Composition of Federal Spending

1966:
- Defense: 34%
- Social Security: 7%
- Medicare & Medicaid: 15%
- Net interest: 1%
- All other spending: 43%

1986:
- Defense: 29%
- Social Security: 14%
- Medicare & Medicaid: 20%
- Net interest: 10%
- All other spending: 28%

2006:
- Defense: 32%
- Social Security: 19%
- Medicare & Medicaid: 21%
- Net interest: 9%
- All other spending: 20%

Sources: Office of Management and Budget..
Note: Numbers may not add to 100 percent due to rounding.
### Fiscal Year 2005 and 2006 Deficits and Net Operating Costs

<table>
<thead>
<tr>
<th></th>
<th>Fiscal Year 2005 ($ Billion)</th>
<th>Fiscal Year 2006 ($ Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>On-Budget Deficit</strong></td>
<td>(494)</td>
<td>(434)</td>
</tr>
<tr>
<td><strong>Unified Deficit</strong></td>
<td>(318)</td>
<td>(248)</td>
</tr>
<tr>
<td><strong>Net Operating Cost</strong></td>
<td>(760)</td>
<td>(450)</td>
</tr>
</tbody>
</table>

Sources: The Office of Management and Budget and the Department of the Treasury.

\(^a\)Includes $173 billion in Social Security surpluses for fiscal year 2005 and $185 billion for fiscal year 2006; $2 billion in Postal Service surpluses for fiscal year 2005 and $1 billion for fiscal year 2006.

\(^b\)Fiscal year 2005 and 2006 net operating cost figures reflect significant but opposite changes in certain actuarial costs. For example, changes in interest rates and other assumptions used to estimate future veterans’ compensation benefits increased net operating cost by $228 billion in 2005 and reduced net operating cost by $167 billion in 2006. Therefore, the net operating costs for fiscal 2005 and 2006, exclusive of one-time actuarial gains, were $(532) billion and $(617) billion, respectively.
## Major Fiscal Exposures
($ trillions)

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2006</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Explicit liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Publicly held debt</td>
<td>$6.9</td>
<td>$10.4</td>
<td>52</td>
</tr>
<tr>
<td>Military &amp; civilian pensions &amp; retiree health</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Commitments &amp; contingencies</strong></td>
<td>0.5</td>
<td>1.3</td>
<td>140</td>
</tr>
<tr>
<td>E.g., PBGC, undelivered orders</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Implicit exposures</strong></td>
<td>13.0</td>
<td>38.8</td>
<td>197</td>
</tr>
<tr>
<td>Future Social Security benefits</td>
<td>3.8</td>
<td>6.4</td>
<td></td>
</tr>
<tr>
<td>Future Medicare Part A benefits</td>
<td>2.7</td>
<td>11.3</td>
<td></td>
</tr>
<tr>
<td>Future Medicare Part B benefits</td>
<td>6.5</td>
<td>13.1</td>
<td></td>
</tr>
<tr>
<td>Future Medicare Part D benefits</td>
<td>--</td>
<td>7.9</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$20.4</td>
<td>$50.5</td>
<td>147</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.
How Big is Our Growing Fiscal Burden?

This fiscal burden can be translated and compared as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total –major fiscal exposures</td>
<td>$50.5 trillion</td>
</tr>
<tr>
<td>Total household net worth(^1)</td>
<td>$53.3 trillion</td>
</tr>
<tr>
<td>Burden/Net worth ratio</td>
<td>95 percent</td>
</tr>
<tr>
<td>Burden(^2)</td>
<td></td>
</tr>
<tr>
<td>Per person</td>
<td>$170,000</td>
</tr>
<tr>
<td>Per full-time worker</td>
<td>$400,000</td>
</tr>
<tr>
<td>Per household</td>
<td>$440,000</td>
</tr>
<tr>
<td>Income</td>
<td></td>
</tr>
<tr>
<td>Median household income(^3)</td>
<td>$46,326</td>
</tr>
<tr>
<td>Disposable personal income per capita(^4)</td>
<td>$31,519</td>
</tr>
</tbody>
</table>

Source: GAO analysis.

Potential Fiscal Outcomes
Under Baseline Extended (January 2001)
Revenues and Composition of Spending as a Share of GDP

Percent of GDP

Fiscal year

2005 2015\(^a\) 2030\(^a\) 2040\(^a\)

Revenue

Source: GAO's January 2001 analysis.

