



# **Meeting the Fiscal and Management Challenges Facing Government**

**JFMIP 2011 Annual Conference  
Washington, D.C.  
May 9, 2011**

**Gene L. Dodaro  
Comptroller General of the United States  
U.S. Government Accountability Office**

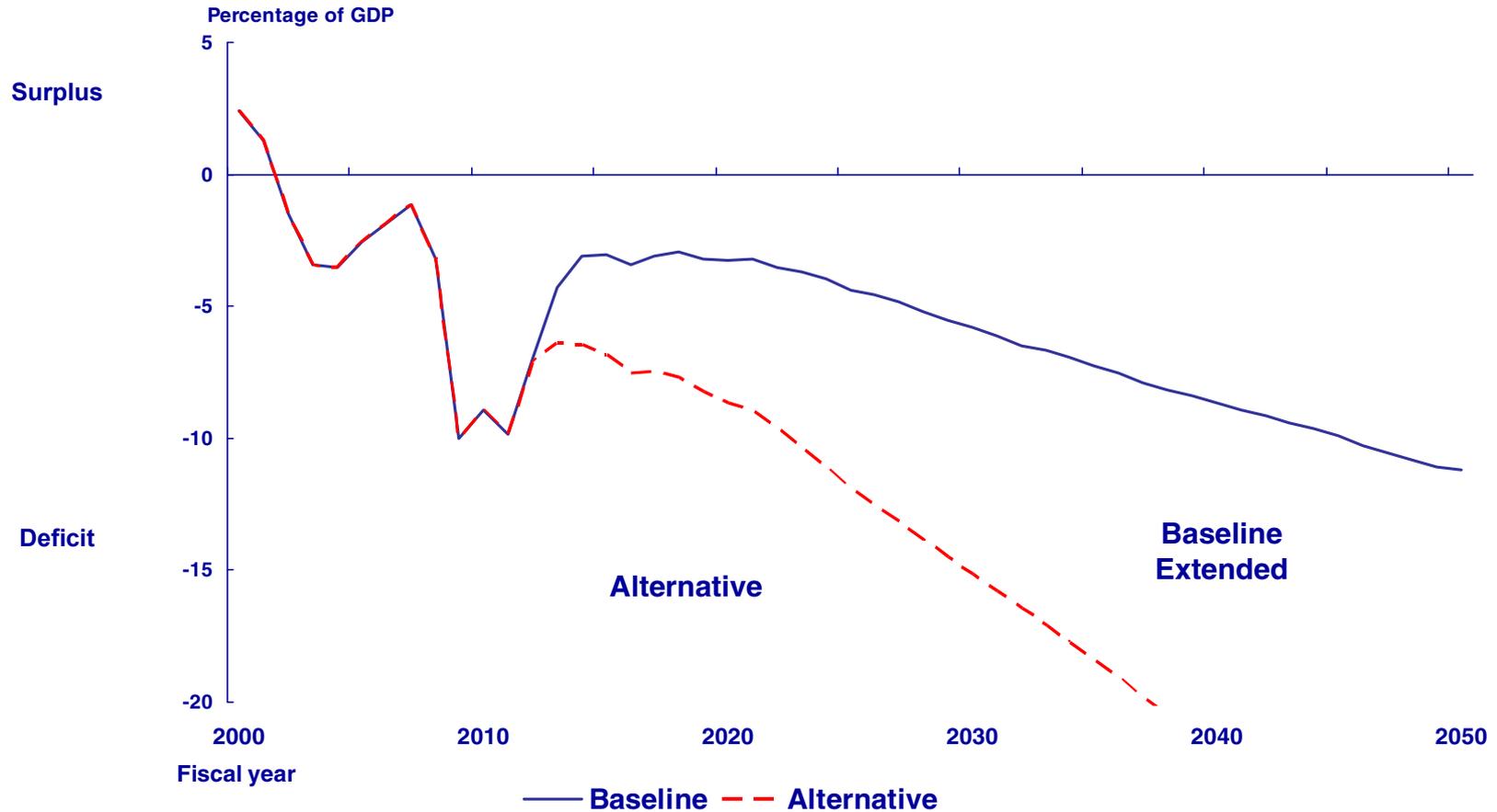
# Overview

- Long Term Fiscal Projections
- GPRA Modernization Act Goals
- Financial Management Challenges
- Overlap, Fragmentation, and Duplication
- GAO's High-Risk List – An Update



