

**Accessible Version**

**Trends and Challenges in  
Government Accountability**

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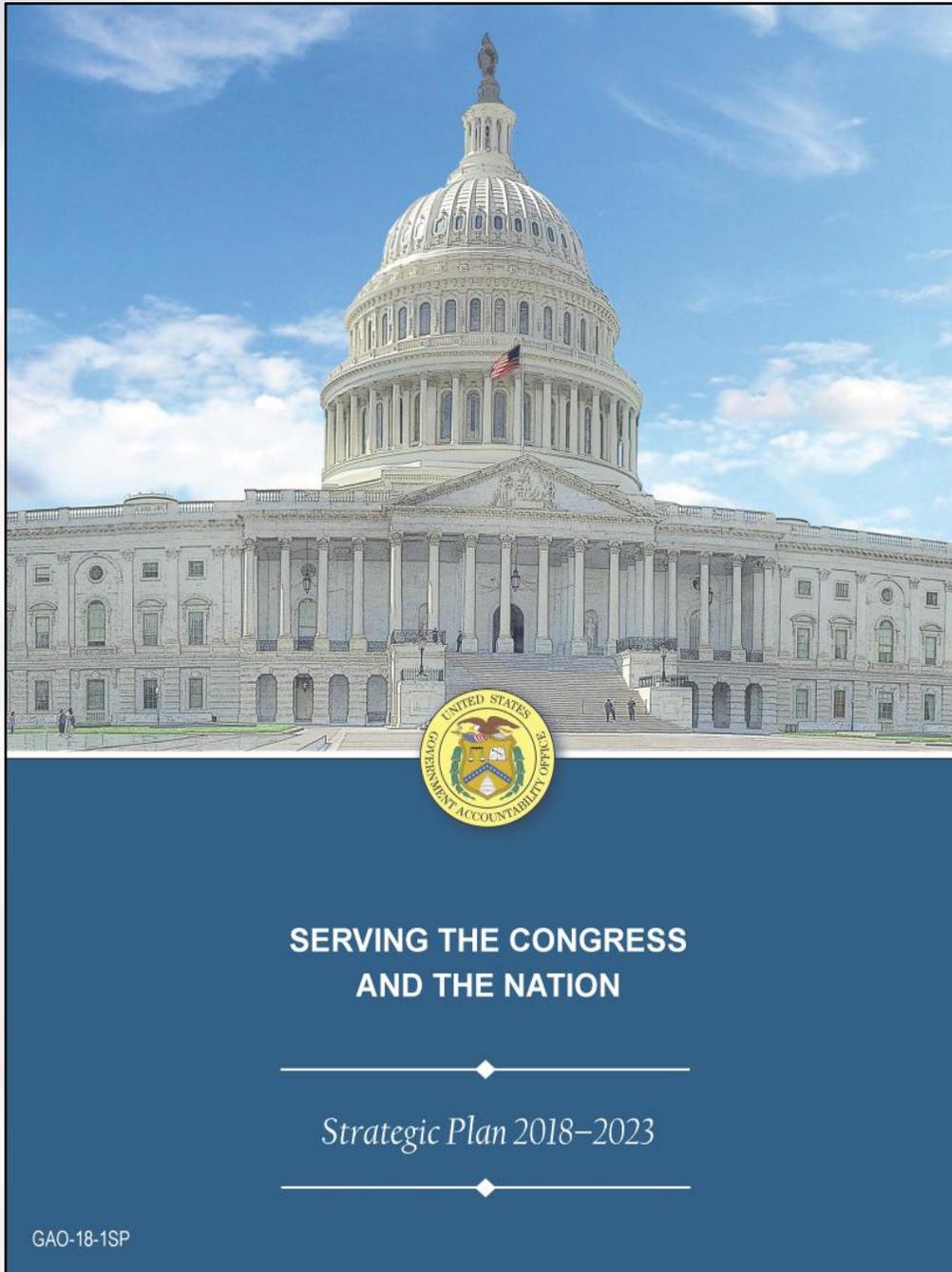
**AICPA Governmental Accounting and  
Auditing Update Conference  
Washington, DC - August 13, 2018**

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

# Overview

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- GAO's Strategic Plan
- Key trends and related audit work
- Government Auditing standards



# GAO Strategic Plan for 2018-2023

## 1. Goals & Objectives

## 2. Key Efforts

## 3. Trends Affecting Government and Society

# Trends Affecting Government & Society



**Global Security**



**Debt and Fiscal Outlook**



**Economics, Trade, & Connectedness**



**Education and Employment**



**Changes in People and Society**



**Science & Technology**



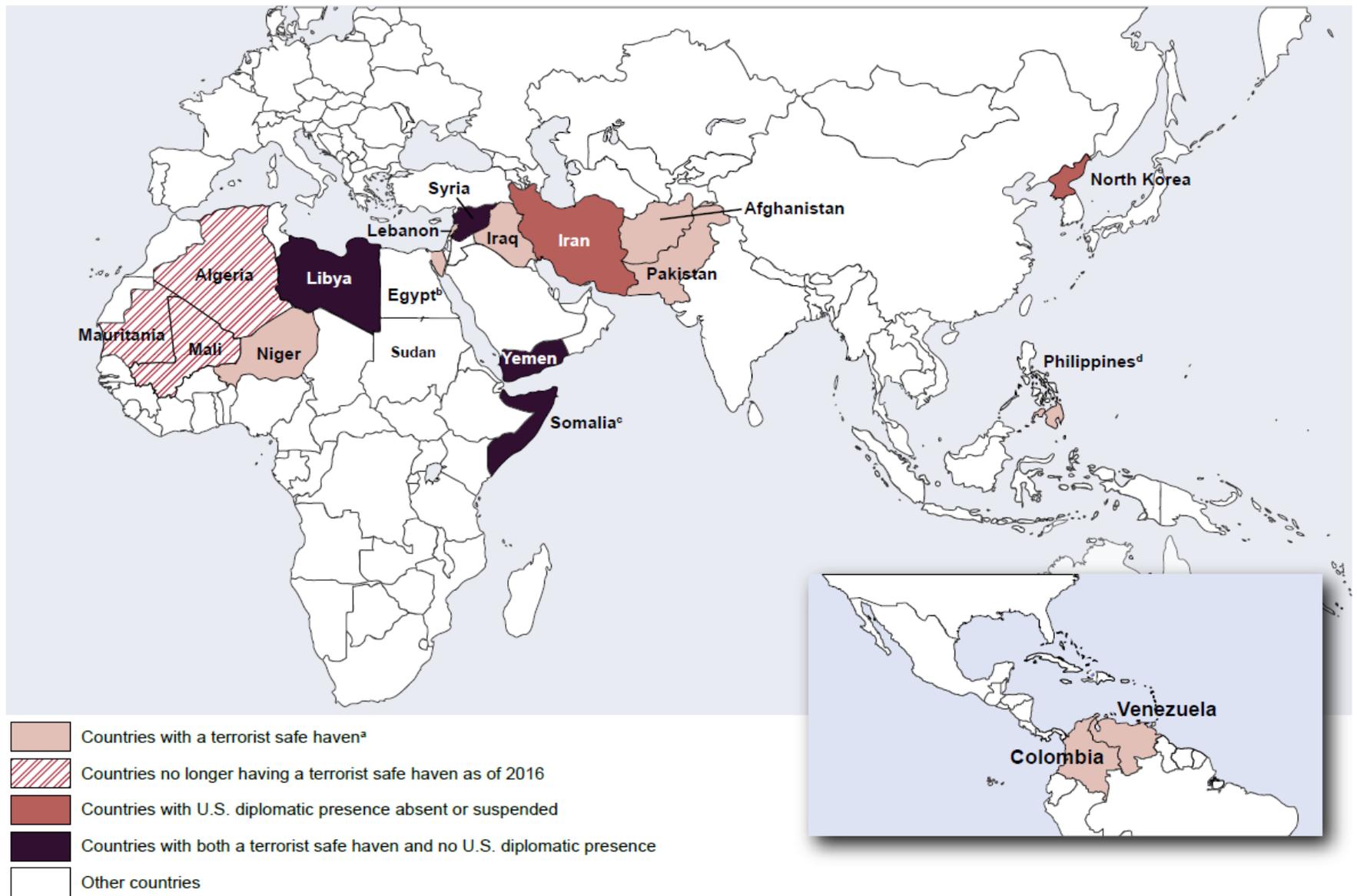
**Government and Governance**



**Environment and Sustainability**

# Trend 1: Global Security

## Terrorism Safe Havens and U.S. Diplomatic Presence, as of 2016



Sources: GAO analysis of Department of State data; Map Resources (map). | GAO-18-1SP

<sup>a</sup>In addition, Iran, Sudan, and Syria are designated state sponsors of terrorism.

<sup>b</sup>Egypt: Safe Haven designation limited to the Sinai Peninsula.

<sup>c</sup>Somalia: The Secretary of State announced in May 2015 that the United States would reopen a diplomatic facility in Mogadishu at an unspecified date.

<sup>d</sup>Philippines: Southern islands and the littoral regions of the Sulu and Sulawesi Seas shared with Indonesia and Malaysia.

