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# **Entering 2013: Perspectives on Fiscal and Performance Challenges Facing Government**

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# Outline

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## I. Context – Budget Environment

- Near-term: recent steps; competing demands
- Long-term challenge
- Debt limit

## II. How the Accountability Community can Help

- Prevent & detect improper payments
- Improve financial information
- Act to narrow the tax gap
- Fix known high risk areas
- Address areas of overlap/duplication and opportunities for cost savings/revenue enhancement

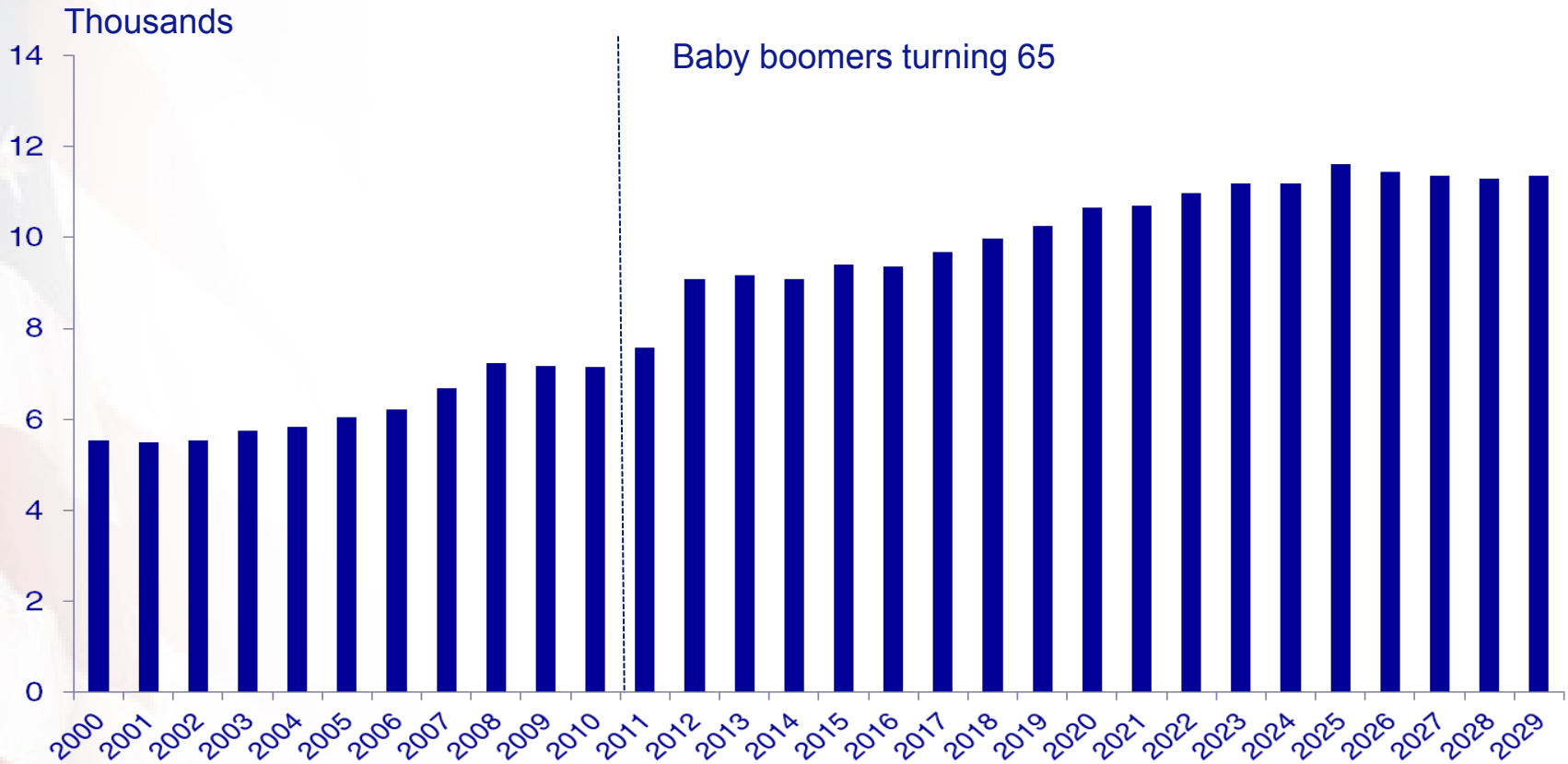
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# Context: Overall Budget Environment Near-term and Longer- Term