Notes: Revenue as a share of GDP increases through 2011 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2011, revenue as a share of GDP is held constant—implicitly assuming action to offset the increased revenue from real bracket creep, the AMT, and tax-deferred retirement accounts.

\(^a\)All other spending is net of offsetting interest receipts.
Potential Fiscal Outcomes
Revenues and Composition of Spending as a Share of GDP

Source: GAO's January 2007 analysis.
Notes: 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 is held constant—implicitly assuming that action is taken to offset increased revenue from real bracket creep, the AMT, and tax-deferred retirement accounts.
Current Fiscal Policy Is Unsustainable

• The “Status Quo” is Not an Option
  • We face large and growing structural deficits largely due to known demographic trends and rising health care costs.
  • GAO’s simulations show that balancing the budget in 2040 could require actions as large as
    • Cutting total federal spending by 60 percent or
    • Raising federal taxes to 2 times today’s level

• Faster Economic Growth Can Help, but It Cannot Solve the Problem
  • Closing the current long-term fiscal gap based on reasonable assumptions would require real average annual economic growth in the double digit range every year for the next 75 years.
  • During the 1990s, the economy grew at an average 3.2 percent per year.
  • As a result, we cannot simply grow our way out of this problem. Tough choices will be required.
The Way Forward: A Three-Pronged Approach

1. Improve Financial Reporting, Public Education, and Performance Metrics

2. Strengthen Budget and Legislative Processes and Controls

3. Fundamental Reexamination & Transformation for the 21st Century (i.e., entitlement programs, other spending, and tax policy)

Solutions Require Active Involvement from both the Executive and Legislative Branches
The Way Forward: 
Improve Financial Reporting, Public Education, and Performance Metrics

- Improve transparency & completeness of President’s budget proposal:
  - Return to 10-year estimates in budget both for current policies and programs and for policy proposals
  - Include in the budget estimates of long-term cost of policy proposals & impact on total fiscal exposures.
  - Improve transparency of tax expenditures

- Consider requiring President’s budget to specify & explain a fiscal goal and a path to that goal within 10-year window—or justify an alternative deadline

- Require annual OMB report on existing fiscal exposures [liabilities, obligations, explicit & implied commitments]

- Require enhanced financial statement presentation and preparation of summary annual report that is both useful and used

- Increase information on long-range fiscal sustainability issues in Congressional Budget Resolution & Budget Process.

- Develop key national (outcome-based) indicators (e.g. economic, security, social, environmental) to chart the nation’s posture, progress, and position relative to the other major industrial countries
The Way Forward: Strengthen Budget and Legislative Processes and Controls

- Restore discretionary spending caps & PAYGO rules on both spending and tax sides of the ledger

- Develop mandatory spending triggers [with specific defaults], and other action-forcing provisions (e.g., sunsets) for both direct spending programs and tax preferences

- Develop, impose & enforce modified rules for selected items (e.g., earmarks, emergency designations, and use of supplementals)

- Require long-term cost estimates (e.g. present value) for any legislative debate on all major tax and spending bills, including entitlement programs. Cost estimates should usually assume no sunset

- Extend accrual budgeting to insurance & federal employee pensions; develop techniques for extending to retiree health & environmental liabilities

- Consider biennial budgeting

- Consider expedited line item rescissions from the President that would only require a majority vote to override the proposed rescission(s)
The Way Forward: Fundamental Reexamination & Transformation

- Restructure existing entitlement programs
- Reexamine and restructure the base of all other spending
- Review & revise existing tax policy, including tax preferences and enforcement programs
- Expand scrutiny of all proposed new programs, policies, or activities
- Reengineer internal agency structures and processes, including more emphasis on long-term planning, integrating federal activities, and partnering with others both domestically and internationally
- Strengthen and systematize Congressional oversight processes
- Increase transparency associated with government contracts and other selected items
- Consider a capable, credible, bi-partisan budget, entitlement, and tax reform commission
Key Oversight Concepts

- Oversight is a key constitutional responsibility of the Congress.
- Oversight is critical to providing the necessary checks and balances to maximize the government’s performance, assure its accountability, and prevent the abuse of government power.
- History shows that oversight decreases with one-party rule.
- Oversight should be focused on improving performance and assuring accountability.
- It is essential that oversight be balanced and constructive by highlighting what is working well—including best practices—as well as identifying shortcomings to prevent repetition of mistakes.
Accountability Organization Maturity Model