# Trend 1: Global Security



United States Government Accountability Office  
Report to Congressional Addressees

June 2017

## DEPARTMENT OF DEFENSE

Actions Needed to  
Address Five Key  
Mission Challenges

GAO-17-369

***1. Rebalancing forces /  
rebuilding readiness***

***2. Cyber threats /  
cyber capabilities***

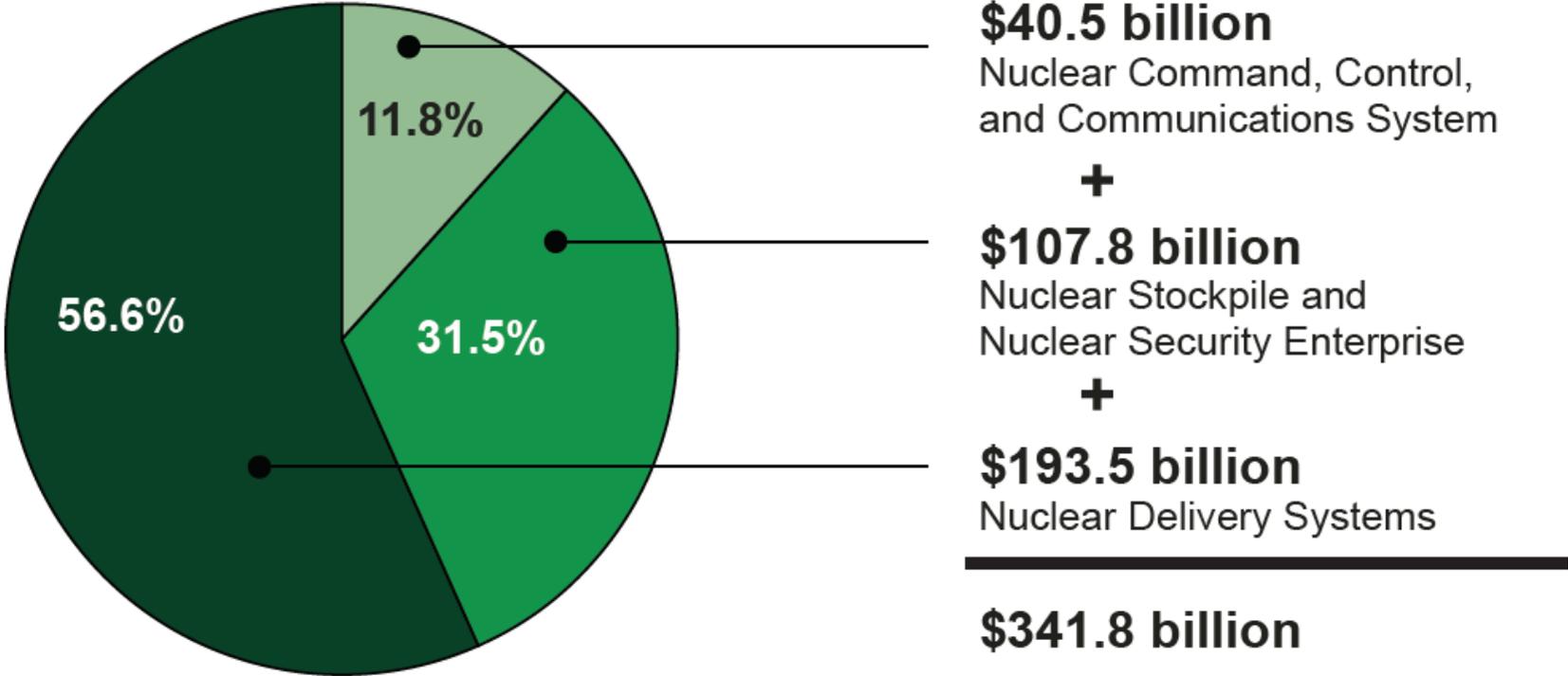
***3. Control of program costs***

***4. Human capital  
management***

***5. Business operations***

# Trend 1: Global Security

## 10-year Estimates for Sustaining and Modernizing the U.S. Nuclear Deterrent



Source: GAO analysis of DOD and DOE data. | GAO-18-1SP

# Trend 1: Global Security

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## Related GAO Work

- Analyze the implementation of U.S. and international efforts to **counter threats** at home and abroad.
- Assess efforts to strengthen the **cybersecurity** of critical infrastructure and federal government assets.
- Assess DOD's ability to meet operational demands, **rebalance forces**, and **rebuild readiness** in an evolving global security environment.
- Assess efforts to sustain and **modernize the capabilities** of U.S. military forces and weapons systems, including the **nuclear security enterprise** and **nuclear force** structure.
- Assess U.S. **emergency preparedness** and efforts to strengthen **resilience**.
- Review efforts to manage the effects of **foreign investment** and a **global supplier base** on U.S. national security interests.

# Trend 2: Debt and Fiscal Outlook

## Federal Debt Held by the Public as a Share of GDP (1790-2018)

Percentage of gross domestic product

120

100

80

60

40

20

0

1790 1810 1820 1830 1840 1850 1860 1870 1880 1890 1900 1910 1920 1930 1940 1950 1960 1970 1980 1990 2000 2010 2018\*

Fiscal year

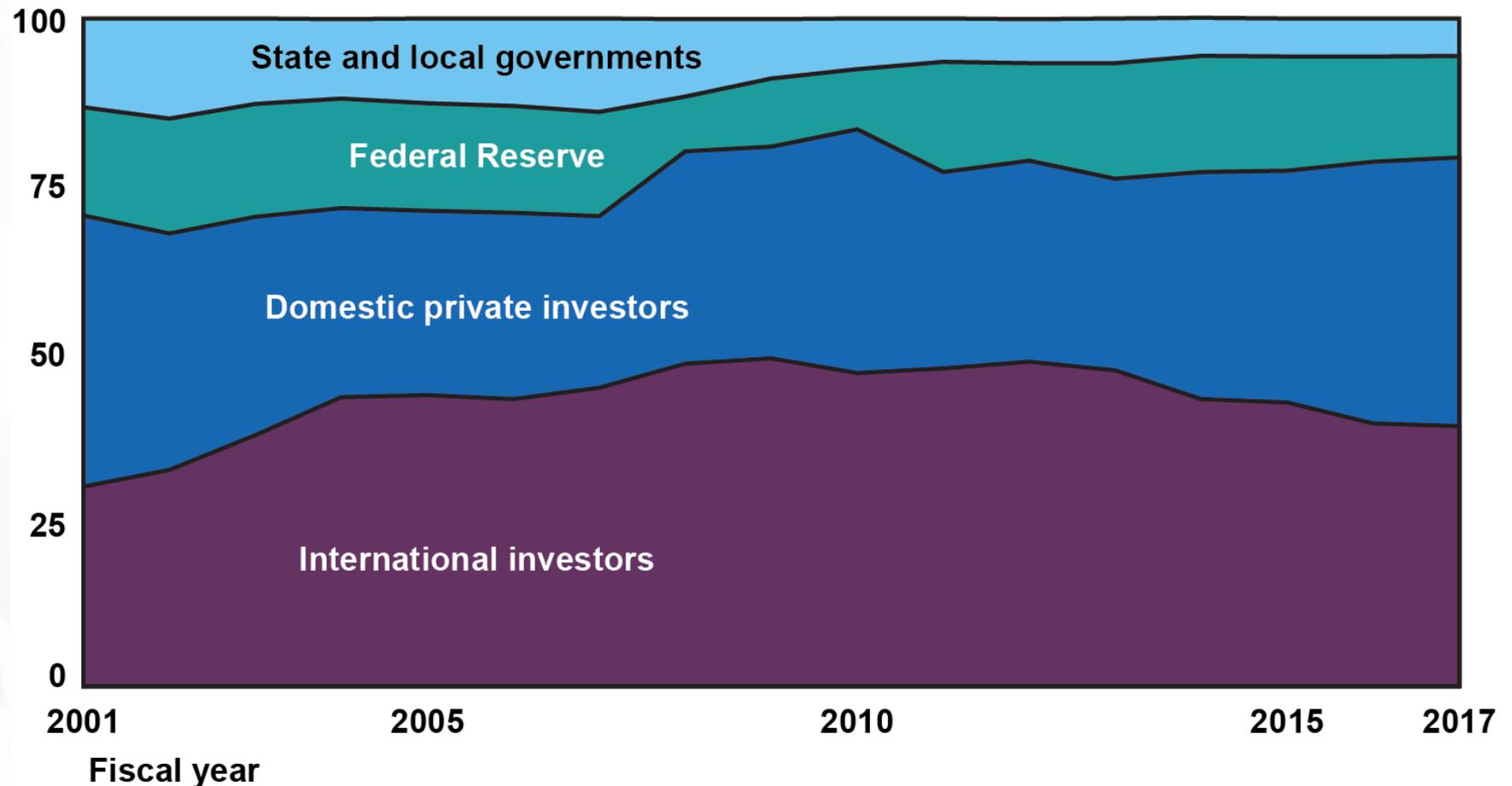
\* Note: 2018 projected

Source: GAO analysis of Congressional Budget Office data and 2017 *Financial Report*.

# Trend 2: Debt and Fiscal Outlook

## Distribution of Ownership of Debt Held by the Public

Percentage of total debt held by the public



Source: GAO analysis of data from the Federal Reserve, Financial Accounts of the United States.

# Trend 2: Debt and Fiscal Outlook

## Net interest spending

Category	FY 2017	FY 2028*	FY 2046*	FY 2059*	FY 2091*
<b>Nominal dollars (billions)</b>	263	939	4,167	10,407	74,966
<b>As a percentage of total federal spending (%)</b>	6.6	13.6	21.6	28.1	40.8

Source: GAO's 2018 alternative simulation.

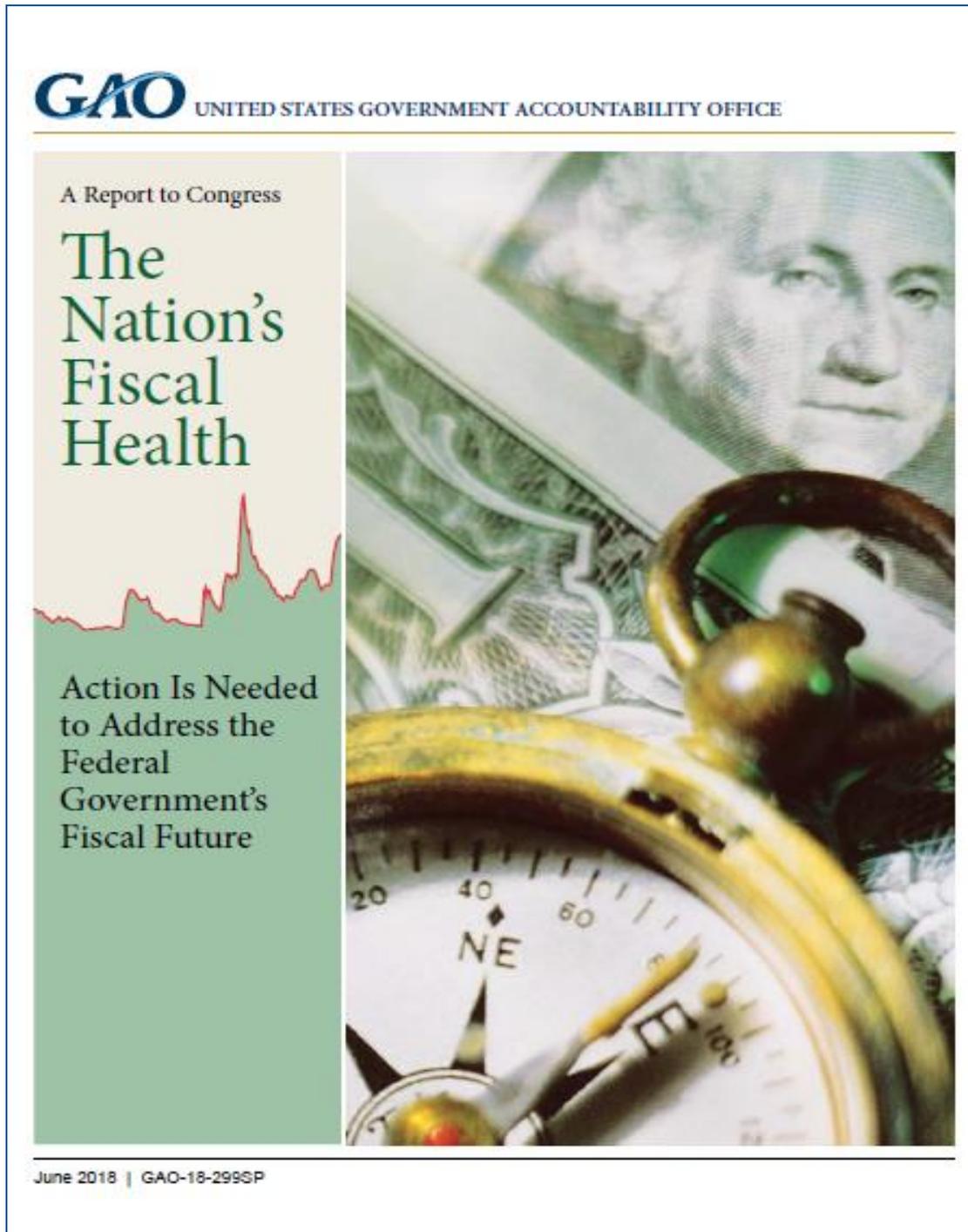
\* Figures after FY2017 are projected.

