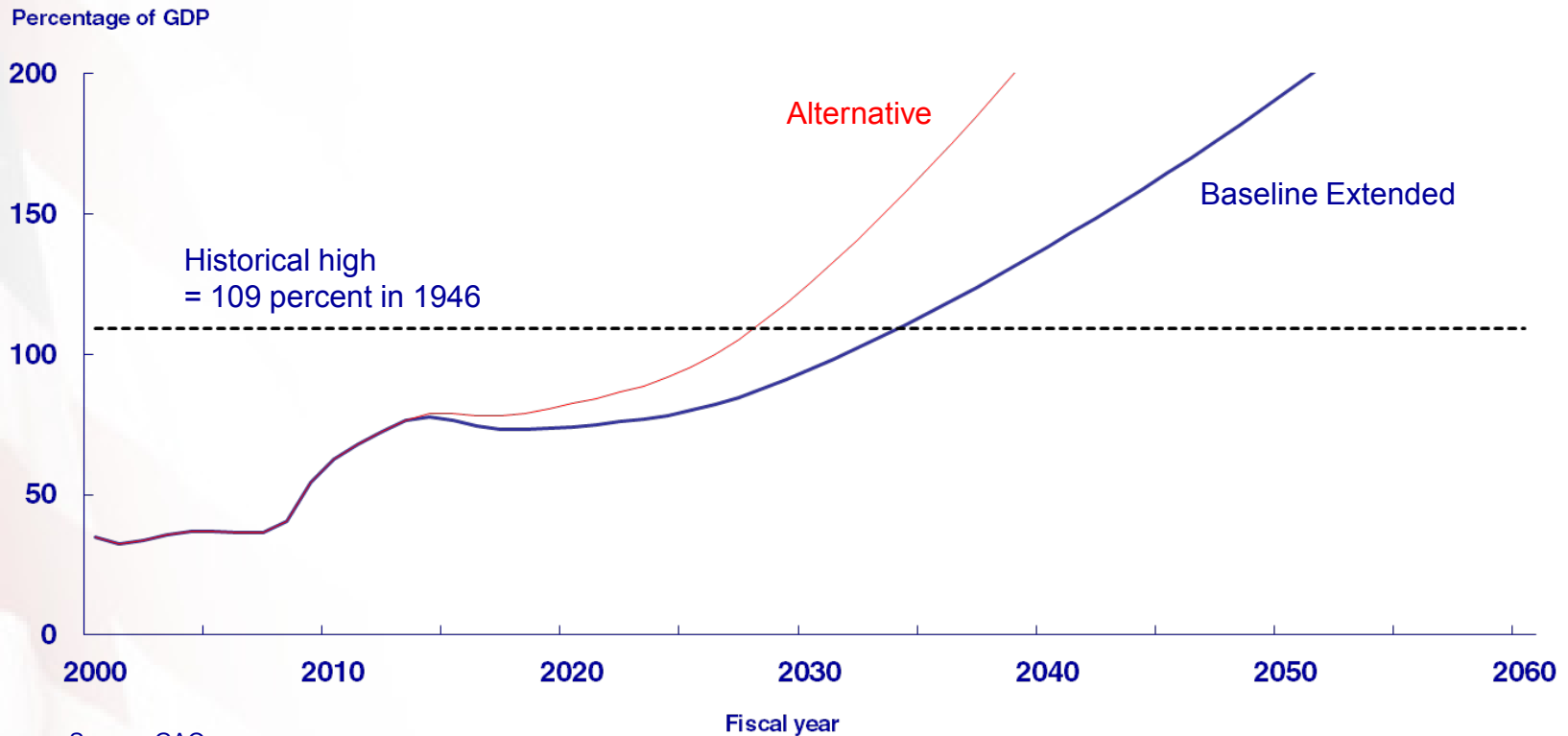
- Budget Control Act and the American Taxpayer Relief Act will help in the near term
- Currently face competing demands:
 - Need to sustain economic growth
 - Need for significant actions to change the long-term fiscal path
- Long-term path is still unsustainable
 - Spending side driven by demographics and health care cost growth

Daily Average Number of People Turning 65 Each Year



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

Debt Held by the Public Under Two Fiscal Policy Simulations



Source: GAO.

Note: Data are from GAO's Spring 2013 simulations based on the Trustees' assumptions for Social Security and the Trustees' and CMS Actuary's assumptions for Medicare.