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- Budget Control Act and the American Taxpayer Relief Act, will help in the near-term
- Currently face competing demands:
  - Need to sustain economic growth
  - Need for significant actions to change the long-term fiscal path
- Long-term path is still unsustainable
  - Spending side driven by demographics and health care spending

## Daily Average Number of People Turning 65



Source: GAO analysis of U.S. Census Bureau data.

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# Debt Limit: What it is and What it isn't

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- Debt limit does not limit the ability to enact spending and tax laws; not a limit on running deficits or incurring obligations.
- Debt limit is an after-the-fact measure: it imposes a limit on ability to pay obligations already incurred
- GAO analysis shows delays in raising debt limit lead to higher borrowing costs; delays in 2011 \$1.3 billion increase for the year.
- Treasury uses extraordinary actions to manage near the debt limit: where provided for under law, law principal and interest is restored; GAO tests this as part of its routine annual audit of federal debt.
- GAO: tie debt limit to spending and revenue decisions that create debt—at the time those decisions are debated

The background of the slide features a stylized American flag with stars and stripes. The stars are white and arranged in a pattern on the left side, while the stripes are light blue and white, extending across the bottom and right.

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# How the Accountability Community Can Help

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- Prevent and detect Improper Payments
- Improve Financial Information
- Act to narrow the Tax Gap
- Fix known High Risk Areas
- Address overlap and duplication; identify opportunities for cost saving and enhanced revenue

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## **Governmentwide Improper Payments: Estimates Are Decreasing but Are Not Complete**

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- FY 2012 improper payment estimate: \$107.7 billion, a decrease of \$8 billion from the revised prior-year estimate
- Attributable to 75 programs spread among 18 agencies
- Decrease largely from reduced error rates for Medicaid, SSA's Old Age and Survivors and Disability Insurance, and lower outlays for Unemployment Insurance and Earned Income Tax Credit
- 4 agencies did not report estimates for 10 risk-susceptible programs/activities
- 6 programs that provided estimates in FY 2012 were not included in OMB's governmentwide totals because estimation methodologies were not OMB-approved

## Governmentwide Improper Payments: Top 10 Program Improper Payment Estimates by Dollar Amount

Program	Agency	Reported Improper Payment Estimates	
		Dollars (in billions)	Error rate (percent of outlays)
Medicare Fee-for-Service	HHS	\$29.6	8.5%
Medicaid	HHS	\$19.2	7.1%
Medicare Advantage (Part C)	HHS	\$13.1	11.4%
Earned Income Tax Credit	Treasury	\$12.6	22.7%
Unemployment Insurance	DOL	\$10.3	11.4%
Supplemental Security Income	SSA	\$4.7	9.2%
Old Age, Survivors & Disability Insurance	SSA	\$3.2	.4%
Supplemental Nutrition Assistance Program	USDA	\$2.7	3.8%
Medicare Prescription Drug	HHS	\$1.6	3.1%
School Lunch	USDA	\$1.6	15.5%



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## Governmentwide Improper Payments: Administration and Congressional Action to Address Improper Payments

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- Presidential Memoranda and Executive Orders
  - Set goals to reduce and recover improper payments
  - Initiated *Do Not Pay* program
- Congressional hearings
  - OMB and Inspectors General testimonies
  - GAO testimonies
- Legislation
  - Enacted IPIA 2002, IPERA 2010, IPERIA 2012;
    - Inspector General reports on IPERA compliance
- OMB
  - Provided implementation guidance for the Administration's initiatives and for enacted legislation
  - Included reducing improper payments as one of 14 cross-cutting goals under the GPRA Modernization Act