## Trend 2: Debt and Fiscal Outlook

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- In its June 2018 Long-Term Budget Outlook, CBO estimates that the **debt-to-GDP ratio** will be
  - 96% by 2028
  - 107% by 2034
- CBO projects that **net interest on the debt** will roughly triple by 2028 in nominal terms and roughly double when measured as a percentage of GDP (from 1.6% in 2018 to 3.1% in 2028)
- By 2048, CBO projects that net interest will be 6.3% of GDP
- In CBO's baseline projections, **federal deficits** are projected to reach **\$1 trillion in 2020** and **average \$1.2 trillion per year**.

# Trend 2: Debt and Fiscal Outlook



# Trend 2: Debt and Fiscal Outlook

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## Related GAO Work

- Perform long-term **fiscal simulations** and analyzing the drivers of the fiscal position of **federal** and **state and local sectors**, including **tax policy, health, disability & retirement programs**.
- Analyze **federal debt** and **debt management**.
- Identify and recommend solutions to reduce the risk of **waste, fraud, and abuse** and **improper payments**.
- Identify opportunities to reduce the **tax gap** and further protect **revenue**.
- Identify opportunities to reduce or eliminate **fragmentation, overlap, and duplication** in government programs and activities.
- Improve the quality of **financial and cost information**.

# Important Areas for the Accountability Community

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- High Risk List
- Fragmentation, Overlap and Duplication
- Improper Payments
- DATA Act
- Fraud Reduction and Data Analytics Act

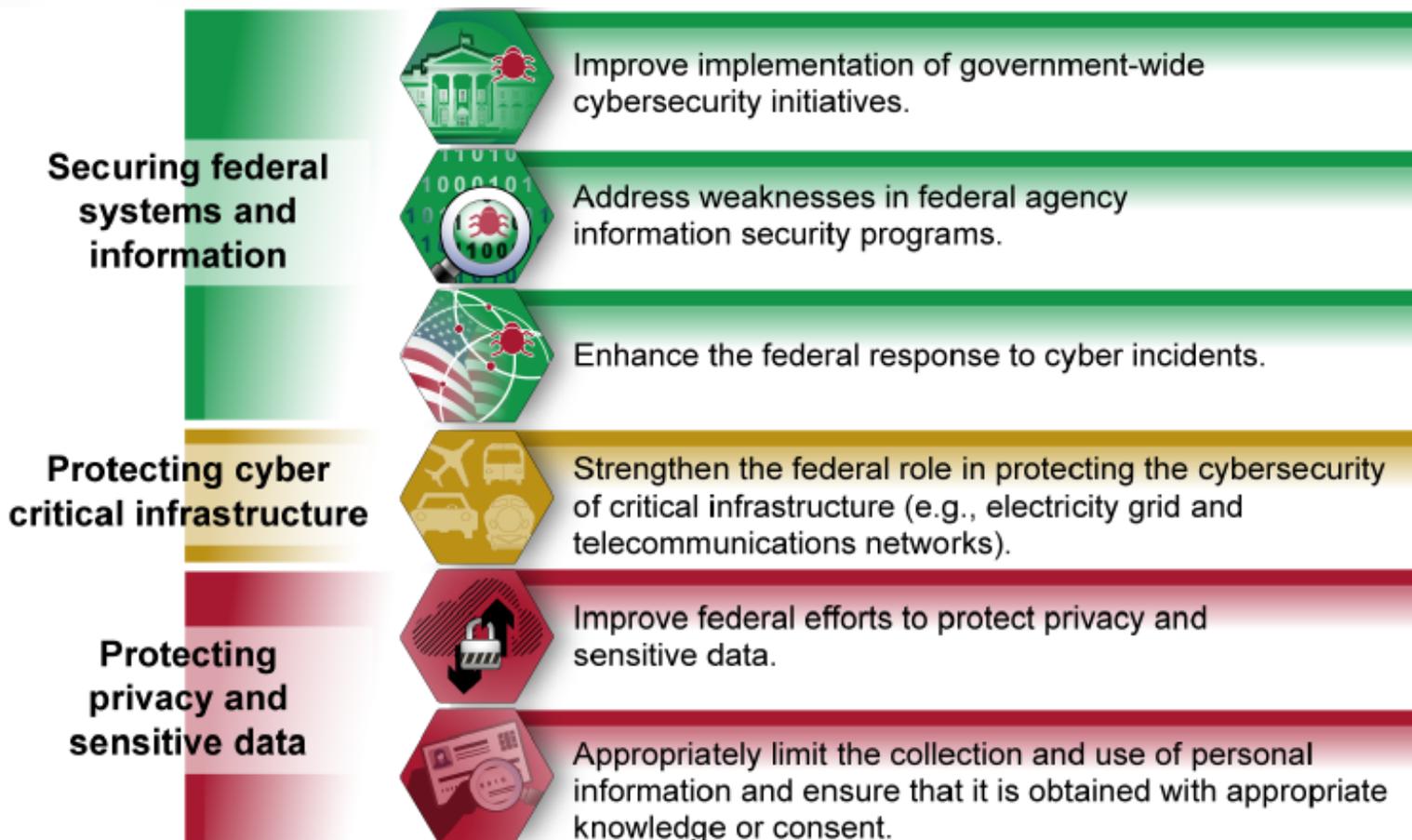
# High Risk: Cybersecurity Challenges

- 4 major cybersecurity challenges & 10 critical actions to address them



# High Risk: Cybersecurity Challenges

- 4 major cybersecurity challenges & 10 critical actions to address them (cont'd)