# Long Term Fiscal Projections

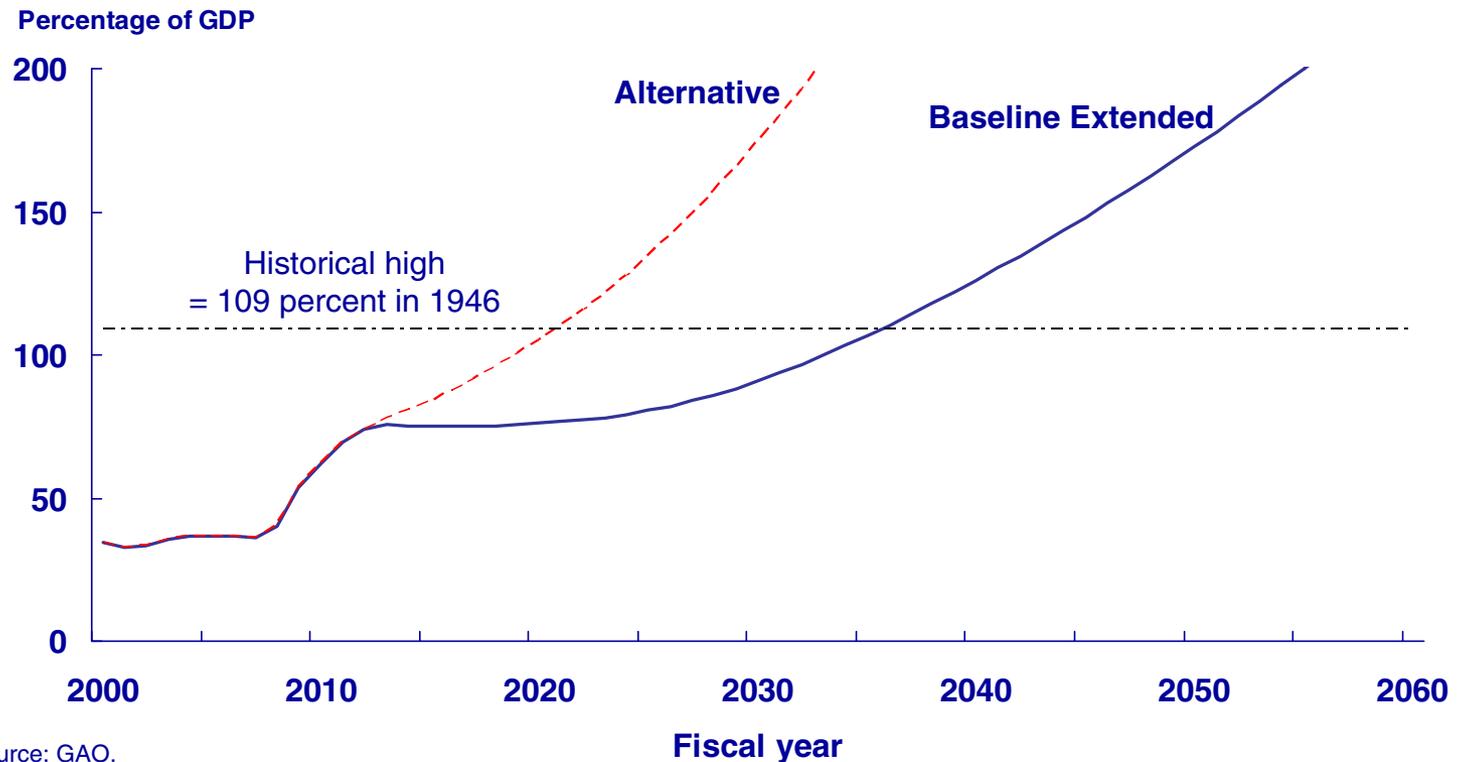
# Federal Budget Surpluses and Deficits under Different Fiscal Policy Simulations



Source: GAO.

Note: Data are from GAO's January 2011 simulations based on the Trustees' assumptions for Social Security and the Trustees' and CMS Actuary's assumptions for Medicare.