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## Governmentwide Improper Payments: Improper Payments Elimination and Recovery Improvement Act of 2012

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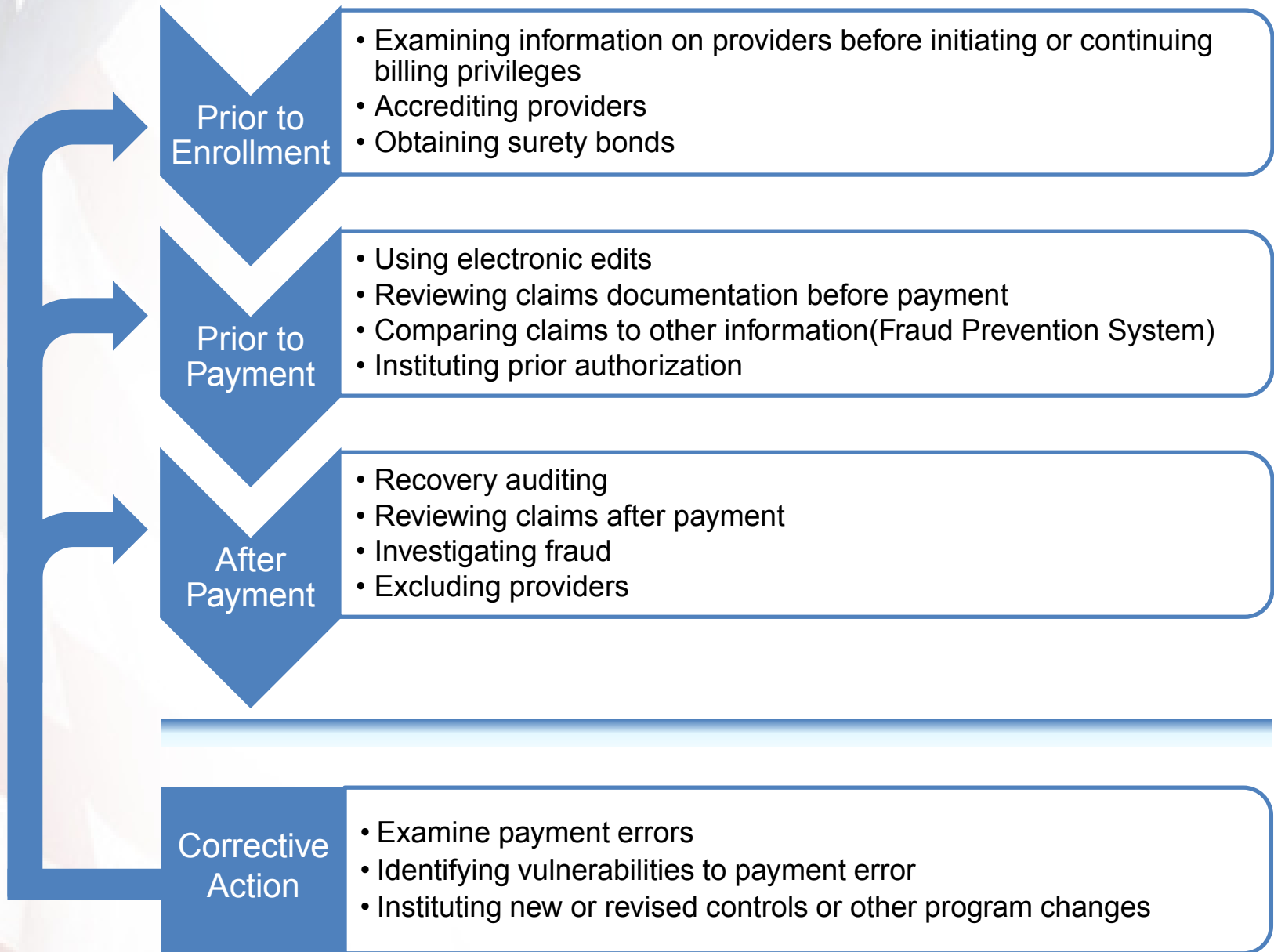
- Enacted January 2013; supplements IPIA 2002 and IPERA 2010
- Among other things, this law —
  - Gives statutory authority for the *Do Not Pay* Initiative
  - Requires OMB to
    - annually designate “high-priority programs” that will be subject to additional oversight and reporting requirements
    - expand guidance for improving agency improper payments estimates
    - determine current and historical rates of improper payment recoveries, and recovery targets