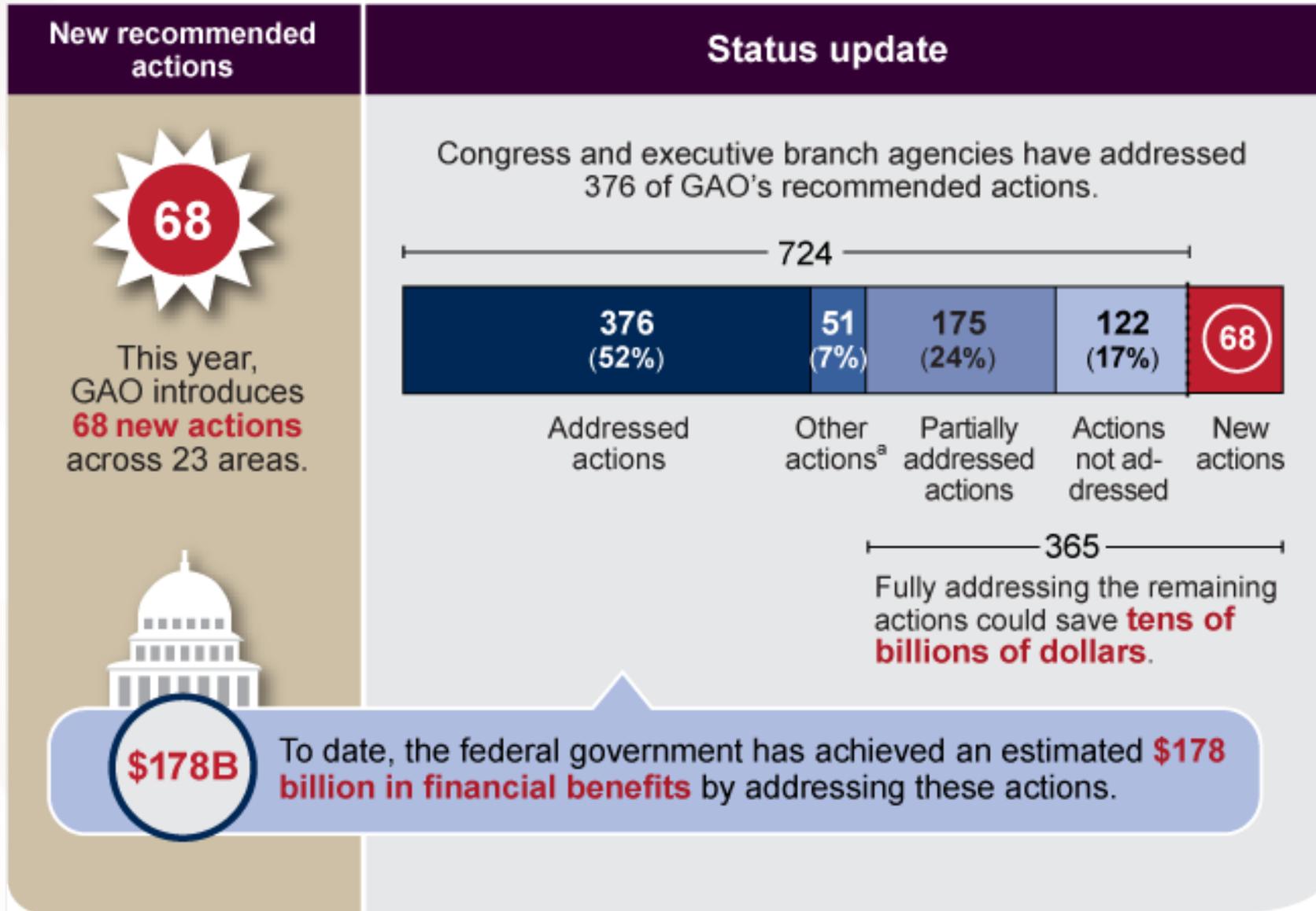


# GAO's High Risk List

## Criteria for Removal from GAO's High Risk List



# Fragmentation, Overlap, and Duplication



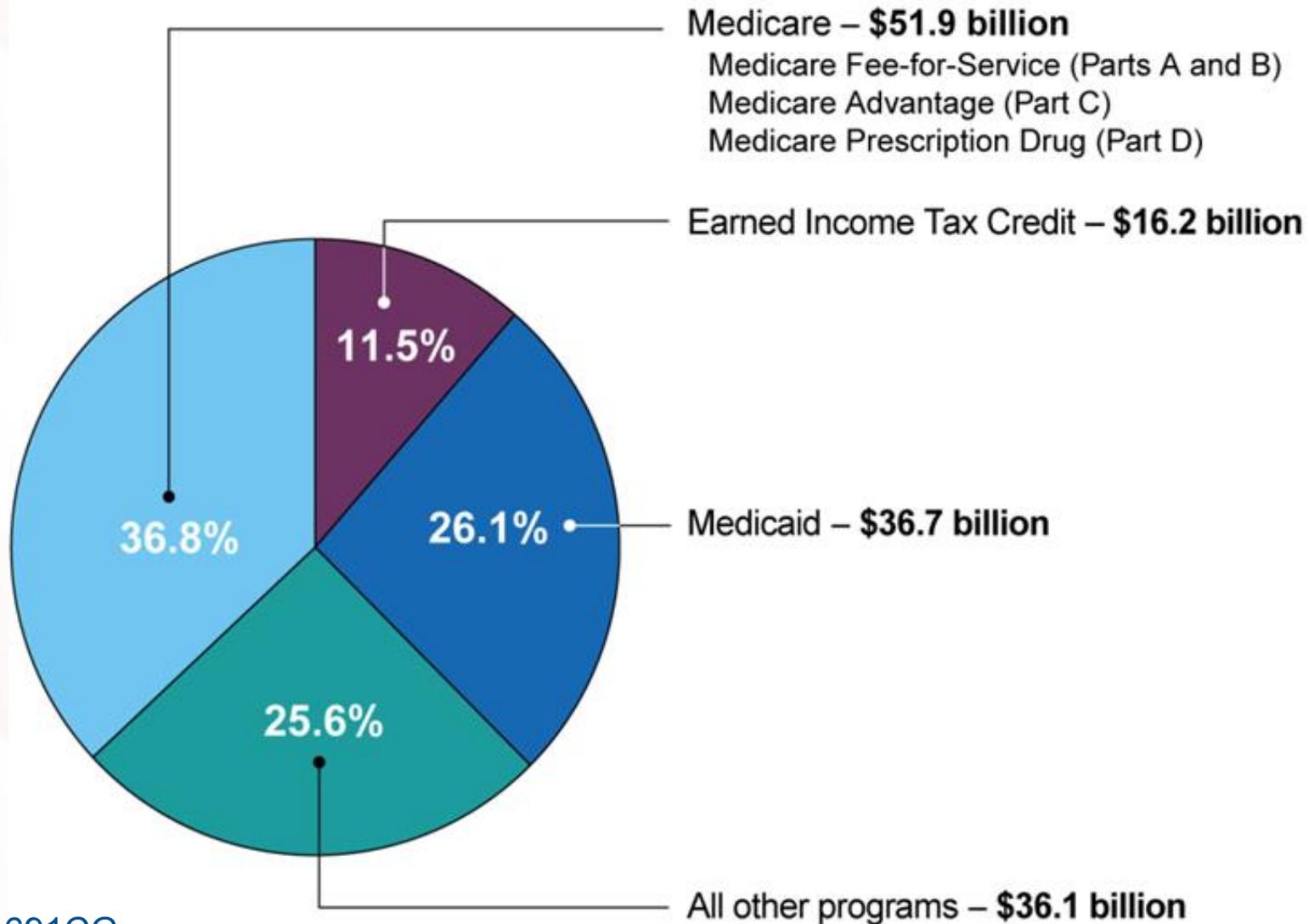
Source: GAO. | GAO-18-371SP

Data as of March 2018

<sup>a</sup>Other actions include those that were consolidated or closed-not addressed. These actions are no longer assessed.

# Improper Payments

FY2017 improper payment estimates are approximately \$141 billion



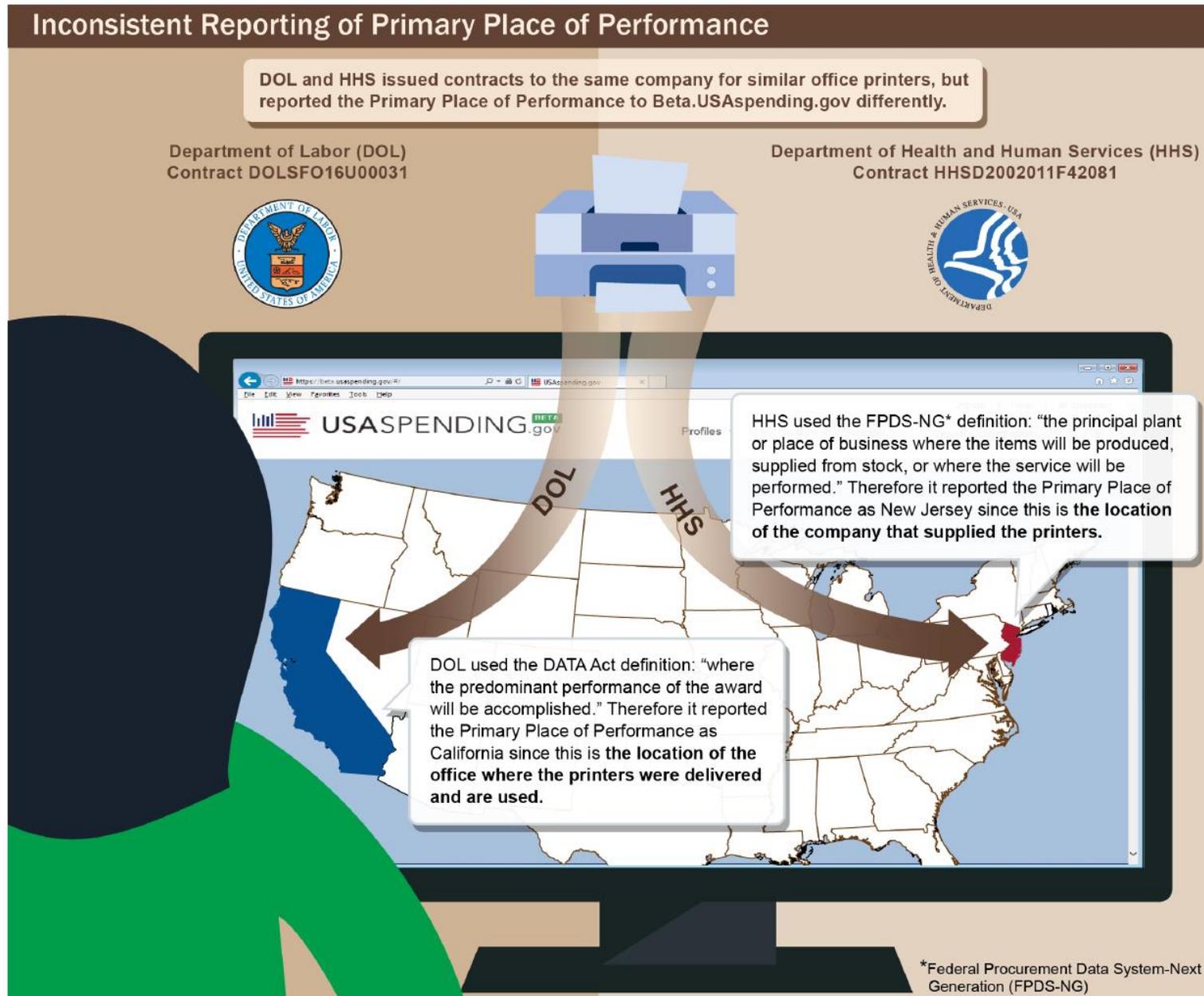
# DATA Act

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- Increases transparency of over \$3.7 trillion in annual federal spending
- Requires OMB and Treasury to establish standards
- GAO's first review of the quality of the data was in November 2017
  - Completeness of data
  - Accuracy of data
  - Use of data elements
- Review of OIG reports

# DATA Act

## Different Definitions Affect Reporting



Source: GAO analysis of Beta.USAspending.gov database, downloaded on 5/24/2017. | GAO-18-138

# Fraud Reduction and Data Analytics Act

## What are the requirements of the Fraud Reduction and Data Analytics Act of 2015?



The Office of Management and Budget (OMB) must establish guidelines that incorporate leading practices from GAO's Fraud Risk Management Framework.



Agencies are required to establish financial and administrative controls, to include, among other things, evaluating fraud risks, designing and implementing related antifraud controls, and using data to monitor fraud trends.



OMB must establish a working group to improve the sharing of controls and other best practices for addressing fraud and development of data-analytics techniques.



The working group must submit a plan to the Congress for establishing a federal interagency library of data analytics and data sets that can be used to address fraud.



Federal agencies must report to the Congress for 3 years, as part of their annual financial reporting, on their progress in implementing OMB's guidelines and other antifraud guidance, identifying fraud risks, and establishing steps to reduce fraud.

Source: GAO analysis of legislation. | GAO-18-1SP

# GAO Fraud Risk Management Framework

It includes leading practices in four components:

**Commit** to combating fraud by creating an organizational structure and culture conducive to fraud risk management.

**Assess** fraud risks and document the assessment in a fraud risk profile.



**Evaluate** outcomes and **adapt** fraud risk management activities for continuous improvement.

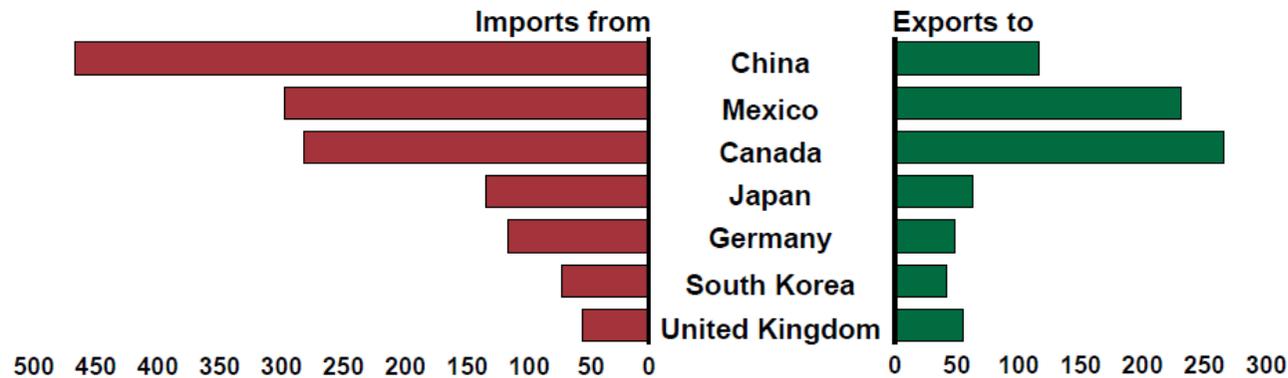
**Design and Implement** a strategy with control activities to mitigate fraud risks.