# Debt Held by the Public under Two Fiscal Policy Simulations

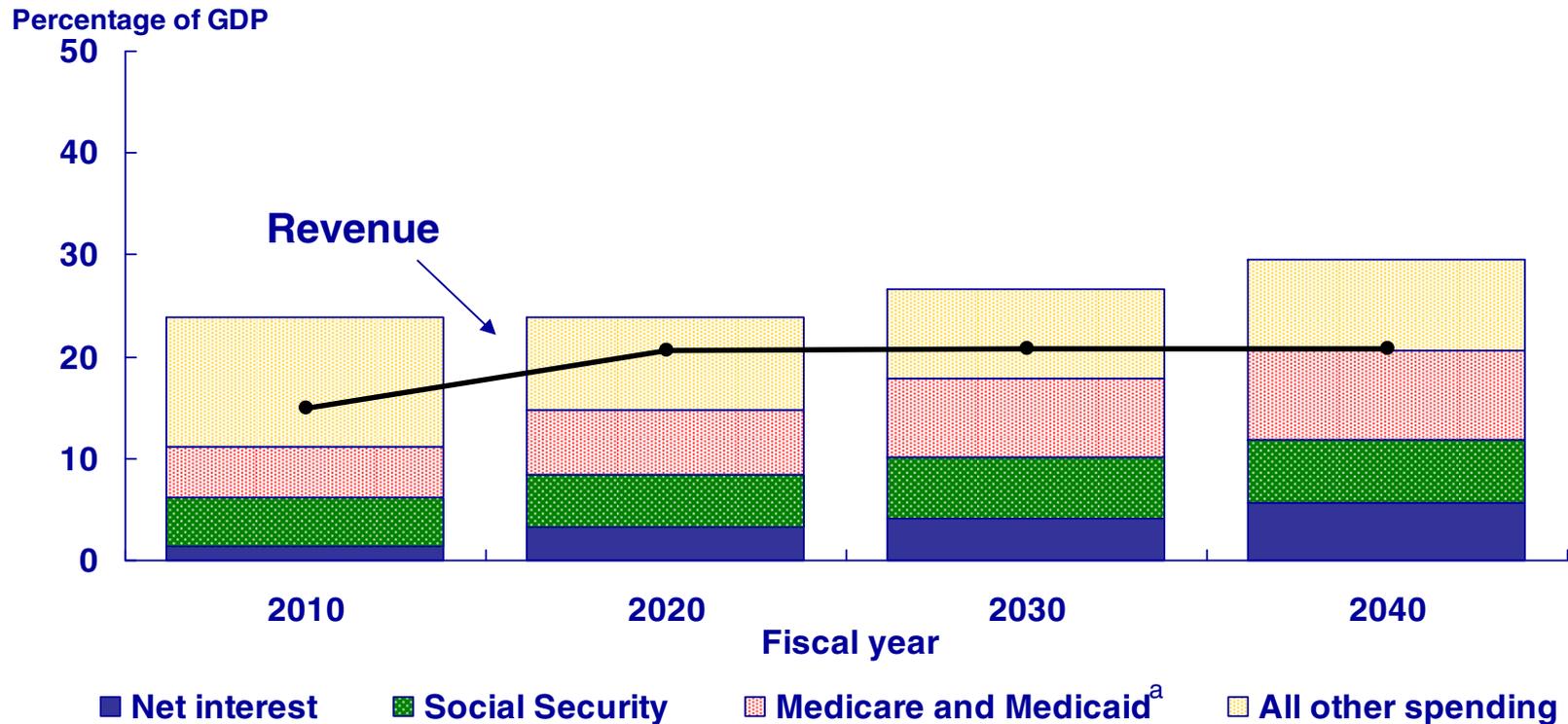


Source: GAO.

Note: Data are from GAO's January 2011 simulations based on the Trustees' assumptions for Social Security and the Trustees' and CMS Actuary's alternative assumptions for Medicare.