- Facilitating Foresight
- Increasing Insight
- Enhancing Economy, Efficiency, Ethics, Equity, and Effectiveness
- Assuring Accountability
- Combating Corruption

Source: GAO.
Three Key Elements for Success

Incentives

Transparency

Accountability
Three Suggested Areas of Congressional Oversight Going Forward

- Targets for near-term oversight (e.g., reducing the tax gap)

- Policies and programs that are in need of fundamental reform and re-engineering (e.g., reviewing U.S. and coalition efforts to stabilize and rebuild Iraq and Afghanistan)

- Governance issues that should be addressed to help ensure an economical, efficient, effective, ethical, and equitable federal government capable of responding to the various challenges and capitalizing on related opportunities in the 21st century (e.g., reviewing the effectiveness of the federal audit and accountability community, including the oversight, structure, and division of responsibility)
Congressional Oversight Areas Related to the Accountability Community

- Review the Single Audit Act and propose reforms to ensure continuing effective oversight of the more than $300 billion in annual federal grants awarded to nonfederal entities
- Schedule a series of oversight hearings to deliberate GAO’s and the IGs’ roles, responsibilities, results, and proposed reforms
- Establish a government-wide accountability council to establish priorities and develop strategies to address federal accountability issues among GAO, OMB, PCIE, the ECIE, and other oversight organizations
Illustrative Examples of GAO’s Work to Modernize Accountability and Reporting

- Enhancing social insurance, earmarked/restricting funds, and other financial reporting mechanisms
- Leading strategic planning and coordination efforts with major accountability organizations around the world (e.g., INTOSAI) that include oversight, insight, and foresight dimensions
- Strengthening the independence of the FASAB
- Promoting the modernization of the accounting/reporting models (e.g., IFAC, FASB, GASB, FASAB)
- Enhancing federal financial reporting (e.g., social insurance, restricted revenues) and pursuing publication of a summary annual report
- Revitalizing the JFMIP principals’ efforts, including definitions of success, accelerated reporting, etc.
- Creating the U.S Auditing Standards Coordinating Forum (i.e., GAO, PCAOB, ASB), which among other efforts, develops strategies for overcoming challenges and barriers to modernizing the auditing profession in the U.S.
- Monitoring implementation of the Sarbanes-Oxley Act and considering whether reform elements similar to those in Sarbanes-Oxley make sense for the federal government
- Exploring revised approaches to quality assurance programs, including internal inspections and peer reviews
- Pursuing the design and adoption of key national indicators
<table>
<thead>
<tr>
<th>GAO’s High-Risk List 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Addressing Challenges in Broad-based Transformations</strong></td>
</tr>
<tr>
<td><strong>Year Designated</strong></td>
</tr>
<tr>
<td><strong>2007</strong></td>
</tr>
<tr>
<td><strong>2005</strong></td>
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<td><strong>2003</strong></td>
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<td><strong>1997</strong></td>
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<tr>
<td><strong>1995</strong></td>
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<tr>
<td><strong>1990</strong></td>
</tr>
<tr>
<td><strong>• Strategic Human Capital Management</strong>&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td><strong>• Managing Federal Real Property</strong>&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td><strong>• Protecting the Federal Government’s Information Systems and the Nations’ Critical Infrastructures</strong></td>
</tr>
<tr>
<td><strong>• Implementing and Transforming the Department of Homeland Security</strong></td>
</tr>
<tr>
<td><strong>• Establishing Appropriate and Effective Information-Sharing Mechanisms to Improve Homeland Security</strong></td>
</tr>
<tr>
<td><strong>• DOD Approach to Business Transformation</strong>&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td><strong>• DOD Business Systems Modernization</strong></td>
</tr>
<tr>
<td><strong>• DOD Personnel Security Clearance Program</strong></td>
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<tr>
<td><strong>• DOD Support Infrastructure Management</strong></td>
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<tr>
<td><strong>• DOD Financial Management</strong></td>
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<tr>
<td><strong>• DOD Supply Chain Management</strong></td>
</tr>
<tr>
<td><strong>• DOD Weapon Systems Acquisition</strong></td>
</tr>
<tr>
<td><strong>• FAA Air Traffic Control Modernization</strong></td>
</tr>
<tr>
<td><strong>• Financing the Nation’s Transportation System</strong>&lt;sup&gt;a&lt;/sup&gt; (New)</td>
</tr>
<tr>
<td><strong>• Ensuring the Effective Protection of Technologies Critical to U.S. National Security Interests</strong>&lt;sup&gt;a&lt;/sup&gt; (New)</td>
</tr>
<tr>
<td><strong>• Transforming Federal Oversight of Food Safety</strong>&lt;sup&gt;a&lt;/sup&gt; (New)</td>
</tr>
<tr>
<td><strong>Managing Federal Contracting More Effectively</strong></td>
</tr>
<tr>
<td><strong>• DOD Contract Management</strong></td>
</tr>
<tr>
<td><strong>• DOE Contract Management</strong></td>
</tr>
<tr>
<td><strong>• NASA Contract Management</strong></td>
</tr>
<tr>
<td><strong>• Management of Interagency Contracting</strong></td>
</tr>
<tr>
<td><strong>Assessing the Efficiency and Effectiveness of Tax Law Administration</strong></td>
</tr>
<tr>
<td><strong>• Enforcement of Tax Laws</strong>&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td><strong>• IRS Business Systems Modernization</strong></td>
</tr>
<tr>
<td><strong>Modernizing and Safeguarding Insurance and Benefit Programs</strong></td>
</tr>
<tr>
<td><strong>• Modernizing Federal Disability Programs</strong>&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td><strong>• Pension Benefit Guaranty Corporation Single-Employer Pension Insurance Program</strong></td>
</tr>
<tr>
<td><strong>• Medicare Program</strong>&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td><strong>• Medicaid Program</strong>&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td><strong>• National Flood Insurance Program</strong>&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