The Framework emphasizes using a risk-based approach and focusing on fraud prevention. The practices may be tailored to a program's operations, environmental factors, and risks.

# Trend 3: Economics, Trade, & Connectedness

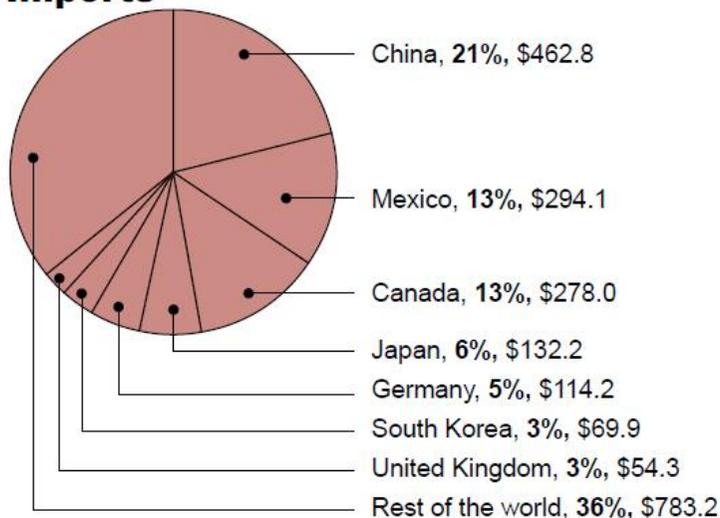
## Overview of U.S. International Trade

U.S. merchandise trade with top 7 partners in 2016 (dollars in billions)

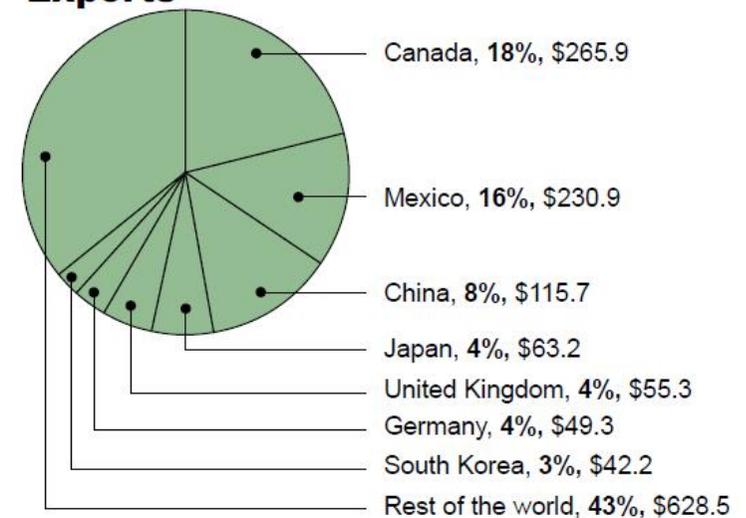


Top seven U.S. markets in 2016  
Merchandise trade (dollars in billions)

### Imports



### Exports



Source: GAO analysis of U.S. Department of Commerce data. | GAO-18-1SP

# Trend 3: Economics, Trade, & Connectedness

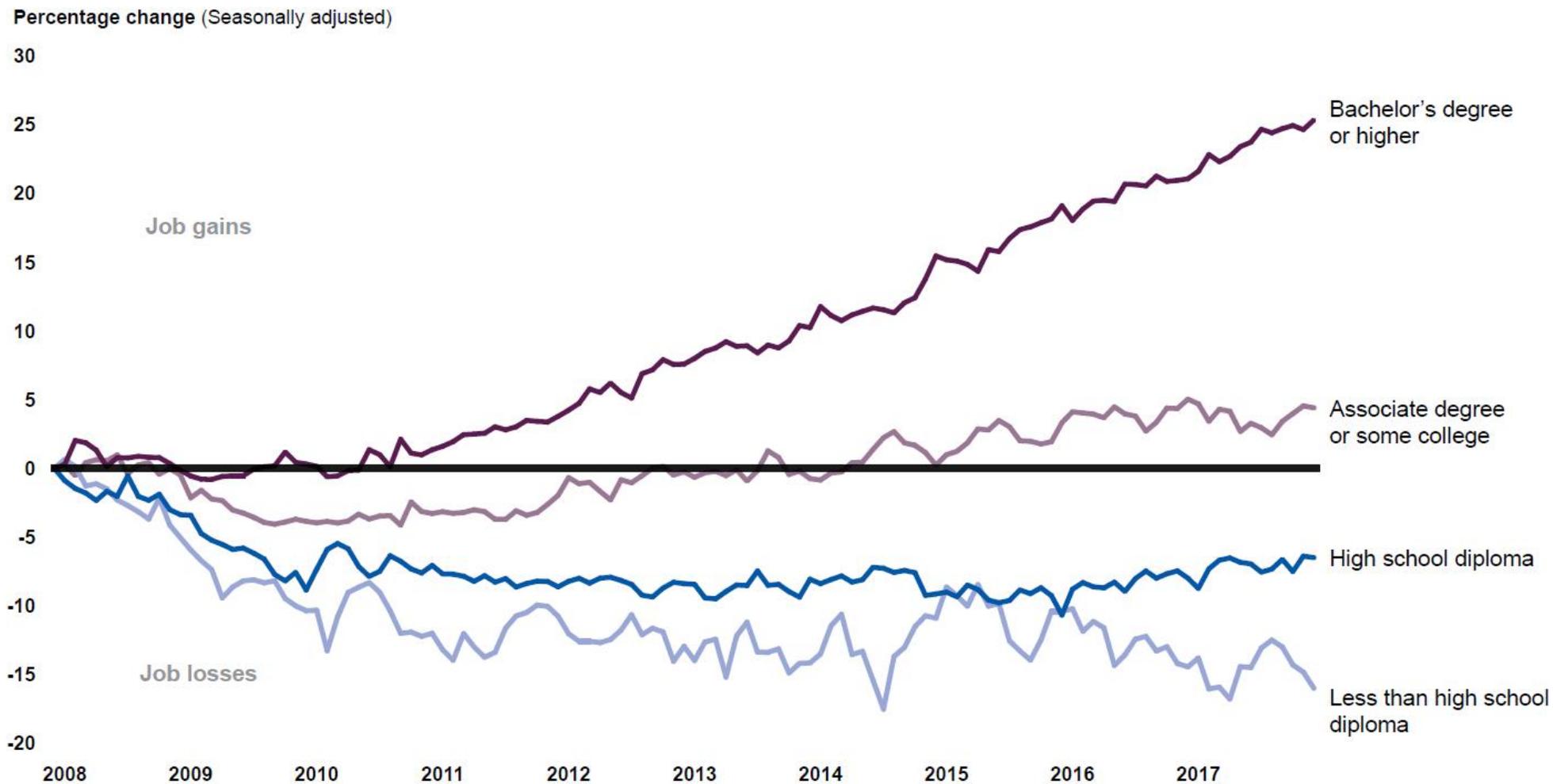
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## Related GAO Work

- Assess the ability of regulators to oversee the **financial services** industry and maintain a stable, competitive, and efficient financial system.
- Assess federal oversight of **consumer protection** laws and regulations, including efforts to ensure a safe **food supply** and **medical products**.
- Analyze how **international trade programs** serve U.S. interests, including export financing and trade enforcement.
- Analyze the implementation and management of U.S. bilateral and multilateral **foreign assistance**.

# Trend 4: Education and Employment

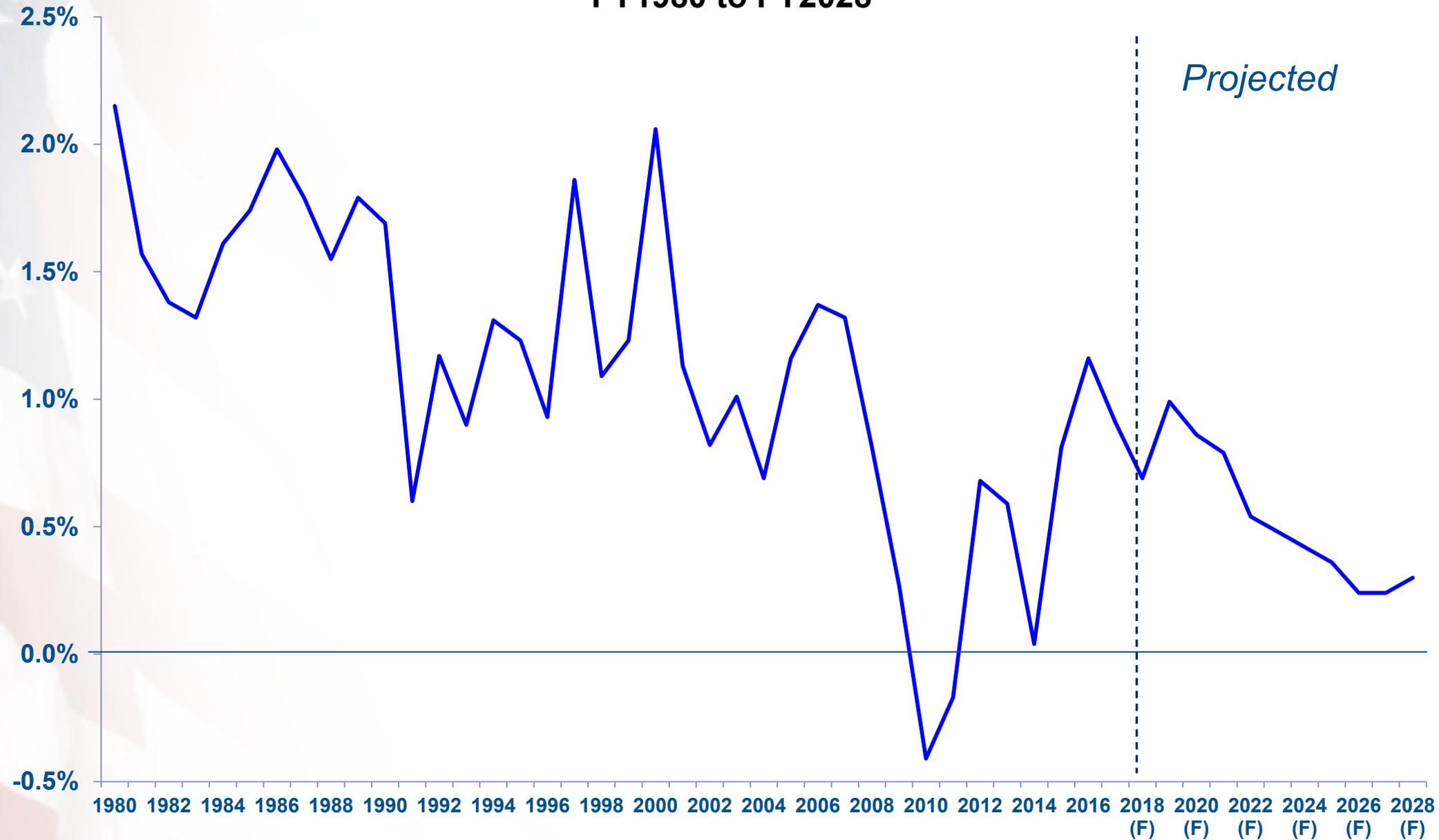
## Changes in Employment by Education level, 2008-2017