# Potential Fiscal Outcomes

## Revenues and Composition of Spending under Baseline Extended Simulation



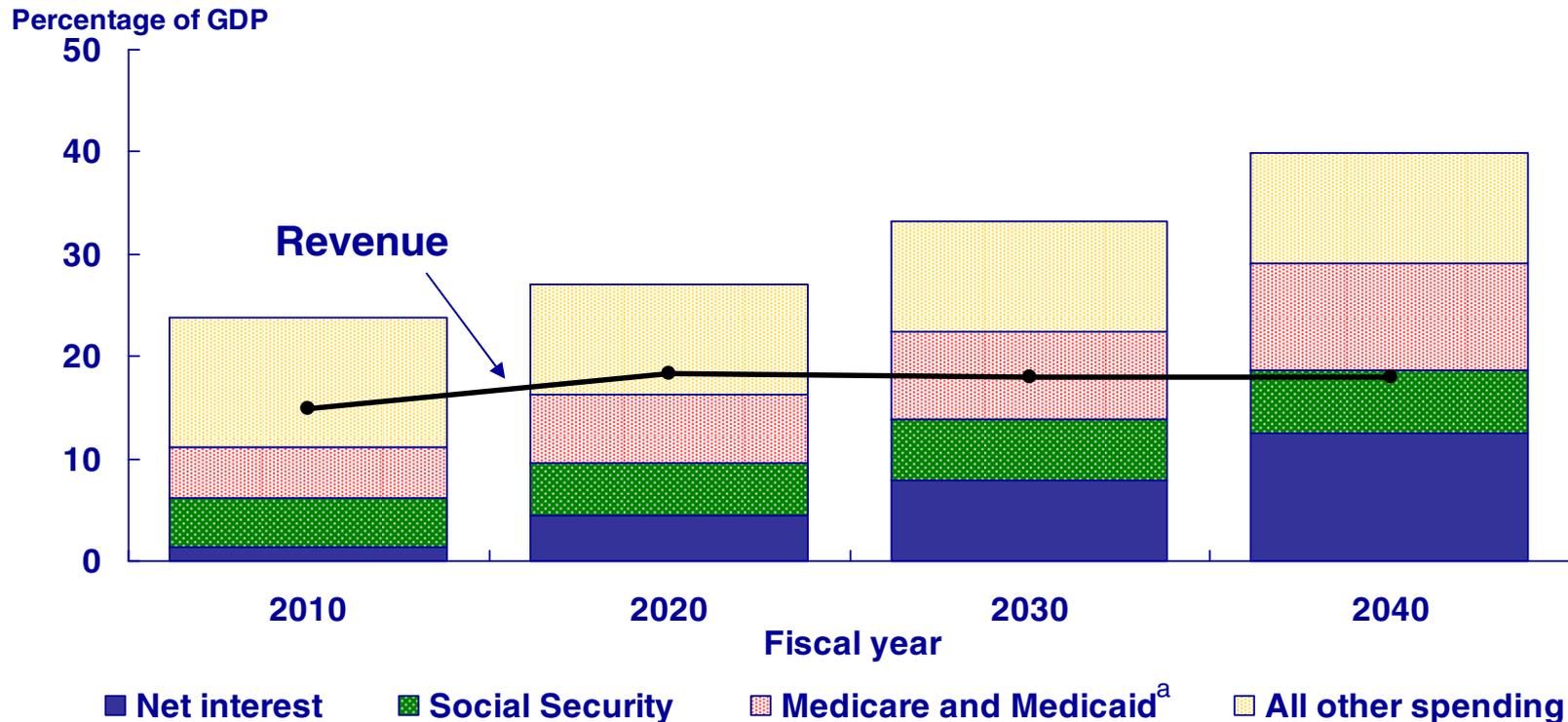
Source: GAO.

Note: Data are from GAO's January 2011 simulations based on the Trustees' assumptions for Social Security and Medicare.

<sup>a</sup>This also includes spending for insurance exchange subsidies and CHIP.