Debt Limit: What it is and What it isn't

- Debt limit does not limit the ability to enact spending and tax laws; not a limit on running deficits or incurring obligations.
- Debt limit is an after-the-fact measure: it imposes a limit on ability to pay obligations already incurred
- GAO analysis shows delays in raising debt limit have led to higher borrowing costs; delays in 2011 - \$1.3 billion increase for the year.
- Treasury uses extraordinary actions to manage near the debt limit: where provided for under law, principal and interest is restored; GAO tests this as part of its routine annual audit of federal debt.
- We have suggested linking decisions about the debt limit with spending and revenue decisions that create debt—at the time those decisions are made.



How the Accountability Community Can Help

- Prevent and detect improper payments
- Improve financial information
- Update internal controls
- Act to narrow the tax gap
- Fix known high risk areas
- Address overlap and duplication; identify opportunities for cost saving and enhanced revenue

Governmentwide Improper Payments: Estimates Are Decreasing but Are Not Complete

- FY 2012 improper payment estimate: \$107.7 billion, a decrease of \$8 billion from the revised prior-year estimate
- Attributable to 75 programs/activities spread among 18 agencies
- Decrease largely from reduced error rates for Medicaid, SSA's Old Age, Survivors and Disability Insurance, and lower outlays for Unemployment Insurance and Earned Income Tax Credit
- 4 agencies did not report estimates for 10 risk-susceptible programs/activities
- 6 programs/activities that provided estimates in FY 2012 were not included in OMB's governmentwide totals because estimation methodologies were not OMB-approved

Governmentwide Improper Payments: Top 10 Program Improper Payment Estimates by Dollar Amount

Program	Agency	Reported Improper Payment Estimates	
		Dollars (in billions)	Error rate (percent of outlays)
Medicare Fee-for-Service	HHS	\$29.6	8.5%
Medicaid	HHS	\$19.2	7.1%
Medicare Advantage (Part C)	HHS	\$13.1	11.4%
Earned Income Tax Credit	Treasury	\$12.6	22.7%
Unemployment Insurance	DOL	\$10.3	11.4%
Supplemental Security Income	SSA	\$4.7	9.2%
Old Age, Survivors & Disability Insurance	SSA	\$3.2	.4%
Supplemental Nutrition Assistance Program	USDA	\$2.7	3.8%
Medicare Prescription Drug	HHS	\$1.6	3.1%
School Lunch	USDA	\$1.6	15.5%

Governmentwide Improper Payments: Administration and Congressional Action to Address Improper Payments

- Presidential Memoranda and Executive Orders
 - Set goals to reduce and recover improper payments
 - Initiated *Do Not Pay* program
- Congressional hearings
 - OMB and Inspectors General testimonies
 - GAO testimonies
- Legislation
 - IPIA 2002, IPERA 2010, IPERIA 2012
 - Disaster Relief Appropriations Act, 2013 - Hurricane Sandy assistance
- OMB
 - Provides implementation guidance for the Administration's initiatives and for enacted legislation
 - Included reducing improper payments as one of 14 cross-cutting goals under the GPRA Modernization Act