Source: GAO analysis of data from the Bureau of Labor Statistics, U.S. Department of Labor. | GAO-18-1SP

# Trend 4: Education and Employment

Percentage Annual Growth in Civilian Labor Force (16 years and older)  
FY1980 to FY2028



Sources: BLS for actual 1980-2017 data. CBO for projected 2018-2028 data.

# Trend 4: Education and Employment

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- New technologies affect the types of jobs that are available and the specific job skills required
- Innovation may lead to a mix of job creation and job loss
- Changes will create strains on education and workforce systems alike
- Composition of the workforce is changing
  - Workforce participation expected to rise for those aged 65+ by 2026
  - Participation in the civilian workforce is shrinking

# Trend 4: Education and Employment

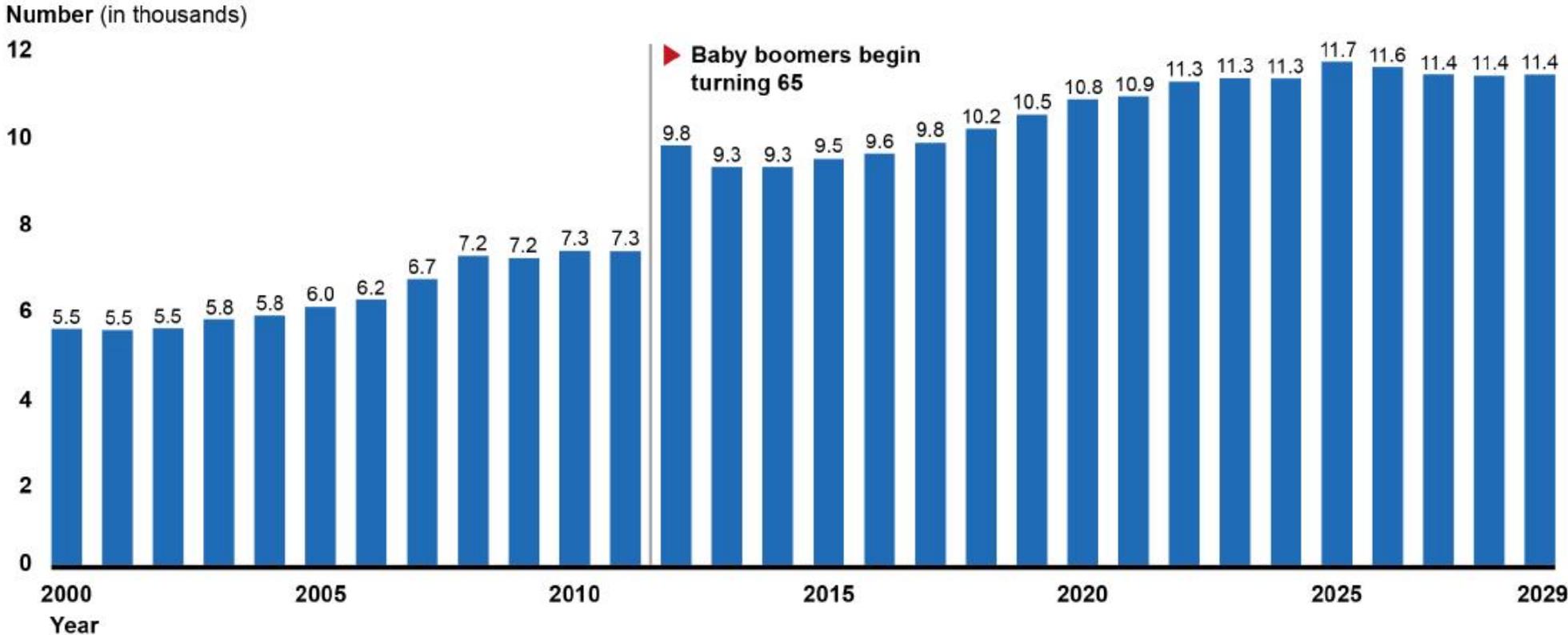
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## Related GAO Work

- Assess policy and administrative challenges to improving school readiness and **K-12 education**.
- Evaluate management and oversight of **student aid** programs, as well as programs and policies designed to promote postsecondary **access** and **affordability**.
- Evaluate federal efforts to oversee and manage employment and **training programs** in an evolving economy.
- Evaluate federal and state efforts to collaborate and implement the **Workforce Innovation and Opportunity Act**.
- Evaluate federal efforts to provide employment assistance for transitioning **veterans**.

# Trend 5: Changes in People and Society

## Daily Average Number of People Turning 65

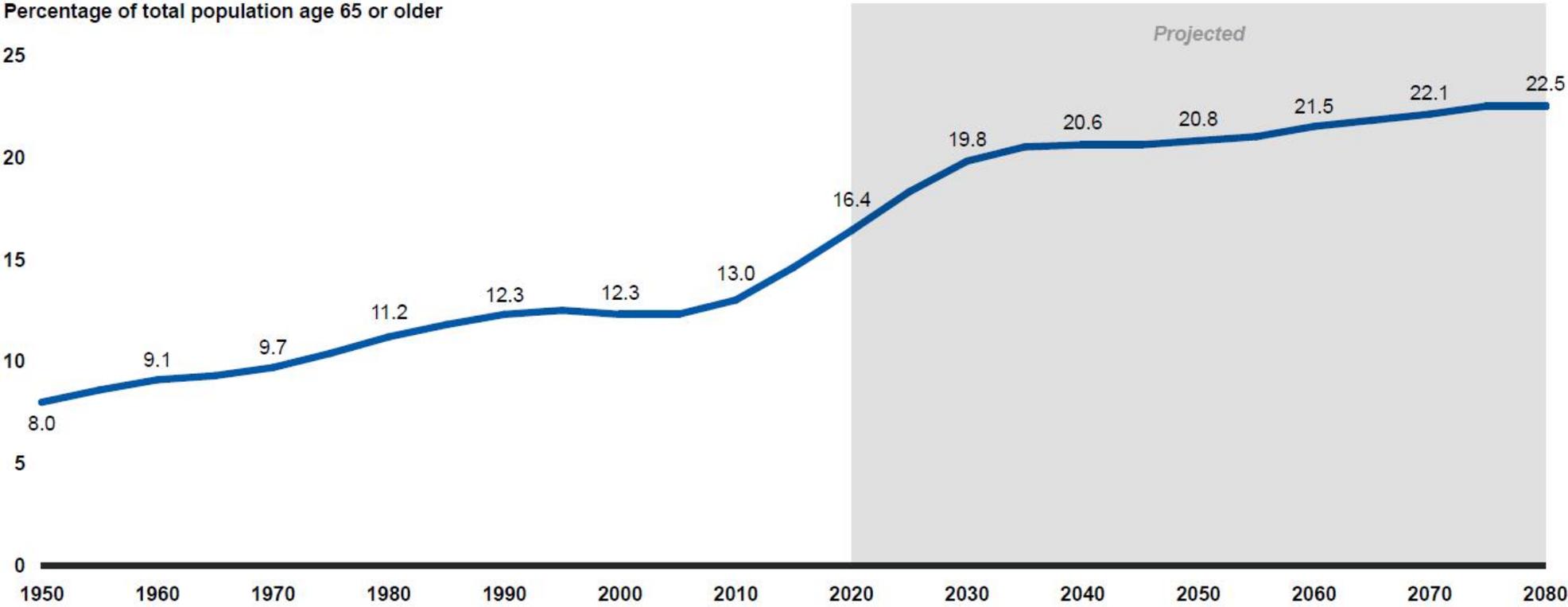


Source: GAO analysis of U.S. Census Bureau information. | GAO-17-237SP

Note: Census data estimates of population are as of July 1 in each year.