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## **Governmentwide Improper Payments: Future Initiatives to Reduce Improper Payments**

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- Agency and program initiatives needed to enhance actions underway across government:
  - Adopt sound risk assessment and estimation methodologies to better capture magnitude of the problem.
  - Identify root causes to help develop effective preventive and detective controls to reduce and recover improper payments.
- GAO initiatives
  - Emphasize reviews of programs with high improper payments
    - Medicare and Medicaid
  - Base future audit selection in part on GAO's program risk assessment; Inspectors General IPERA compliance report findings; program outlays, improper payment estimates and error rates; and GAO audit coverage.





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# Improving Financial Management

## CFS FY 2012: Key Issues Driving the Disclaimer

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- 3 major impediments consistent over time—areas on which to focus moving forward:
  - DOD: unauditable financial statements caused by serious financial management problems
  - Intragovernmental activity and balances
  - Ineffective preparation process
- Social Insurance Related Statements: significant uncertainties primarily related to achievement of projected reductions in Medicare cost growth reflected in the statements



## CFS: Significant Progress and Moving Forward

- Vast majority of the 24 Chief Financial Officers Act agencies received unqualified opinions on their financial statements
- DHS has moved to an audit of all of its financial statements and has received, for the first time in FY 2012, a qualified opinion on such statements
- DOD has ongoing initiatives to achieve auditability
- Treasury has efforts under way to address intragovernmental and consolidated financial statement preparation issues
- Continued progress requires a strong and sustained commitment by federal entities and leadership by Treasury and OMB

# CFS Efforts: Department of Defense

- Established the Financial Improvement and Audit Readiness (FIAR) Directorate
- Current FIAR strategy and methodology:
  - focus on two priorities—budgetary information and asset accountability
  - overall goal of preparing auditable departmentwide financial statements: FY 2017
- Interim priority for DOD component organizations to achieve audit readiness for Statement of Budgetary Resources (SBR): FY 2014. However, as of November 2012, components still in early phases.
- GAO and DOD OIG have raised concerns about the ability of DOD components to implement the FIAR Plan effectively.

# Department of Defense: U.S. Marine Corps

- As a result of its lessons learned, USMC altered its SBR audit readiness plans, beginning with FY 2012
  - to narrow its focus to an audit of current-year budget activity
  - as an interim step toward achieving an audit of multiple-year budgetary activity.
- DOD officials have stated that they plan for all components to begin their SBR audits with the current-year-activity approach in effort to meet the FY 2014 date.
- For sustainable results, USMC needs to address auditors findings and recommendations to strengthen their processes and internal controls.
- Lessons learned from USMC may pave the way for other military services.