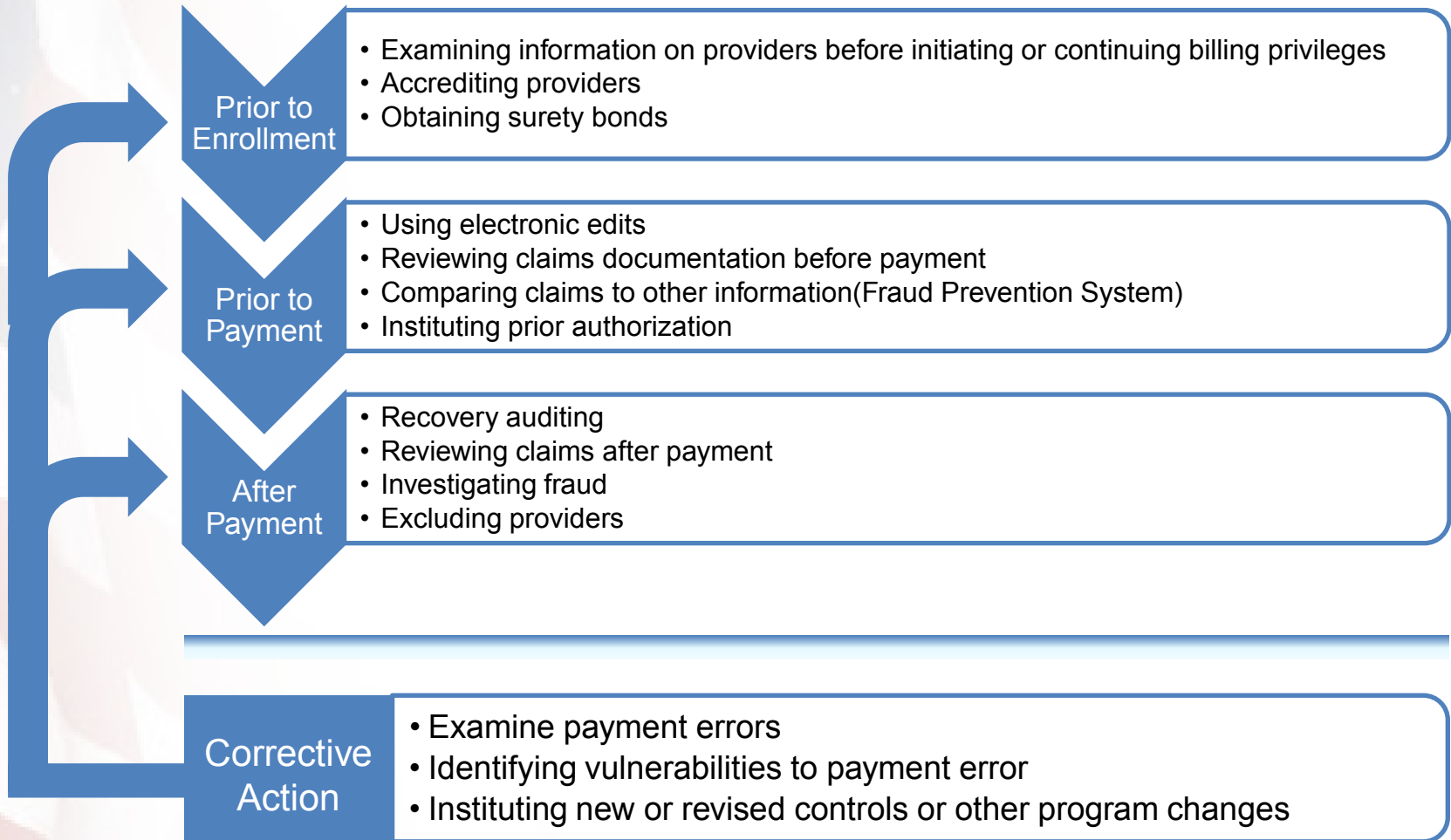
Governmentwide Improper Payments: Improper Payments Elimination and Recovery Improvement Act of 2012

- Enacted January 2013; supplements IPIA 2002 and IPERA 2010
- Among other things, this law —
 - Gives statutory authority for the *Do Not Pay* Initiative
 - Requires OMB to
 - annually designate “high-priority programs” that will be subject to additional oversight and reporting requirements
 - expand guidance for improving agency improper payments estimates
 - determine current and historical rates of improper payment recoveries, and recovery targets

Governmentwide Improper Payments: Future Initiatives to Reduce Improper Payments

- Agency and program initiatives needed to enhance actions underway across government:
 - Adopt sound risk assessment and estimation methodologies to better capture magnitude of the problem.
 - Identify root causes to help develop effective preventive and detective controls to reduce and recover improper payments.
- GAO initiatives
 - Emphasize reviews of programs with high improper payments
 - Medicare and Medicaid
 - Base future audit selection in part on GAO's program risk assessment, including Inspectors General IPERA compliance report findings.

Strategies That May Help Reduce Medicare Fee-For-Service Improper Payments



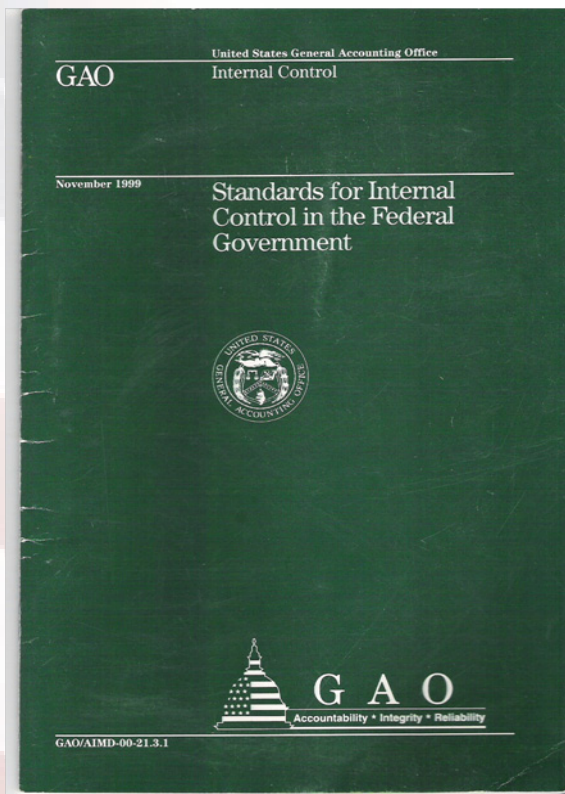
Improving Financial Management CFS FY 2012: Key Issues Driving the Disclaimer