# Trend 5: Changes in People and Society

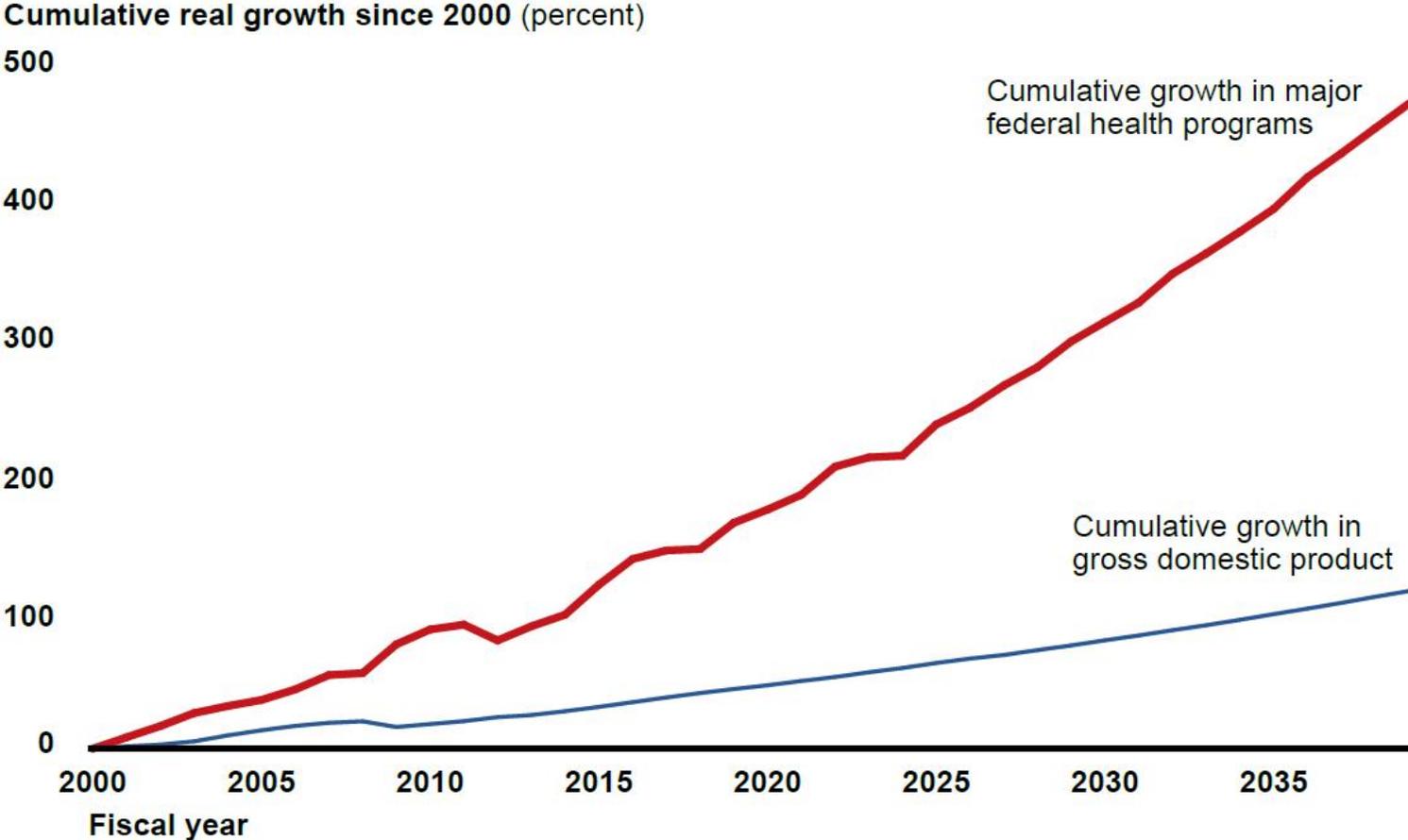
## Older Americans Comprise an Increasing Share of the Total Population



Source: GAO analysis of data from the Office of the Chief Actuary, Social Security Administration (intermediate assumptions). | GAO-18-1SP

# Trend 5: Changes in People and Society

## Federal Spending on Major Health Care Programs Grows Faster Than GDP

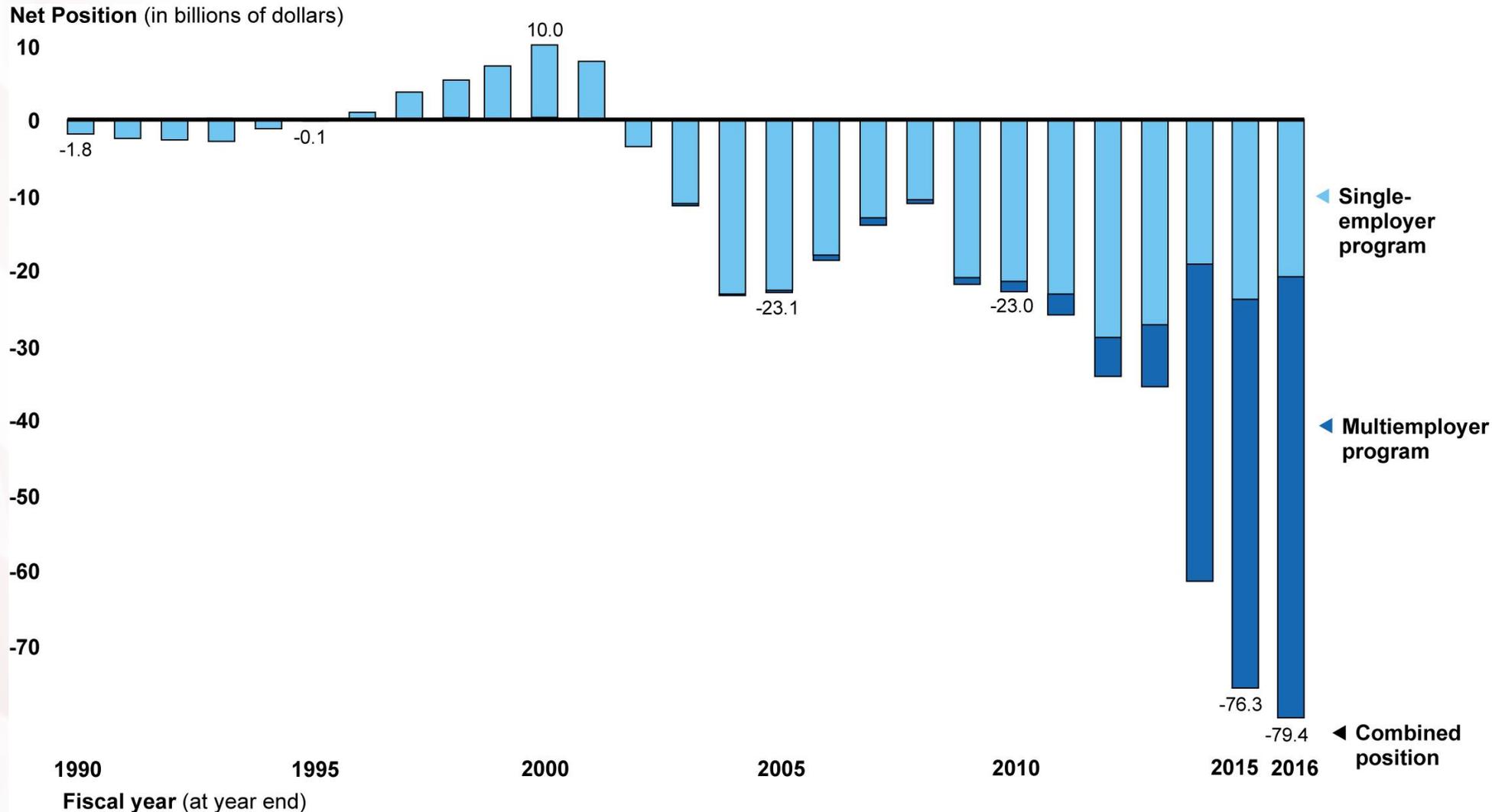


Source: GAO analysis of Congressional Budget Office data. | GAO-18-1SP

Note: Data after fiscal year 2015 are projected.

# Trend 5: Changes in People and Society

## The Pension Benefit Guaranty Corporation's Net Position Is Declining



Source: Pension Benefit Guaranty Corporation financial data. | GAO-17-237SP

# Trend 5: Changes in People and Society

A Report to Congress

**GAO** U.S. GOVERNMENT ACCOUNTABILITY OFFICE

## The Nation's Retirement System

A Comprehensive Re-evaluation Is Needed to Better Promote Future Retirement Security



October 2017 | GAO-18-111SP

The report cover features a collage of diverse people's faces and a central image of a piggy bank with money. The faces are arranged in two rows: the top row has four people (a man in military uniform, an older woman, a young girl, and a man), and the bottom row has eight people of various ages and ethnicities. The piggy bank is white and sits on a dark surface with several US dollar bills scattered around it.

# Trend 5: Changes in People and Society

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## Related GAO Work

- Assess trends affecting the **health care** system, including costs and issues in public and private **health insurance** coverage and reforms.
- Evaluate financing, expenditures, and oversight of **Medicare** and **Medicaid**.
- Assess efforts to reduce **fraud, waste, and abuse** in federal health care programs.
- Assess the challenges to providing **Social Security** and other benefits for older adults in **retirement**, as well as the adequacy and effectiveness of **employer-sponsored retirement plans** in providing security to older adults.
- Assess actions and options for improving **VA** and **DOD health care** services.
- Review the policies and administration of programs that could enable older adults to maintain their **independence**.

# Trend 6: Science and Technology

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Five emerging trends will potentially transform society



**Genome editing**



**AI and automation**



**Quantum information science**



**Brain-computer interfaces and augmented reality**



**Cryptocurrencies and blockchain**

# Trend 6: Science and Technology

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## **New office planned within GAO to focus on science and technology**

- Technology assessments and assistance
- Oversight of federal science activities
- Technical audit support in engineering, advanced analytics, and cybersecurity

# Trend 6: Science and Technology

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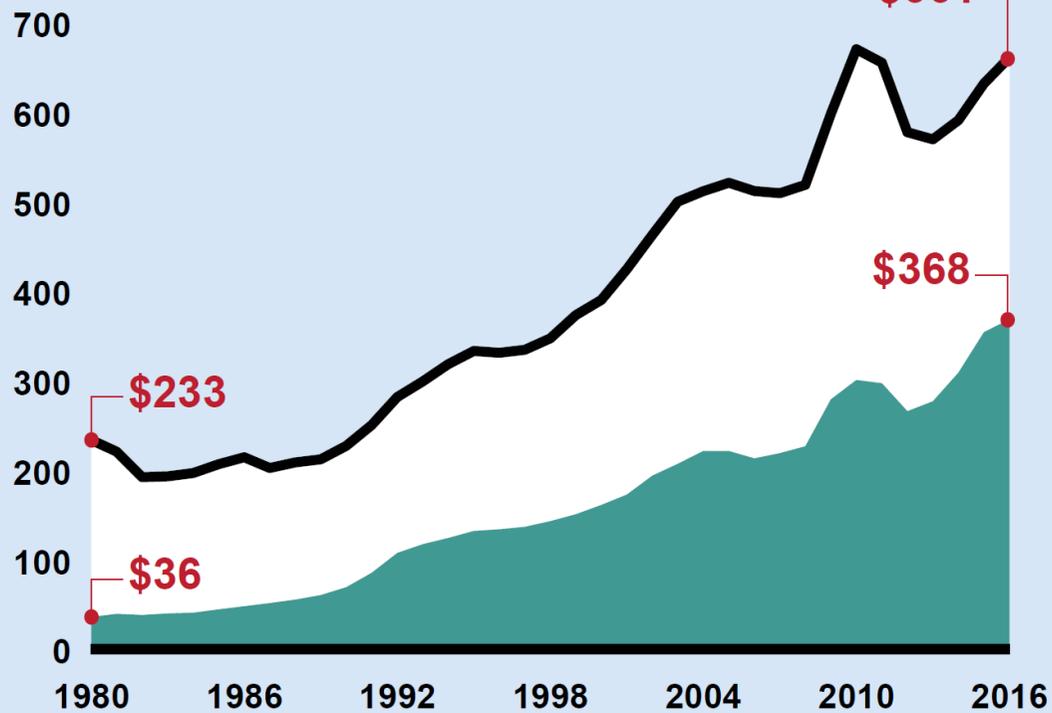
## Related GAO Work

- Perform **technology assessments** in areas such as health care AI, blockchain, electromagnetic pulse events, flu vaccines, antibiotic resistance, and airport security.
- Evaluate the **technology readiness** and performance of **complex weapons systems**, such as the Columbia class ballistic submarine, military space systems, and U.S. nuclear forces.
- Assess cost and schedule performance of major **NASA** and **DOD** science and technology programs and acquisitions.
- Examine federal efforts to protect **intellectual property**, enhance **information security**, safeguard **privacy**, and promote **innovation**.
- Review the effectiveness and governance of federal **IT investment**.
- Assess federal investments and programs that support **transportation infrastructure** and associated new technologies.
- Assess federal military and civilian **satellite programs** and efforts to support and oversee **telecommunications** in the public interest.

