



PRESIDENTIAL AND CONGRESSIONAL TRANSITION

Management Agenda: *Manage Finances to Improve the Nation's Fiscal Condition*

The Presidential Transition Act points to the U.S. Government Accountability Office (GAO) as a resource for incoming administrations as well as new Congresses.

GAO's **Management Agenda** is a streamlined tool for new leaders to quickly learn about critical management challenges and risks facing the federal government and the actions needed to address those challenges.



Manage Finances to Improve the Nation's Fiscal Condition is one of the eight management challenges highlighted in the Management Agenda.

The incoming Administration and Congress face major challenges to improve the nation's fiscal condition. These challenges include reducing the gap between revenue and spending, addressing a multibillion-dollar tax gap, reducing billions of dollars in improper payments, and improving the reliability of financial information.

Read on to learn more about the following challenges:

1. Balance Spending and Revenue
2. Close the Tax Gap
3. Reduce Improper Payments
4. Improve Financial Accountability

Balance Spending and Revenue

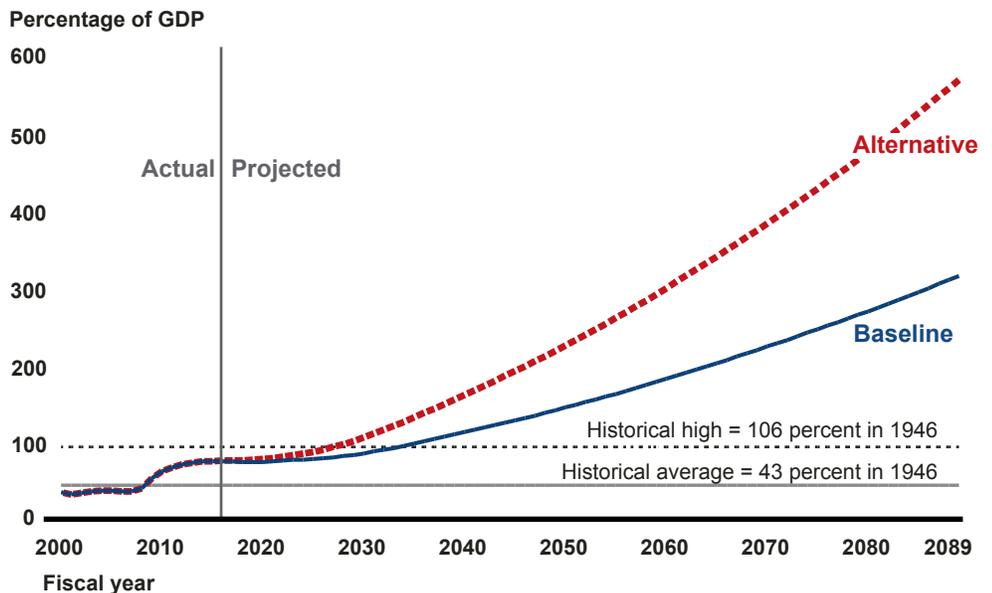
Challenge: Unsustainable Debt

The federal long term fiscal path is unsustainable. In 2016, the debt-to-GDP ratio was 77 percent, exceeding the historical average (43 percent since 1946). We have projected that the federal debt will grow because revenue and spending are fundamentally imbalanced. If there are no policy changes (baseline forecast), by 2036, debt held by the public will be 100 percent of the value of the goods and services produced (gross domestic product, or GDP). If policy changes reflect historical trends (alternative forecast), it is estimated that the debt will reach 100 percent of GDP by 2029.

The aging population, rising health care costs, and net interest on the federal debt drive the increases in spending shown in our simulations. Continued growth in these costs and the widening gap between spending and revenue limits government spending in other areas—including addressing future challenges. Tax policy needs to be part of a multipronged approach as policymakers assess how to alleviate the fiscal pressures. The government must act soon to change the long-term fiscal path or risk significant disruption to individuals and the economy. The longer action is delayed, the more significant the change that will be needed.

Rising debt may also lead to more frequent impasses over raising the debt limit, which may undermine confidence in the credit of the United States and cause significant damage to Treasury securities markets, increasing financing costs for the federal government.

Debt Held by the Public as a Percentage of GDP



Source: GAO. | GAO-16-541T

Notes: Data are from GAO's 2016 simulations. Both of GAO's simulations assume that Social Security and Disability benefits are paid in full regardless of the current projections of revenues into the Old-Age, Survivors, and Disability Insurance trust funds.