- 3 major impediments consistent over time—areas on which to focus moving forward:
 - DOD: unauditable financial statements caused by serious financial management problems
 - Intragovernmental activity and balances
 - Ineffective preparation process
- Social Insurance Related Statements: significant uncertainties primarily related to achievement of projected reductions in Medicare cost growth reflected in the statements

CFS: Significant Progress and Moving Forward

- Vast majority of the 24 Chief Financial Officers Act agencies received unqualified opinions on their financial statements
- DHS has moved to an audit of all of its financial statements and has received, for the first time in FY 2012, a qualified opinion on such statements
- DOD has ongoing initiatives to achieve auditability
- Treasury has efforts under way to address intragovernmental and consolidated financial statement preparation issues
- Continued progress requires a strong and sustained commitment by federal entities and leadership by Treasury and OMB

Internal Controls: Updating GAO's Green Book



- GAO is required to issue standards for internal control in the government. (FMFIA, 1982)
- Standards provide the overall framework for:
 - Establishing and maintaining internal control and
 - Identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement.

Reasons for Green Book Update

- Last issued in November 1999. Changing landscape has become more global, complex, and technological, creating new risks and challenges.
- Maintain relevancy to changing standards.
- Opportunity to take advantage of new technology to make Green Book more user-friendly.
- Existing Green Book utilizes Committee of Sponsoring Organizations (COSO) internal control concepts, which are being updated (expected release is May 2013).
 - Update will detail the 5 components of internal control, 17 principles and points of focus.

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GAO's High-Risk List

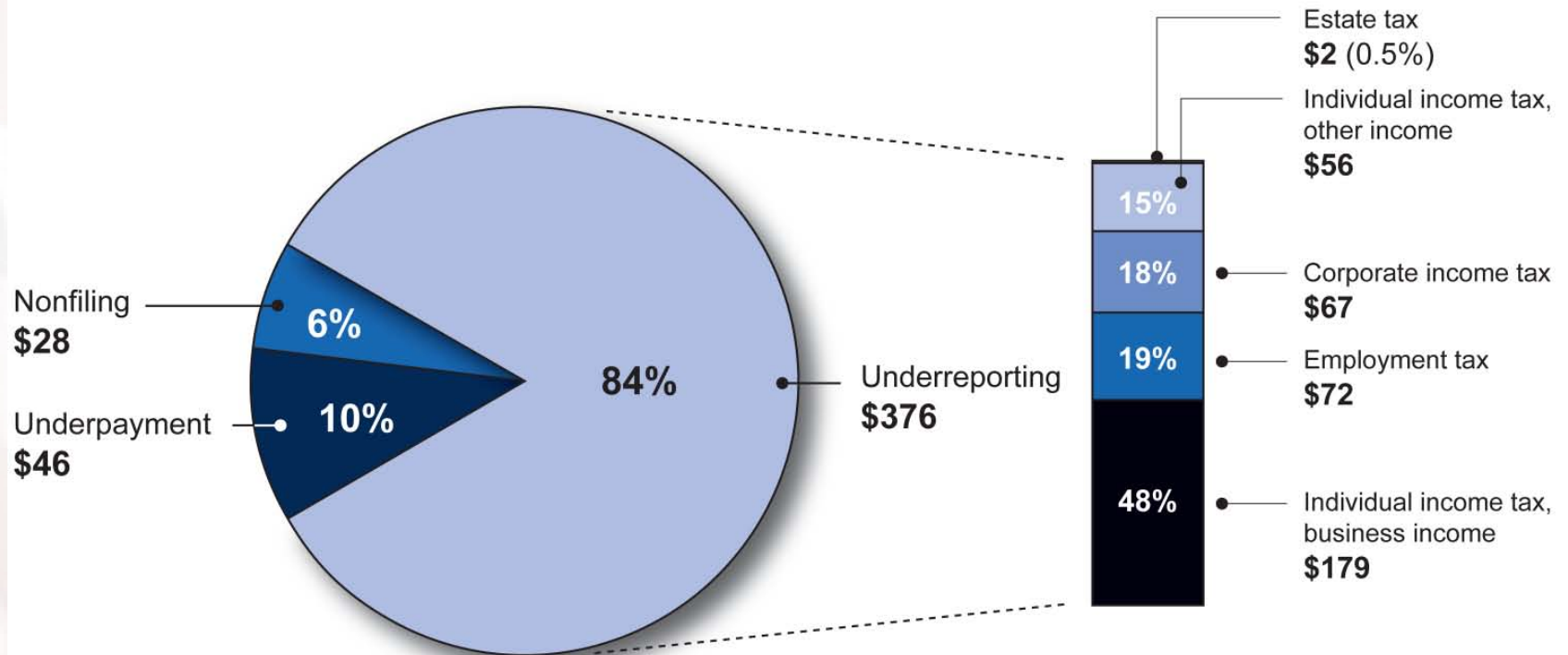
- Focuses on areas most in need of reform or most vulnerable to fraud, waste, abuse, and mismanagement
- 30 areas currently on GAO's High-Risk list
- Helps focus attention of both agencies and the Congress on important issues
- Began in the 1990s. Issued with each new Congress (i.e., every 2 years), most recently in February, 2013.