# Trend 7: Government and Governance

## Total Federal Outlays for Grants to State and Local Governments, FY 1980–2016

2016 constant dollars (in billions)



Fiscal year

- Federal grant outlays to state and local governments
- Non-Medicaid federal grant outlays
- Medicaid federal grant outlays

Source: GAO analysis of OMB data.

# Trend 7: Government and Governance

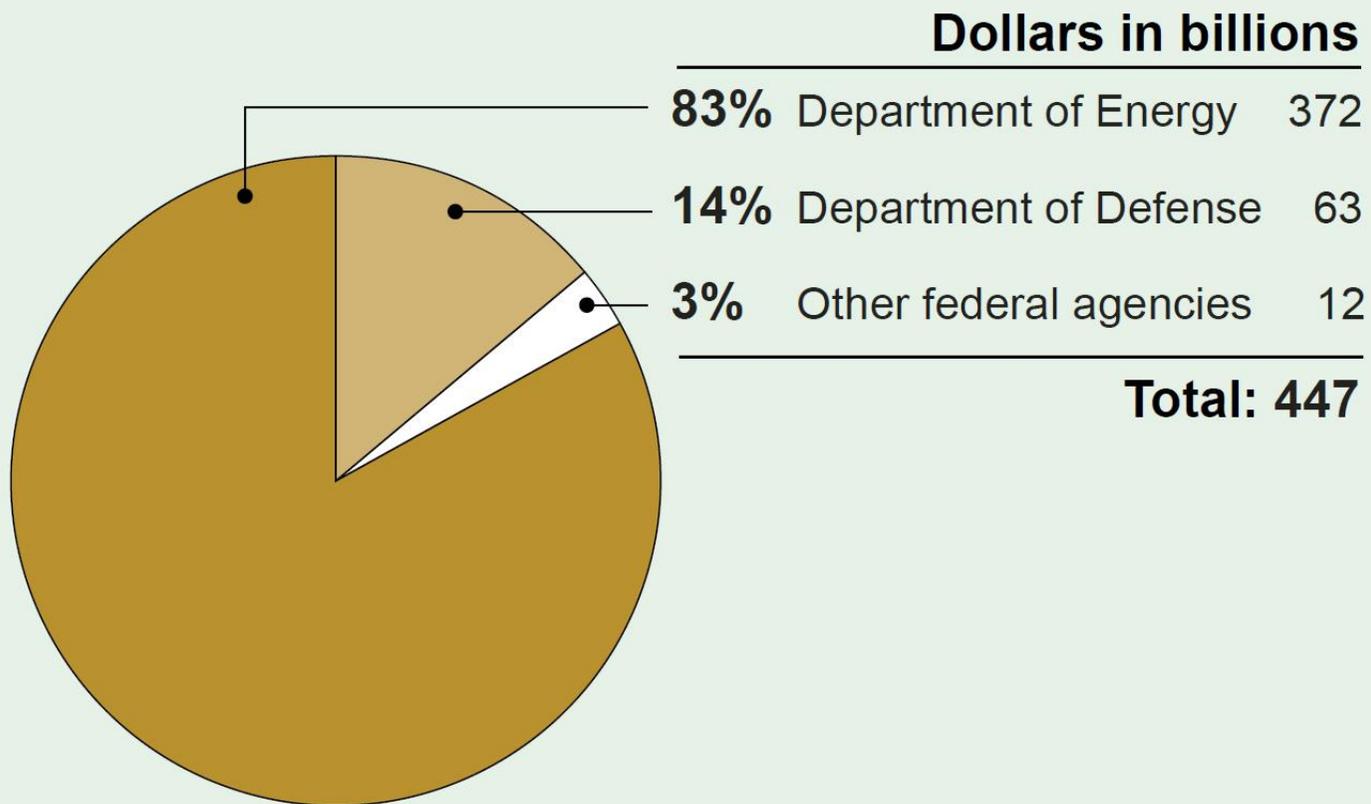
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## Related GAO Work

- Highlight **high-risk federal programs** and operations and assess government-wide **management reforms**.
- Evaluate programs across government associated with key elements of the President's Management Agenda: **IT modernization**, leveraging **data**, and the federal **workforce**.
- Identify ways to improve federal **acquisition** of goods & services.
- Identify ways to improve the collection, dissemination, and quality of **federal information**.
- Identify ways to improve the administration and management of **grants** and other federal assistance across all levels of government.

# Trend 8: Environment and Sustainability

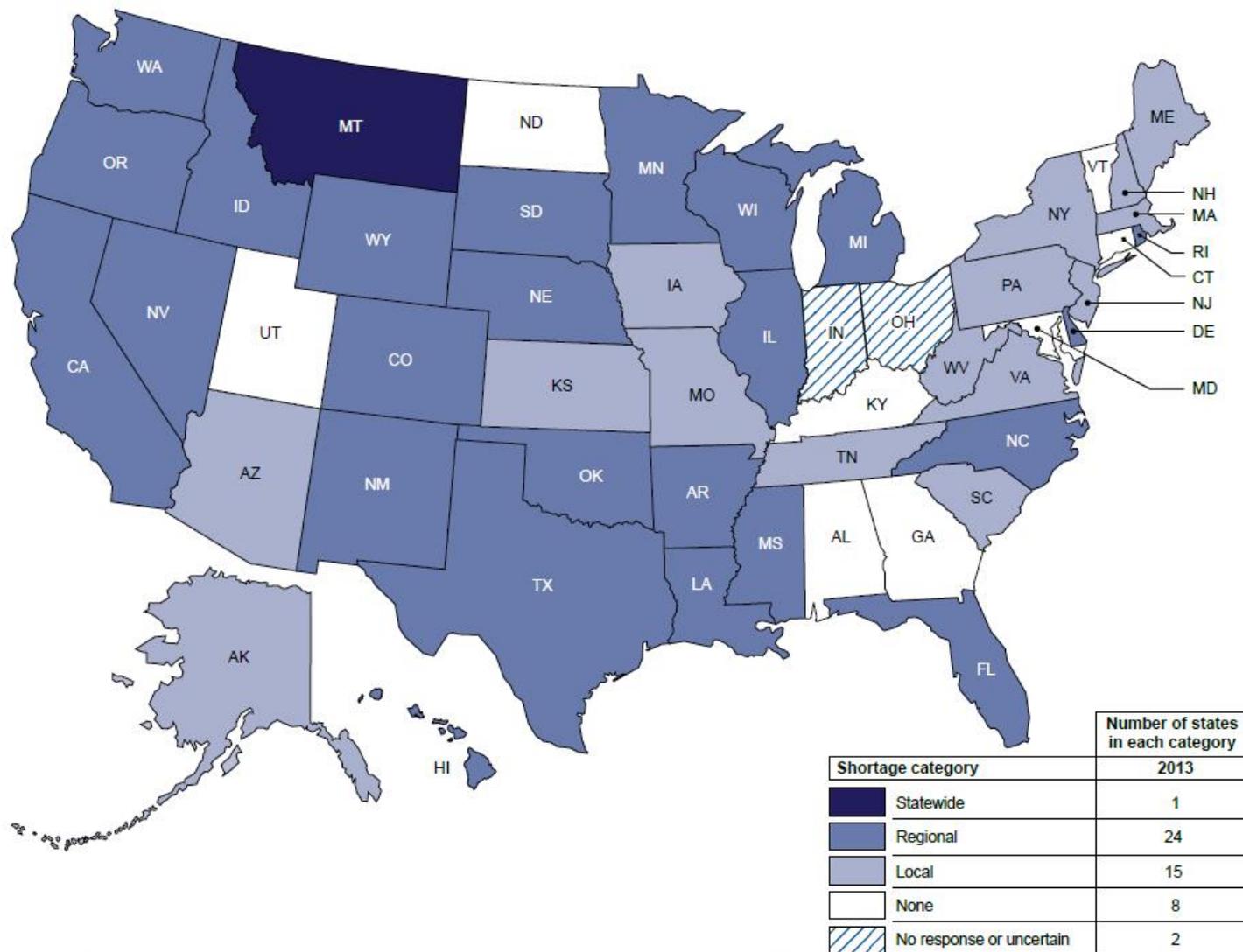
## Total Reported U.S. Environmental Liability, FY 2016



Source: GAO analysis of the Financial Report of the U.S. Government, FY 2016.

# Trend 8: Environment and Sustainability

## State Water Shortages Likely Over The Next Decade Under Average Water Conditions, 2013



Sources: GAO analysis of state water managers' responses to GAO survey; Map Resources (map). | GAO-18-1SP

# Trend 8: Environment and Sustainability

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## Related GAO Work

- Assess federal efforts to ensure affordable, reliable, and environmentally sound **energy**.
- Evaluate efforts to respond to **natural disasters**, including the 2017 wildfires and hurricanes Harvey, Irma, and Maria.
- Assess the cost, availability, and management of catastrophic **insurance** and **disaster loan programs**.
- Review federal strategies for sustainably managing the nation's **land and water resources**.
- Assess efforts to manage the federal government's **environmental liabilities**.
- Assess federal programs' ability to ensure a **safe food supply** and address **agricultural risks** and environmental impacts.

# Yellow Book Revision Issued

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- Yellow Book
  - 2018 Revision published on July 17
  - Revisions include updates on
    - Independence
    - Peer reviews
    - CPE
    - Focus of internal controls for performance audits
- Internal Control Tool (new)
  - Yellow Book will require auditors to consider internal controls
  - Planning to release tool in 2019

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