Related GAO Work

- [Federal Fiscal Outlook](#)
- [Understanding the Federal Debt](#)
- [Tax Expenditures](#)
- [Tax Reform](#)
- [Measuring the Federal Deficit](#)
- [Social Security's Future](#)
- [Fiscal Exposures](#)
- [Medicaid - High Risk Issue](#)
- [Medicare - High Risk Issue](#)
- [Federal Budgeting](#)

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Key Actions Needed

1. Begin reducing the gap between revenue and spending through a combination of spending reductions and revenue increases. Actions related to spending may include reviewing mandatory and discretionary spending, setting priorities and ensuring that spending leads to positive results, and identifying options to reduce spending. Actions related to revenue may include reducing the complexity of the tax system to simplify individuals' ability to comply and conducting periodic reviews of tax expenditures to ensure they achieve their intended policy goals.
2. Consider alternative approaches that better link decisions about the debt limit with decisions about spending and revenue at the time those decisions are made—which may help avoid Treasury securities market disruptions and inform the fiscal policy debate in a timely way. This would also ensure confidence in the full faith and credit of the U. S. government—one of our greatest assets.

Close the Tax Gap

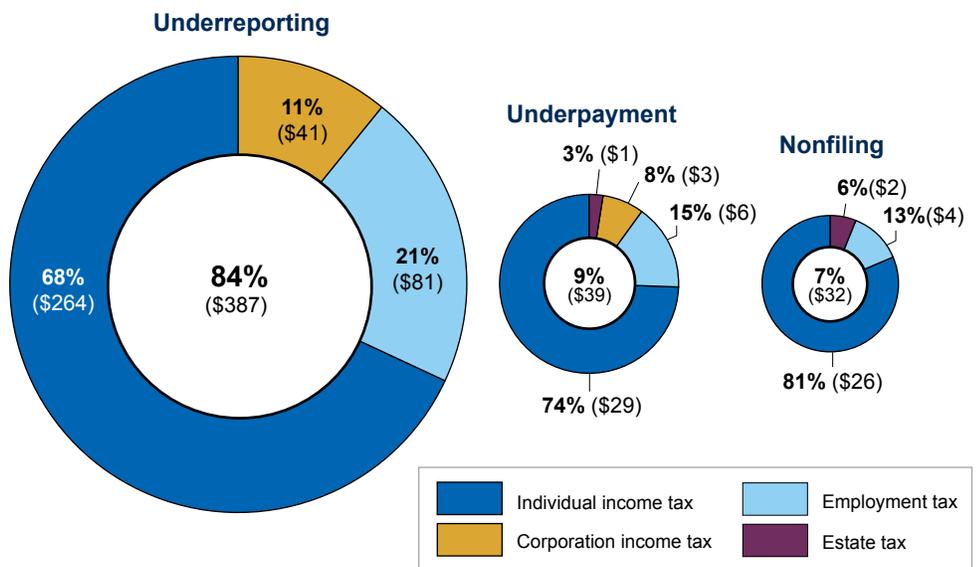
Challenge: More Taxes Owed Than Collected

Addressing the tax gap—the difference between taxes owed and those paid on time—could help improve the government’s fiscal position. The estimated average annual gross tax gap is \$458 billion. Current tax law enforcement efforts and the collection of late payments are estimated to recover \$52 billion of the shortfall, resulting in a net annual tax gap of \$406 billion.

The tax gap is a result of taxpayers underreporting their tax liability, underpaying taxes, or not filing tax returns. All of these types of noncompliance could involve fraudulent activity.

Estimated Average Annual Gross Tax Gap by Type of Noncompliance and Tax (Tax Years 2008-2010)

Dollars (in billions)



Source: GAO analysis of IRS information. | GAO-16-684CG

Related GAO Work

- Enforcement of Tax Laws - High Risk Issue
- Tax Gap
- Tax Reform

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Key Actions Needed

1. Enhance and expand third-party information reporting.
2. Better use of data to target noncompliance.
3. Ensure high-quality services to taxpayers.
4. Leverage external stakeholders, such as whistleblowers.
5. Enhance electronic filing.
6. Expand math error authority.
7. Regulate paid tax preparers.
8. Enhance budget planning, such as the allocation of enforcement resources.
9. Simplify and reform the tax code.