Examples of High Risk Areas

- Limiting the Federal Government's Fiscal Exposure by Better Managing Climate Change Risks (new in 2013)
- Mitigating Gaps in Weather Satellite Data (new in 2013)
- Financing Nation's Transportation System
- Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability
- Protecting Public Health Through Enhanced Oversight of Medical Products
- Modernizing the U.S. Financial Regulatory System and Federal Role in Housing Finance
- Enforcing Tax Laws

Tax Gap: Noncompliance is Spread Across Various Types of Taxes and Taxpayers

Tax Gap Components (Dollars in billions)



Source: GAO Analysis of IRS data.

Tax Gap: Closing the Gap Will Require Multiple Approaches

- No single approach is likely to fully and cost-effectively address tax gap, but the following strategies could help:
 - enhancing information reporting by third parties;
 - ensuring high-quality services to taxpayers;
 - devoting additional resources to IRS enforcement;
 - expanding compliance checks before IRS issues refunds;
 - Leveraging external resources such as paid tax preparers and whistleblowers
 - modernizing information systems; and
 - simplifying the tax code.

Mandate for GAO Duplication Reviews

- Requirement Enacted in 2010
- Reports issued in 2011, 2012, and 2013: identified 162 areas and about 380 suggested actions for executive branch agencies and Congress
 - Collectively, these reports show that the government could save tens of billions of dollars by addressing the issues we identified.
- 2013 report issued in April.
 - Identified 31 new issues: 17 areas of fragmentation, overlap, and duplication and 14 areas of potential cost savings or revenue enhancement.
 - Described status of issues identified in 2011 and 2012 reports and introduced *GAO's Action Tracker*.
- We will continue to look for new or emerging instances of fragmentation, overlap, and duplication, as well as cost savings and revenue enhancement opportunities.

Examples of New 2013 Annual Duplication Report Areas

Areas of Fragmentation, Overlap, or Duplication	Cost Saving or Revenue Enhancement Opportunities
<ul style="list-style-type: none">• Fragmentation in DOD's acquisition of combat uniforms• Duplicative federal geospatial investments• Overlapping Department of Homeland Security research and development activities• Overlap in the delivery of joint veterans and defense health care services• Duplication among federal efforts to inspect catfish	<ul style="list-style-type: none">• Reducing the cost of the Federal Crop Insurance program by reducing subsidies• Reducing the net tax gap through improved enforcement of tax laws• Cancelling the Medicare Advantage Quality Bonus Payment Demonstration• Reducing improper Medicaid Supplemental Payments through enhanced oversight• Reducing the cost of the government satellite program through innovative approaches

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What Does All This Mean for Federal Managers and the Accountability Community?

- Important role
- Stewardship for what you control
- Stewardship beyond what you control
 - Ideas for improved operations and program design
 - See programs/activities as part of a broader set that crosses agencies and levels of government

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