# Potential Fiscal Outcomes

## Revenues and Composition of Spending under Alternative Simulation

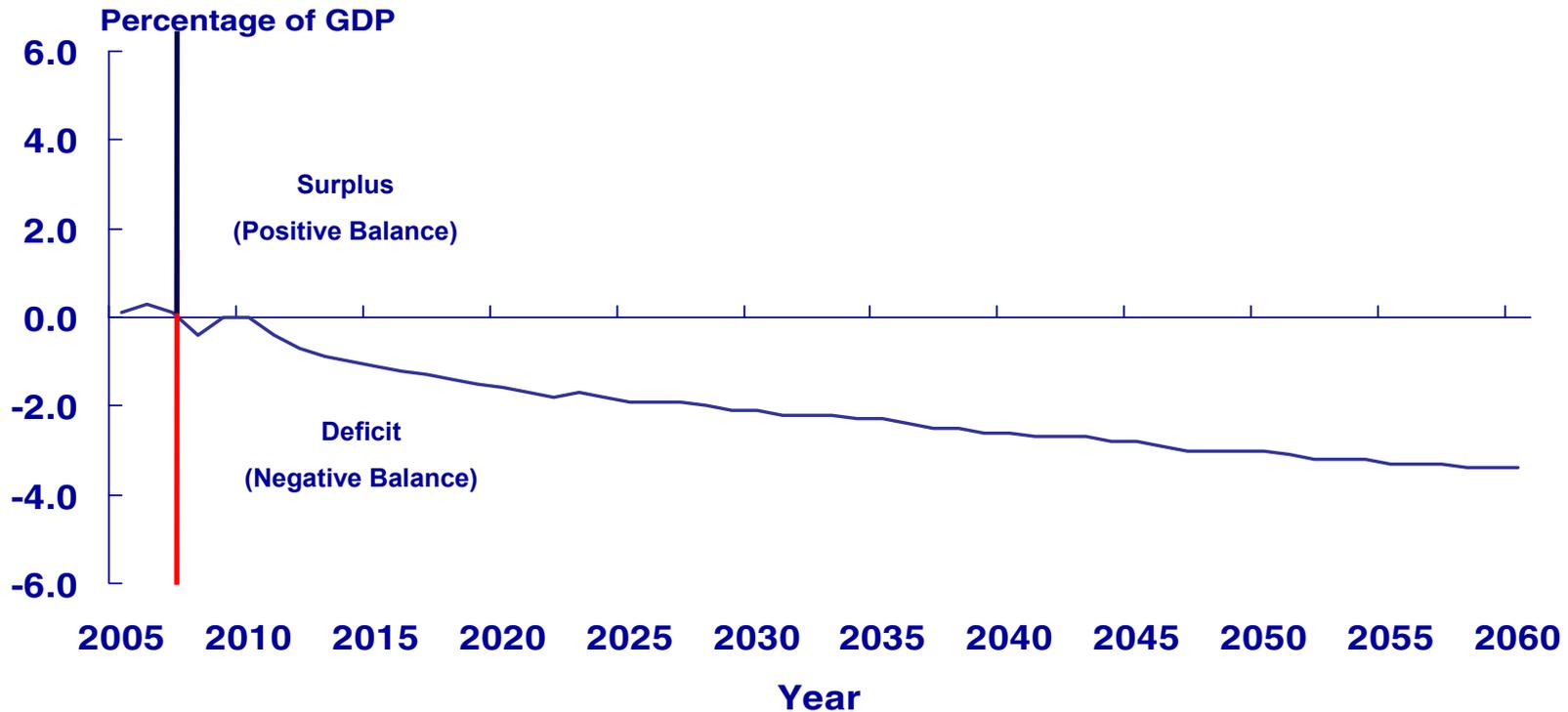


Source: GAO.

Note: Data are from GAO's January 2011 simulations based on the Trustees' assumptions for Social Security and CMS Actuary's alternative assumption for Medicare.

<sup>a</sup>This also includes spending for insurance exchange subsidies and CHIP.

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



Source: GAO simulations, updated April 2011.

Note: Historical data are from the Bureau of Economic Analysis's National Income and Product Accounts from 1980 to 2009. Data in 2010 are GAO estimates aligned with published data where available. GAO simulations are from 2011 to 2060, using many Congressional Budget Office projections and assumptions, particularly for the next 10 years. Simulations are based on current policy.



# GPRA Modernization Act Goals

# GPRA Modernization Act Goals

- Adopting a more coordinated and crosscutting approach to achieving common goals
- Addressing weaknesses in major management functions
- Ensuring performance information is both useful and used in decision making
- Instilling sustained leadership commitment and accountability for achieving results
- Engaging Congress in identifying management and performance issues to address

# Addressing Weaknesses in Major Management Functions

- Agencies need more effective management capabilities to better implement programs and policies.
- GPRA Modernization Act requires OMB to develop goals to improve management functions across the government, including in the following areas:
  - Financial management
  - Human capital
  - Information technology
  - Procurement and acquisition
  - Real property

# Ensuring Performance Information is Useful and Used

- To ensure performance information will be both useful and used, it must meet various users needs for completeness, accuracy, validity, timeliness, and ease of use.
- Act has several requirements that could help meet these needs:
  - Agencies to disclose more information on the accuracy and validity of their performance data, such as data sources
  - Quarterly, rather than annual, reporting for priority goals
  - Information to be posted on a governmentwide website

# Ensuring Performance Information is Useful and Used (cont'd)

- To ensure that federal officials have the knowledge and skills necessary to use the information they are gathering, the Act requires OPM to
  - Identify key skills and competencies needed to carry out performance management activities
  - Incorporate those skills and competencies into relevant position classifications and agency training

# The Need for Reliable Cost Information

- Greater need than ever for timely and accurate information about costs of specific programs and services for use in performance metrics
- Reliable cost information can help :
  - Provide accurate comparisons on costs/benefits
  - Inform budgets and proposals for reorganization/consolidation
  - Identify potential cost control, efficiencies, and waste
  - Benchmark programs and activities
  - Set appropriate fees to recover the costs of services
  - Measure program and managers' performance.

# Sustained Leadership Commitment and Accountability for Results

- The Act creates several new leadership structures and responsibilities aimed at sustaining attention on improvement efforts:
  - At the agency level, a Chief Operating Officer and Performance Improvement Officer at each agency
  - A governmentwide Performance Improvement Council to assist in carrying out the governmentwide performance and reporting requirements of the act
  - Quarterly reviews for the governmentwide and agency priority goals that involve top leadership

# Engaging Congress

- The Act significantly enhances requirements for agencies to consult with Congress when establishing or adjusting governmentwide and agency goals.
  - OMB and agencies are to consult with relevant committees, obtaining majority and minority views, about proposed goals at least once every 2 years.
  - In addition, OMB and agencies are to describe how they incorporated congressional input into their goals.
  - OMB is required to report on unmet agency goals each year, and where a goal has been unmet for 3 years, OMB can propose the program for termination or restructuring, among other actions.