Reduce Improper Payments

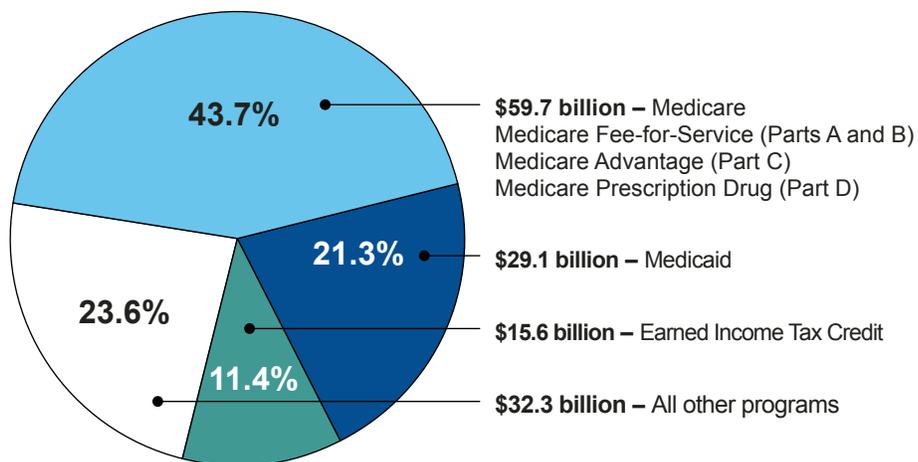
Challenge: Improper Use or Payment of Federal Funds

Since fiscal year 2003 cumulative improper payment estimates have totaled over \$1 trillion. In fiscal year 2015 alone, federal agencies made an estimated \$136.7 billion in improper payments—e.g., overpayments, underpayments, payments made to ineligible recipients, or payments that were not properly documented. While fraudulent payments are considered improper, not all improper payments are the result of fraud.

The federal government has consistently been unable to determine the full extent of improper payments because of incomplete, unreliable, or understated estimates, among other things. The government is also unable to reasonably assure that appropriate actions are taken to reduce improper payments.

Until the federal government can determine the full extent of improper payments and take effective actions to reduce them, it cannot be assured that taxpayer funds are adequately safeguarded.

Government-wide Improper Payment Estimates by Program for Fiscal Year 2015



Source: GAO analysis of agencies' data. | GAO-16-541T

Note: These estimates do not include the Department of Defense's (DOD) Defense Finance and Accounting Service (DFAS) Commercial Pay program. The DOD Office of Inspector General reported in DOD's fiscal year 2015 Agency Financial Report that the department was unable to reconcile outlays and ensure that all payments subject to improper payment estimation requirements were captured for review. Therefore, DOD's fiscal year 2015 improper payment estimates, including its estimate for the DFAS Commercial Pay program, may not be reliable.

Related GAO Work

- Reducing Government-wide Improper Payments
- Medicaid - High Risk Issue
- Medicare - High Risk Issue

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Key Actions Needed

1. Identify all programs and activities that may be susceptible to significant improper payments.
2. Develop reliable methodologies for estimating improper payments.
3. Report improper payments as required by statute.
4. Analyze the root causes of improper payments and implement effective corrective actions to prevent or minimize improper payments.

Improve Financial Accountability

Challenge: Reliability of Federal Financial Information

Federal financial management has improved since the Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget, began preparing consolidated financial statements of the U.S. government 19 years ago. Almost all of the 24 largest federal agencies received unmodified (“clean”) opinions on their fiscal year 2015 financial statements.

However, the Department of Defense—which represents 30 percent and 15 percent of the government’s reported total assets and net costs, respectively—has consistently been unable to receive such an audit opinion on its financial statements because of pervasive deficiencies in its financial and related business management systems, processes, and controls. These deficiencies impair the ability to determine whether the Department of Defense’s financial statements are complete and accurate. In addition, the federal government has been unable to (1) adequately account for and reconcile intragovernmental activity and balances between federal agencies and (2) effectively prepare the consolidated financial statements. Because of these major impediments and other issues, we have been able to only issue a disclaimer of opinion on the consolidated financial statements of the U.S. government.

Control deficiencies underlying these major impediments continued to (1) hamper the federal government’s ability to reliably report a significant portion of its assets, liabilities, costs, and other related information; (2) affect the federal government’s ability to reliably measure the full cost, as well as the financial and nonfinancial performance of certain programs and activities; (3) impair the federal government’s ability to adequately safeguard significant assets and properly record various transactions; and (4) hinder the federal government from having reliable financial information to operate in an efficient and effective manner.

Related GAO Work

- Federal Financial Accountability
- DOD Financial Management - High Risk Issue

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Key Actions Needed

1. Resolve the serious financial management problems that have resulted in auditors of the Department of Defense issuing a disclaimer of opinion on the Department’s financial statements.
2. Improve the federal government’s ability to account for and reconcile intragovernmental activity and balances between federal agencies.
3. Improve the federal government’s process for preparing the consolidated financial statements of the U.S. government.