Source: GAO.

<sup>a</sup> Legislation is likely to be necessary, as a supplement to actions by the executive branch, in order to effectively address this high-risk area.
The federal financial audit environment is evolving:

- Closer to an opinion on the consolidated financial statements of the U.S. government (CFS), but DOD is the key challenge.
- GAO, as the auditor of the CFS, needs to be able to use the work of the auditors of the agency financial statements.
- Agencies need to meet accelerated due dates, minimize restatements, maintain unqualified opinions, and address their internal control and financial management system deficiencies.
- Performance and projection reporting need to expand over time.
- More timely financial and performance reporting should not come at the price of less reliable reporting.
Steps Needed to Achieve Strong Federal Financial Management

Six principal challenges remain before the federal government fully realizes strong federal financial management:

- Transform financial management and business practices at DOD
- Improve federal financial and performance reporting
- Modernize financial management systems
- Address key remaining internal control weaknesses
- Build a financial management workforce for the future
- Strengthen consolidated financial reporting
Key Federal Financial Management Issues Before the JFMIP Principals

- Summary Annual Financial Report
- Financial Reporting Model
  - Social insurance reporting
  - Fiscal sustainability reporting
  - Key National Indicators
- DOD financial management transformation status
- Financial Systems Integration Office (FSIO) activities

- Require supplemental reporting in the President’s annual budget submission (e.g., require the President to annually present a Fiscal Exposures Statement covering at least 40 years)

- Require additional executive branch reports (e.g., require the annual publication of key financial and performance information and a periodic report on long-range fiscal sustainability)

- Require CBO and JCT to provide additional cost information on major spending and tax proposals before adoption

- Require GAO to publish an annual report that would include, among things: comments on whether the President and CBO/JCT met the new reporting requirements specified above

- Consider changing the budget treatment in certain areas (e.g., expanding use of accrual budgeting)

- Consider creating budget concepts and reform commission to address issues such as PAYGO, budget caps and triggers, the use of supplementals, and other matters (e.g., earmarks)
Social Insurance Reporting

Social Insurance programs include:

- Social Security
- Medicare
- Railroad Retirement
- Black Lung
- Unemployment Insurance
Proposed Changes in Social Insurance Reporting

• FASAB recently issued a preliminary views (PV) document requesting public comment on proposals to change social insurance reporting

• The PV contains two views for improving social insurance reporting:
  • Primary View
  • Alternative View

