Working to Improve Accountability in an Evolving Environment

2008 Maryland Association of CPAs’ Government and Not-for-Profit Conference

College Park, MD
April 18, 2008

Gene L. Dodaro
Acting Comptroller General of the United States
Presentation Outline

• Current and emerging fiscal challenges

• Auditing and advising in a time of transition

• Challenges and opportunities for the accountability community
Current and Emerging Fiscal Challenges
Composition of Federal Spending

1967
- Defense: 32%
- Social Security: 14%
- Net interest: 7%
- All other spending: 45%
- Other: 2%

1987
- Defense: 14%
- Social Security: 27%
- Net interest: 10%
- All other spending: 28%
- Medicare & Medicaid: 21%

2007
- Defense: 29%
- Social Security: 21%
- Net interest: 9%
- All other spending: 21%
- Medicare & Medicaid: 20%

Source: GAO analysis of data from the Office of Management and Budget.
Federal Spending for Mandatory and Discretionary Programs
(Trends and Projections)

Sources: Office of Management and Budget and the Congressional Budget Office.
Social Security, Medicare, and Medicaid Spending as a Percent of GDP
*(Current and Projected)*

![Graph showing Social Security, Medicare, and Medicaid spending as a percent of GDP from 2008 to 2080.](image)

**Source:** GAO analysis of data from the Office of the Chief Actuary, Social Security Administration, Office of the Actuary, Centers for Medicare and Medicaid Services, and the Congressional Budget Office.

## Major Fiscal Exposures ($ trillions)

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2007</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Explicit liabilities</td>
<td>$6.9</td>
<td>$10.8</td>
<td>57</td>
</tr>
<tr>
<td>Commitments &amp; contingencies</td>
<td>0.5</td>
<td>1.1</td>
<td>97</td>
</tr>
<tr>
<td>Implicit exposures</td>
<td>13.0</td>
<td>40.8</td>
<td>213</td>
</tr>
<tr>
<td>Future Social Security benefits</td>
<td>3.8</td>
<td>6.8</td>
<td></td>
</tr>
<tr>
<td>Future Medicare benefits</td>
<td>9.2</td>
<td>34.1</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$20.4</td>
<td>$52.7</td>
<td>158</td>
</tr>
</tbody>
</table>


Note: Totals and percent increases may not add due to rounding. Estimates for Social Security and Medicare are at present value as of January 1 of each year and all other data are as of September 30.
## Perspective on Fiscal Burden

This fiscal burden can be translated and compared as follows:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total –major fiscal exposures</strong></td>
<td>$52.7 trillion</td>
</tr>
<tr>
<td><strong>Total household net worth(^1)</strong></td>
<td>$58.6 trillion</td>
</tr>
<tr>
<td><strong>Burden/Net worth ratio</strong></td>
<td>90 percent</td>
</tr>
<tr>
<td><strong>Burden(^2)</strong></td>
<td></td>
</tr>
<tr>
<td>Per person</td>
<td>$175,000</td>
</tr>
<tr>
<td>Per full-time worker</td>
<td>$410,000</td>
</tr>
<tr>
<td>Per household</td>
<td>$455,000</td>
</tr>
<tr>
<td><strong>Income</strong></td>
<td></td>
</tr>
<tr>
<td>Median household income(^3)</td>
<td>$48,201</td>
</tr>
<tr>
<td>Disposable personal income per capita(^4)</td>
<td>$33,253</td>
</tr>
</tbody>
</table>

Source: GAO analysis.

Notes: (1) Federal Reserve Board, Flow of Funds Accounts, Table B.100, 2007:Q3 (December 6, 2007); (2) Burdens are calculated using estimated total U.S. population as of 10/1/2007, from the U.S. Census Bureau; full-time workers reported by the Bureau of Economic Analysis, in NIPA table 6.5D (Aug. 1, 2007); and households reported by the U.S. Census Bureau, in Income, Poverty, and Health Insurance Coverage in the United States: 2006 (Aug. 2007); (3) U.S. Census Bureau, Income, Poverty, and Health Insurance Coverage in the United States: 2006 (Aug. 2007); and (4) Bureau of Economic Analysis, Personal Income and Outlays, table 2, (Nov. 29, 2007).
Potential Fiscal Outcomes
Under Alternative Simulation
Revenues and Composition of Spending as a Share of GDP

Percent of GDP

2007 2018 2030 2040

Fiscal year

Revenue

Source: GAO’s January 2008 analysis.