# GAO's Role in Evaluating Implementation of the GPRA Modernization Act

- The act includes provisions requiring GAO to evaluate implementation over time:
  - By June 2013, GAO is to report on implementation of the act's planning and reporting requirements at both the governmentwide and agency levels.
  - By September 2015 and 2017, GAO is to evaluate whether performance management is being used by federal agencies to improve results.
  - Also by September 2015 and 2017—and every 4 years thereafter—GAO is to evaluate implementation of the federal government priority goals and performance plans, and related reporting requirements.

# GPROA Modernization Act Implementation Timelines

- **June 30, 2011 – Quarterly agency priority progress reviews**, consistent with the Act, begin for the goals listed in the FY11 Budget
- **February 6, 2012 –**
  - OMB publishes interim **federal government priority goals** and prepares **federal government performance plans**, consistent with the Act
  - Agencies adjust their current **strategic plans**, prepare **performance plans**, and identify new or update existing **agency priority goals** to make them consistent with the Act
- No later than **February 27, 2012 – Agencies make performance reporting updates** on FY2011 performance consistent with the Act
- **June 30, 2012 – Quarterly federal government priority progress reviews** begin
- No later than **October 1, 2012 – Governmentwide performance website** launched
- **February 3, 2014 – Full Implementation** with a new strategic planning cycle



# Financial Management Challenges

# CFO Act – Key Accomplishments and Progress Made

- Cultural change – accountability
- Governmentwide leadership structure and agency CFOs
- New accounting and reporting standards
- Preparing timely, auditable financial statements
- Strengthening internal control
- Improving financial management systems
- Improving performance information
- Establishing fiscal sustainability reporting
- Issuing summarized financial reports, including the governmentwide Citizen's Guide

# Results of the FY 2010 Financial Audits

- 20 of 24 CFO Act Agencies received unqualified audit opinions on their accrual-based financial statements. (Only 6 did in 1996.)
- Three major impediments continue to prevent GAO from rendering an opinion on the U.S. government's accrual-based consolidated financial statements:
  - Financial management problems at the Department of Defense (DOD)
  - Inability to adequately account for and reconcile intragovernmental activity and balances between federal entities
  - Ineffective process for preparing the consolidated financial statements

# U.S. Government's Consolidated Financial Statements - Getting to a Clean Opinion

## Department of Defense (DOD)

- Several entities have received a clean opinion:
  - U.S. Army Corp of Engineers, Defense Finance and Accounting Service, Defense Commissary Agency, Defense Contract Audit Agency, Military Retirement Fund
- U.S. Marine Corps working toward an auditable Statement of Budgetary Resources as a first step. Lessons learned may pave the way for other military services.
- DOD focus on improving business systems, ensuring reliability of budget information, and existence and completeness of all mission-critical assets
- Financial Improvement and Audit Readiness plan (FIAR) defines path for DOD's plans to achieve auditability by 2017

# U.S. Government's Consolidated Financial Statements - Getting to a Clean Opinion

## Intragovernmental activity & balances between federal entities

### Key actions taken/planned by Treasury

- Developed and issued Intragovernmental Business Rules.
- Established various focus groups, consisting of Treasury and federal entity personnel.
- Developed and implemented intragovernmental confirmation and reporting and analysis systems.
- Developing financial statements for the General Fund of the U.S. Government to help address unreconciled differences existing between the General Fund and federal entity trading partners related to appropriation and other intragovernmental transactions.