• Two years away from a resolution
• This is a very important matter
Objectives of Social Insurance Reporting

All current FASAB members agree that:

- It is important to provide useful financial information about the sustainability of social insurance programs
- Social insurance program information should be audited and transparent
- The Consolidated Financial Report of the United States Government should present this information and highlight any long-range fiscal imbalances anticipated in these programs
Both Views Share Certain Features

- Recognize a liability for social insurance benefits (but the two views differ significantly on how it should be calculated)

- Present three key pieces of information:
  - A statement of social insurance (SOSI) showing the present values of projected future program revenues and scheduled benefits (SOSI is currently required),
  - Changes in the present values during the reporting period, and
  - Other sustainability disclosures (currently required)
Primary View

- Recognizes a liability for all future scheduled benefits when participants become fully insured (for Social Security and Medicare: when participants reach 40 quarters of covered employment)

- For Social Security, the future scheduled benefits and the liability would increase as participants work additional quarters of covered employment and as annual earnings increase

- Would not consider future earmarked tax revenues in calculating liability
Alternative View

- Recognizes a liability for benefits that are due and payable (when the participant meets all eligibility requirements), as currently required.

- Presents a Statement of Fiscal Sustainability and related information:
  - long-term affordability of social insurance in the context of all federal programs (revenues and expenses);
  - includes key measures of fiscal sustainability and intergenerational equity, projected annual cash flows, and changes in fiscal sustainability during the year.

- Considers recognizing a liability for earmarked Social Security and Medicare taxes and accumulated interest that have not yet been used to pay benefits.
## Guiding Principles in Selecting a Proposal

<table>
<thead>
<tr>
<th>Guiding Principle</th>
<th>Alternative View</th>
<th>Primary View</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recognize the difference between exchange and non-exchange transactions</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Avoid recognizing a liability for scheduled benefits that are uncertain, unsustainabe, and not legally binding</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Recognize only costs for services provided in the current year. Future program costs (e.g., social insurance, defense) are not recognized</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Recognize a liability for earmarked revenue (payroll taxes) not yet used to pay benefits</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Report on affordability of social insurance and other federal programs and annual changes therein (match long-term costs and revenues)</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Present information on intergenerational equity for social insurance and other federal programs</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>
What Needs To Happen?

- The public needs to be informed about the fiscal imbalance faced by our federal government
  - Improved financial reporting
  - Summary annual report
  - Discussion forums
  - Improved financial literacy

- What you can do
  - Get informed and involved
  - Communicate with key opinion leaders and your elected officials
  - Comment on your preferred accounting and reporting option to FASAB
  - Revisit your personal financial planning

- We’re already ahead on social insurance accountability reporting – and we want to stay there – but how we go about this matters
The Need For Key National Indicators

- **WHAT**: A portfolio of economic, social, and environmental outcome-based measures that could be used to help assess the nation’s and other governmental jurisdictions’ position and progress.

- **WHO**: Many countries and several states, regions, and localities have already undertaken related initiatives (e.g., Australia, New Zealand, Canada, United Kingdom, Oregon, Silicon Valley (California) and Boston).

- **WHY**: Development of such a portfolio of indicators could have a number of possible benefits, including
  - Serving as a framework for related strategic planning efforts
  - Enhancing performance and accountability reporting
  - Informing public policy decisions, including much needed baseline reviews of existing government policies, programs, functions, and activities
  - Facilitating public education and debate as well as an informed electorate

- **WAY FORWARD**: Consortium of key players housed by the National Academies domestically and related efforts by the OECD and others internationally.
Key National Indicators: Where the United States Ranks

The United States may be the only superpower, but compared to most other OECD countries on selected key economic, social, and environmental indicators, on average, the U.S. ranks

16 OUT OF 28

OECD Categories for Key Indicators
(2006 OECD Factbook)

- Population/Migration
- Energy
- Environment
- Quality of Life
- Macroeconomic Trends
- Labor Market
- Education
- Economic Globalization
- Prices
- Science & Tech.
- Public Finance

Source: 2006 OECD Factbook.
Internal Control Framework

- Internal controls are critical to achieving an entity’s mission and risk management and are an integral part of achieving mission.
- In the public sector, mission deals with delivery of services with a beneficial outcome to the public interest.
- In this framework, effective internal controls are:
  - Not singular events, but a series of actions—in full compliance with laws and regulations—that permeate an entity’s operations on an ongoing basis.
  - A first line of defense in safeguarding assets (including public funds) against loss, misuse, and damage due to waste, abuse, mismanagement, errors, fraud, and irregularities.
  - Helpful to managers as they aim to be effective stewards of public resources.
Major areas of revisions:

- Bringing performance audits under a professional assurance framework using concepts of audit risk, significance, and sufficient, appropriate evidence

- Emphasizing the critical role of government audits in achieving credibility and accountability in government

- Expanding and strengthening the discussion and guidance on audit quality

- Outlining overarching ethical framework in government audits

- Modernizing GAGAS and updating for major developments in the accountability and audit environment
GAO’s 2006 Yellow Book Update (cont’d)

• **General Audit Standards**
  - Audit quality assurance, monitoring, inspection, peer review
  - Ethics/professional judgment
  - Expanding and clarifying the categories of nonaudit services

• **Financial Audit Standards**
  - Reporting deficiencies in internal control for financial audits
  - Auditors’ responsibility for evaluating and disclosing financial statement restatements
  - Emphasizing/communicating significant matters in the auditors’ report

• **Performance Audit Standards**
  - Audit documentation
  - Audit risk
  - Sufficient appropriate evidence
• For performance audits, the standards are proposed to become effective for audits beginning on or after January 1, 2008

• Early implementation of the 2006 revision of Government Auditing Standards will be permitted
Definition of Waste

Waste involves the taxpayers as a whole not receiving reasonable value for money in connection with any government funded activities due to an inappropriate act or omission by players with control over or access to government resources (e.g., executive, judicial, or legislative branch employees, contractors, grantees, or other recipients).

Importantly, waste represents a transgression that is less than fraud and abuse and most waste does not involve a violation of law. Rather, waste relates primarily to mismanagement, inappropriate actions, or inadequate oversight.
Examples of Waste

Illustrative examples of waste in the acquisitions and contracting area could include:

- Unreasonable, unrealistic, inadequate, or frequently changing requirements
- Failure to use competitive bidding in appropriate circumstances
- Failure to engage in selected pre-contracting activities for contingent events (e.g., hurricanes, military conflicts)
- Congressional directions (e.g., earmarks), and agency spending actions where the action would not otherwise be taken based on an objective value and risk assessment and considering available resources
Forensic Audit and Special Investigations (FSI)

- GAO’s special unit that focuses on fraud, waste, abuse, and security issues in the federal government
- Formed in May 2005, its mission is to:
  - provide Congress with high quality forensic audits and investigations of fraud, waste, and abuse; evaluations of security vulnerabilities; and other requested investigative services;
  - support other GAO mission teams in connection with investigative activities; and
  - monitor and manage fraud, waste, and abuse tips received through the FraudNet hotline
Recent Findings from GAO/FSI’s Fraud, Waste, and Abuse Work

- Government contractors who receive billions from federal contracts despite owing billions in federal taxes

- Defense Department personnel giving away or selling for a few pennies on the dollar new or unused inventory needed by our military forces

- State Department and other federal personnel wasting millions of dollars annually on improper first and business class travel

- A billion dollars in fraudulent and improper individual assistance payments made in the aftermath of Hurricanes Katrina and Rita
General Themes in GAO/FSI’s Fraud Prevention Work

- Lack of fraud-prevention controls
- “Tone at the top” problems
- Lack of discipline and
- Limited accountability for fraud, waste, abuse, and mismanagement
21st Century Challenges Report

• Provides background, framework, and questions to assist in reexamining the base

• Covers entitlements & other mandatory spending, discretionary spending, and tax policies and programs

• Based on GAO’s work for the Congress

Source: GAO.
Twelve Reexamination Areas

MISSION AREAS

- Defense
- Education & Employment
- Financial Regulation & Housing
- Health Care
- Homeland Security
- International Affairs
- Natural Resources, Energy & Environment
- Retirement & Disability
- Science & Technology
- Transportation

CROSSCUTTING AREAS

- Improving Governance
- Reexamining the Tax System
Four National Deficits

- **Budget**
- **Balance of Payments**
- **Savings**
- **Leadership**
Key Leadership Attributes Needed for These Challenging and Changing Times

- **Courage**
- **Integrity**
- **Creativity**
- **Stewardship**