Note: Discretionary spending grows with GDP after 2008. AMT exemption amount is retained at the 2007 level through 2018 and expiring tax provisions are extended. After 2018, revenue as a share of GDP returns to its historical level of 18.3 percent of GDP plus expected revenues from deferred taxes, i.e. taxes on withdrawals from retirement accounts. Medicare spending is based on the Trustees April 2007 projections adjusted for the Centers for Medicare and Medicaid Services alternative assumption that physician payments are not reduced as specified under current law.
Debt Held by the Public as a Share of GDP (1797-2007)

Source: GAO analysis of data from the Department of Commerce, Office of Management and Budget, and Congressional Budget Office.

Note: Data until 1929 are shown as a percent of gross national product (GNP); data from 1930 to present are shown as a percent of GDP.
Debt Held by the Public Under GAO’s Alternative Simulation

Percent of GDP

Source: GAO’s January 2008 analysis.
Foreign Ownership Share of Federal Debt Held by the Public Has Increased

FY 1996
Total Debt Held by the Public: $3.73 trillion

- 62% Domestic investors and state and local governments
- 28% Federal Reserve
- 10% Foreign and international investors

FY 2007
Total Debt Held by the Public: $5.04 trillion

- 40% Domestic investors and state and local governments
- 45% Federal Reserve
- 15% Foreign and international investors

Source: Department of the Treasury.
Note: Totals and percent increases may not add due to rounding.
Combined Government Fiscal Challenge

Source: Historical data from National Income and Product Accounts, GAO Analysis.
Note: Historical data from 2000 – 2006, projections from 2007 – 2050; state and local balance measure is similar to the federal unified budget measure. Federal Simulation Assumptions: Discretionary spending grows with GDP after 2007. AMT exemption amount is retained at the 2006 level through 2017 and expiring tax provisions are extended. After 2017, revenue as a share of GDP returns to its historical level of 18.3 percent of GDP plus expected revenues from deferred taxes, i.e. taxes on withdrawals from retirement accounts. Medicare spending is based on the Trustees’ April 2007 projections adjusted for the Centers for Medicare and Medicaid Services’ alternative assumption that physician payments are not reduced as specified under current law.
Consumer Debt Has Increased as a Share of GDP (1960-2007)

Source: Federal Reserve Board, Bureau of Economic Analysis.
Personal Saving Has Declined as a Share of GDP (1960-2007)

Source: Bureau of Economic Analysis.
GAO’s reports focus on:

- The long-term fiscal outlook
- The urgency and importance of fiscal stewardship
- Understanding basic budgeting concepts
- Deciphering the consolidated financial statement

http://www.gao.gov/special.pubs/longterm/
Auditing and Advising in a Time of Transition
Upcoming Transitions

This November:

• A new president will be elected—the first time since 1952 that there is neither an incumbent President nor Vice President running for office

• Every House seat and a third of all Senate seats are up for election

• Eleven states and two territories will be holding gubernatorial elections
Presidential Transition Act

- Enacted in 1964 for an orderly transfer of executive power
- Provides federal funding for:
  - Office space
  - Equipment
  - Payment of salaries and travel expenses for transition teams
Presidential Transition Act: Funding and Knowledge Transfer

- To address potential conflicts of interest and appearance, the President-elect and Vice President-elect agree to:
  - Disclose all non-federal funding received for the transition
  - Make available to GSA and GAO such information for auditing purposes
  - Disclose publicly the names and recent employment history of all transition personnel and sources of funding

- In 2000, amendments recognized the importance of GAO briefings for incoming officials
GAO’s Evolving Strategy to Serve the Congress and the Nation

• Continue identifying major risks, 21st century challenges, and opportunities

• Press forward on key management reforms

• Sustain attention on the nation’s long-term fiscal imbalance
GAO’s High-Risk Program

• Covers four areas:
  • Broad-based transformations
  • Federal contracting
  • Tax law administration
  • Insurance and benefit programs

• Provides impetus for government-wide reform
• Promotes sustained congressional attention
• Influences the President’s management agenda
Broad-based Transformations: Government-Wide

- Strategic human capital management
- Managing federal real property
- Protecting the federal government’s information systems and the nation’s critical infrastructures
- Financing the nation’s transportation system
- Ensuring the effective protection of technologies critical to U.S. national security interests
- Transforming federal oversight of food safety
Broad-based Transformations: Agency-Specific

- Implementing and transforming DHS and establishing appropriate and effective information-sharing mechanisms
- DOD’s approach to business transformation
- FAA’s air traffic control modernization
- The 2010 Census
DOD’s approach to business transformation includes multiple high-risk areas:

- Weapons system acquisition
- Personnel security clearance program
- Support infrastructure management
- Financial management
- Supply chain management
- Business systems modernization
Long-standing deficiencies and emerging challenges with the Census include:

- Shortcomings in managing information technology
- Uncertainty of cost estimates
- The elimination of several dress rehearsal activities
Remaining High-Risk Areas

Federal Contracting:
- DOD, DOE, and NASA contract management
- Interagency contracting

Tax Law Administration:
- Tax law enforcement
- IRS’ business systems modernization

Insurance and Benefit Programs:
- Federal disability programs’ modernization
- PBGC Single-Employer Pension Insurance Program
- Medicare and Medicaid
- National Flood Insurance Program
Removing High-Risk Designations

The following factors contribute to GAO’s decision to remove an area from our list:

- Demonstrated top leadership commitment
- Capacity (people and resources)
- Action plan
- Meaningful progress that is sustainable
- Monitoring and validation procedures
Adding High Risk Areas

• Substantial federal dollars at risk
• National significance
• Key management function
• Inherent risk or systemic problem
• Qualitative and quantitative factors (e.g., public health or safety and/or national security or defense)

Decisions made with awareness of IG work and results
## Examples of CG Forums Addressing 21st Century Challenges

<table>
<thead>
<tr>
<th>Issue</th>
<th>Relevant Legislation/Concept</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Competitiveness and Higher Education</td>
<td>Federal Financial Management Improvement Act</td>
</tr>
<tr>
<td>Financial Sustainability and Health Care</td>
<td>Financial Markets</td>
</tr>
<tr>
<td>National Transportation Policy</td>
<td>Risk Management</td>
</tr>
<tr>
<td>Disability Policies &amp; Programs</td>
<td>Tax Gap</td>
</tr>
<tr>
<td>Environmental Accounting</td>
<td>Defense Acquisitions</td>
</tr>
<tr>
<td>Older Workers</td>
<td>CMO/COO Concept</td>
</tr>
</tbody>
</table>
Challenges and Opportunities for the Accountability Community
Positive Developments:

- GAO issued first unqualified opinion on the fiscal year 2007 Consolidated Statement of Social Insurance

- In February 2008, Treasury and OMB issued the first-ever "Citizens’ Guide" summary report of the U.S. government:

Major impediments:

• Serious financial management problems at DOD

• Inability to adequately account for and reconcile intra-governmental activity and balances

• Ineffective process for preparing the consolidated financial statements
Maintain Efforts to Achieve CFO Act Goals

- Continue attention on individual audited financial statements and performance and accountability results

- 19 of 24 received clean opinions for FY 2007—up from 6 in 1996

- Work needed on certain key federal entities
Long-Standing Financial Management Systems Issues

A recent CG Forum on improving financial management systems highlighted several key issues:

• Many agency systems do not comply with FFMIA requirements
• Agencies struggle with modernization efforts
• Not enough emphasis on the needs of program managers

The final Forum report was released this past Wednesday (GAO-08-447SP)
Financial literacy is important for three key reasons:

- The number and complexity of financial products have grown tremendously
- Technological advances have increased the capacity for targeted marketing to consumers
- Workers today are increasingly responsible for managing their own retirement savings

Ensuring that Americans have the knowledge and skills to manage their money wisely is key to improving the economic health of our nation
GAO’s Efforts to Increase Financial Literacy

- Discussing the fiscal condition in GAO reports, speeches, and presentations

- Hosting a Comptroller General Forum on Financial Literacy in November 2004 (GAO-05-93SP)

- Reporting and testifying on the progress of the Financial Literacy and Education Commission (GAO-07-100 and GAO-07-777T)

- Supporting the efforts of the AICPA’s 360° of Financial Literacy Campaign
Additional Considerations for the Accountability Community

• Estimates of improper payments are rising, but progress is being made
  • Continued support by states needed as federal agencies develop or refine estimation methodologies for state-administered federal programs

• Implementation and use of managerial cost accounting varies by agency

• Persistent single audit quality problems affect grants management and accountability
Working to Improve Accountability in an Evolving Environment

2008 Maryland Association of CPAs’ Government and Not-for-Profit Conference

College Park, MD
April 18, 2008

Gene L. Dodaro
Acting Comptroller General of the United States

GAO-08-720CG
On the Web
Web site: www.gao.gov/cghome.htm

Contact
Chuck Young, Managing Director, Public Affairs
YoungC1@gao.gov (202) 512-4800
U.S. Government Accountability Office
441 G Street NW, Room 7149
Washington, D.C. 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.