# U.S. Government's Consolidated Financial Statements - Getting to a Clean Opinion

## Consolidated financial statements (CFS) preparation process

### Key actions taken/planned by Treasury

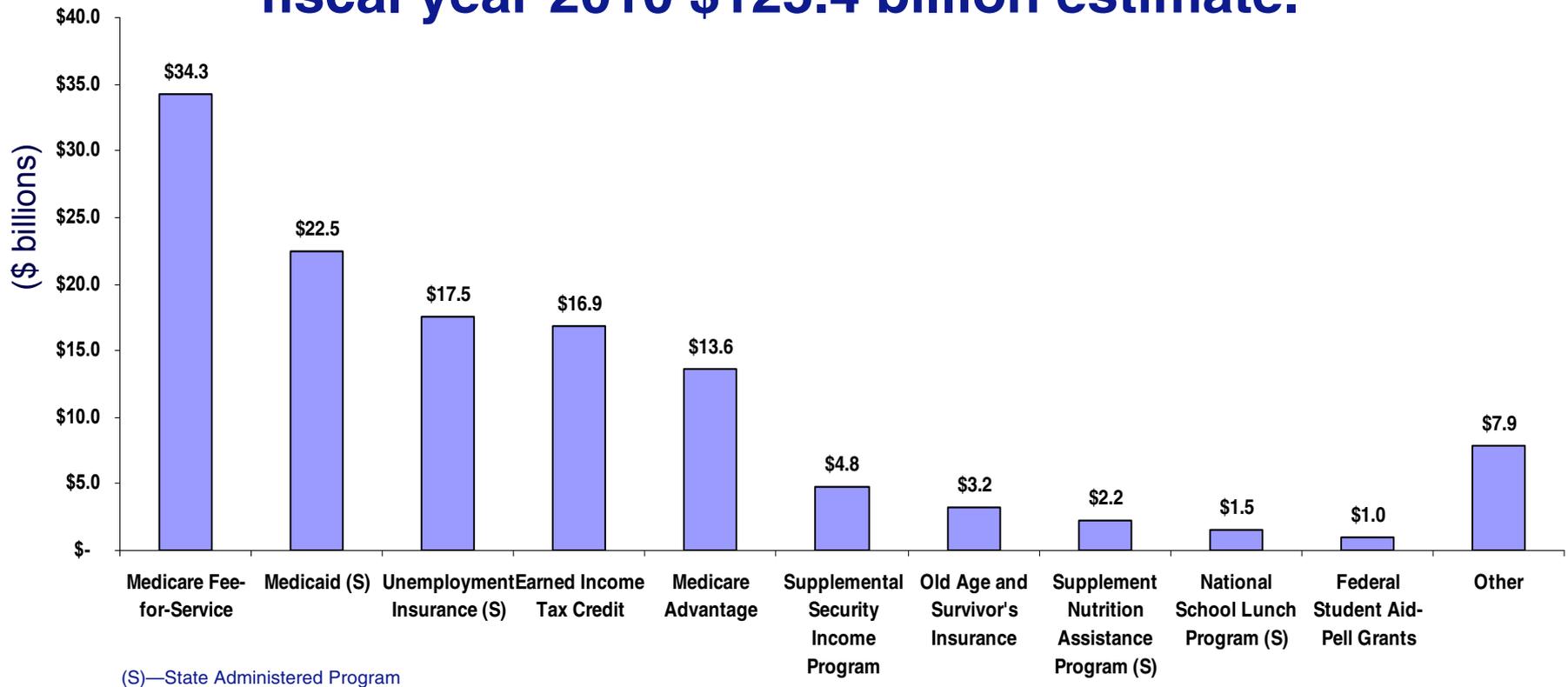
- Developed, documented, and implemented numerous standard operating procedures.
- Hired contractors to assist in addressing certain control deficiencies.
- Continuing to execute and implement corrective action plans to address previously identified control deficiencies.
- Considering obtaining personnel from certain other entities, with additional financial reporting expertise, to assist Treasury during the year-end CFS preparation process.

# Increases in Improper Payment Estimates

- Improper payment estimated amounts have been steadily rising over the years, primarily due to expansion in the number of programs being measured.
- However, the fiscal year 2010 increase in the estimates was primarily related to an increase in reported outlays and, for the Unemployment Insurance and Earned Income Tax Credit programs, increases in reported error rates.
- The fiscal year 2010 \$125.4 billion improper payment estimate rose \$16.2 billion from the prior year estimate of \$109.2 billion.

# Fiscal Year 2010 Improper Payment Estimates by Program

**10 programs account for 94 percent of the fiscal year 2010 \$125.4 billion estimate.**



Source: GAO analysis.

# Improper Payments Elimination and Recovery Act of 2010

- In July 2010, the President set goals under the Accountable Government Initiative which include (1) reducing overall improper payments by \$50 billion by fiscal year 2012 and (2) recapturing at least \$2 billion in actual improper payments by fiscal year 2012.
- On July 22, 2010, the Improper Payments Elimination and Recovery Act (IPERA) was enacted.
- IPERA establishes additional requirements related to (1) manager accountability, (2) recovery auditing, (3) compliance and noncompliance determinations and reporting, and (4) an opinion on internal controls over improper payments.
- IPERA requirements related to agencies' improper payment estimating and reporting, manager accountability, recovery auditing, and compliance determinations and reporting, became effective for fiscal year 2011 under OMB's April 14, 2011, implementing guidance.
- OMB expects to issue guidance related to providing an opinion on internal controls over improper payments in the future.

# Challenges to a More Comprehensive Picture of Improper Payments

- Full extent of improper payments is still unknown because some agencies have not yet reported estimates for all risk-susceptible programs.
- Categories of improper payments and the root causes are not consistently identified in programs' improper payment estimates or included in aggregate estimates.
- Corrective actions are unique to specific entities and programs across the federal government.
- Preventing, reducing, and recovering improper payments needs to be a high priority.



# Overlap, Fragmentation, and Duplication

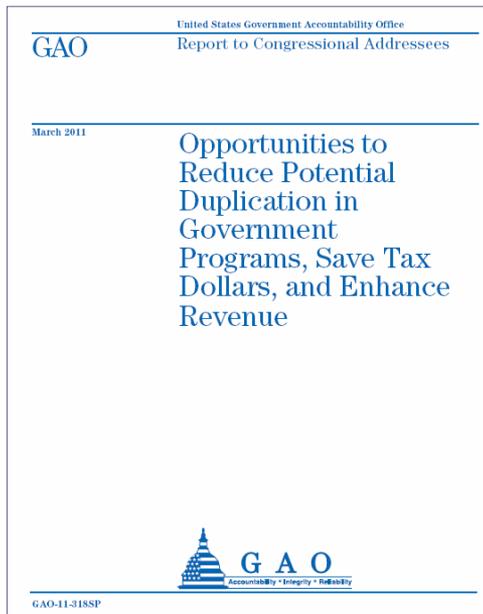
# GAO Reporting on Overlap, Fragmentation and Duplication in Federal Programs

- Section 21 of P.L. 111-139, enacted in February 2010, required that the Comptroller General:
  - conduct routine investigations to identify programs, agencies, offices, and initiatives with duplicative goals and activities within Departments and government-wide, and
  - report annually to Congress on the findings, including the cost of such duplication and with recommendations for consolidation and elimination to reduce duplication.

# GAO drew on a variety of sources to identify potential areas of focus

GAO	External Sources
<ul style="list-style-type: none"><li>• Over 200 reports that highlight the potential for duplication, overlap, or fragmentation.</li><li>• Major cost saving opportunities identified on GAO Web site.</li><li>• GAO High Risk series.</li><li>• Previous GAO work on government restructuring and reorganization.</li></ul>	<ul style="list-style-type: none"><li>• OMB's Program Assessment Rating Tool (PART).</li><li>• President's Budget Terminations, Reductions, and Savings list.</li><li>• CBO Budget Options.</li><li>• Academia, public policy organizations, think tanks.</li></ul>

# Summary of 2011 report (GAO-11-318SP)



- 34 areas where agencies, offices, or initiatives have similar or overlapping objectives or provide similar services to the same populations; or where government missions are fragmented across multiple agencies or programs.
- 47 additional areas describing other opportunities for agencies or Congress to consider taking action that could either reduce the cost of government operations or enhance revenue collections for the Treasury.
- Depending on the extent of actions taken, these savings and revenues could collectively result in tens of billions of dollars in annual savings.

# Examples of GAO duplication and cost saving or revenue enhancement issues

Duplication, Overlap, or Fragmentation	Cost Saving or Revenue Enhancement
<ul style="list-style-type: none"> <li>• DOD’s military medical command structures.</li> <li>• Fragmented food safety system.</li> <li>• Multiple employment and training programs.</li> <li>• Fragmented economic development programs.</li> <li>• Fragmented federal approach to surface transportation.</li> <li>• Federal data centers.</li> <li>• Ethanol.</li> </ul>	<ul style="list-style-type: none"> <li>• Promoting competition in federal contracts.</li> <li>• Better targeting of Medicaid and Medicare improper payments.</li> <li>• Multiple opportunities to address tax expenditures and tax gap</li> </ul>



# GAO's High-Risk List – An Update

# 2011 High-Risk Update

## 2011 List – 30 areas total

- Two Areas Removed
  - DOD Personnel Security Clearances
  - 2010 Census
- Three Areas Narrowed in Scope
  - Strategic Human Capital Management
  - Managing Federal Real Property
  - DOD Support Infrastructure Management
- One New High-Risk Area
  - Management of Federal Oil and Gas Resources

# Removing High-Risk Designations

- Five criteria for determining whether a high risk area can be removed:
  - Demonstrated top leadership commitment to addressing the problems
  - Capacity (people and resources)
  - Corrective action plan
  - Demonstrated progress that is sustainable
  - A program to monitor corrective measures

# Closing Thoughts

- The nation is facing the daunting challenges of recovering from a serious recession while facing serious long-term fiscal challenges that simulations show--absent significant policy changes--growing deficits accumulating to an unsustainable increase in debt.
- Great need to improve major management functions, including financial management, to help support more effective program and service delivery.
- Addressing these fiscal and management challenges will not be easy. Difficult decisions will be needed.
- Given the significant challenges the nation is facing, taking federal financial management to the next level will be critical to provide reliable financial and performance information related to government programs, services, and outputs so that informed policy decisions, priority evaluations, and resource allocations can be made.

## On the Web

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

## Contact

Chuck Young, Managing Director, Public Affairs, [youngc1@gao.gov](mailto: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.