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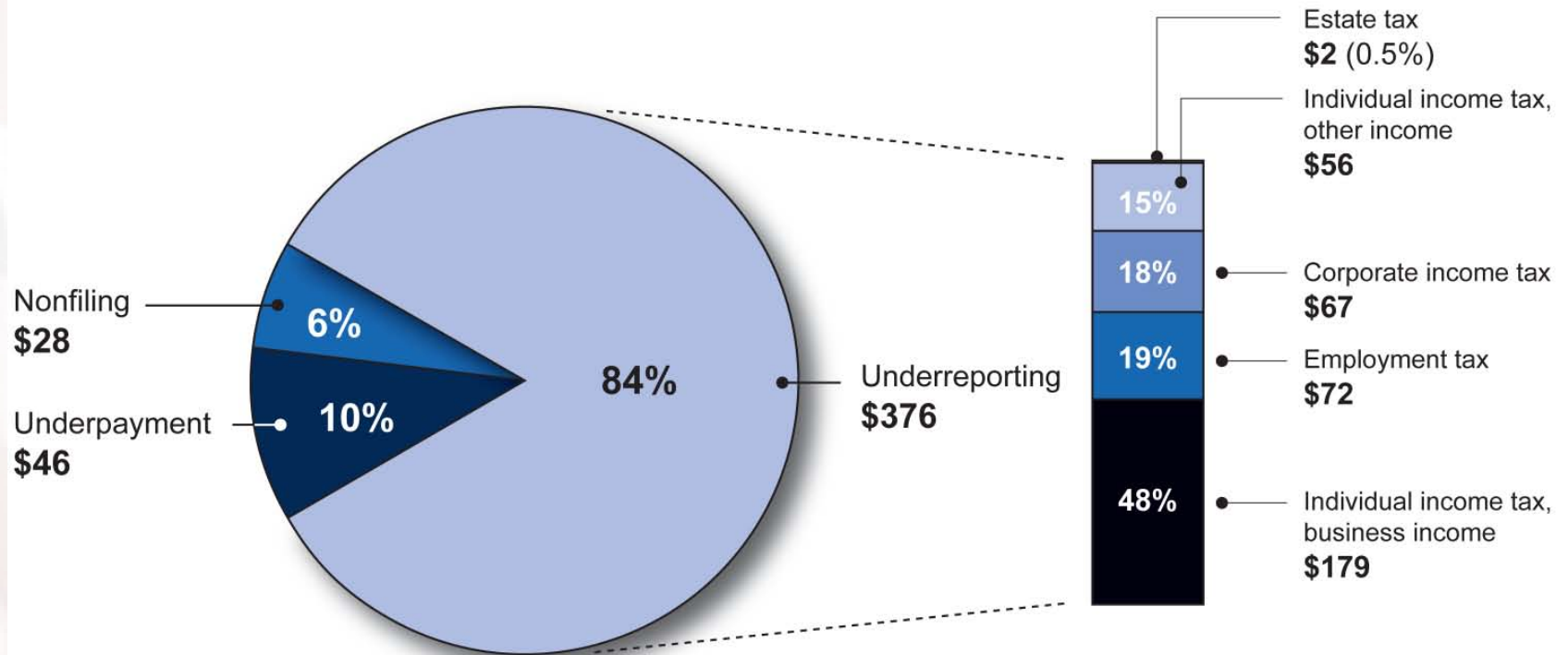
# GAO's High-Risk List

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- 30 items on the 2011 list. Website lists actions needed.
- Areas include:
  - Strengthening the Foundation for Efficiency and Effectiveness
  - Transforming DOD Program Management
  - Ensuring Public Safety and Security
  - Managing Federal Contracting More Effectively
  - Assessing the Efficiency and Effectiveness of Tax Law Administration
  - Modernizing and Safeguarding Insurance and Benefit Programs
- GAO works w/ agencies, OMB, and the Congress
- Next update February 14, 2013

# Tax Gap: Noncompliance is Spread Across Various Types of Taxes and Taxpayers

Tax Gap Components (Dollars in billions)



Source: GAO Analysis of IRS data.



## Tax Gap: Closing the Gap Will Require Multiple Approaches

- No single approach is likely to fully and cost-effectively address tax gap, but the following strategies could help:
  - enhancing information reporting by third parties;
  - ensuring high-quality services to taxpayers;
  - devoting additional resources to IRS enforcement;
  - expanding compliance checks before IRS issues refunds;
  - Leveraging external resources such as paid tax preparers and whistleblowers
  - modernizing information systems; and
  - simplifying the tax code.



# Mandate for GAO Duplication Reviews

- Enacted in 2010
  - Identify overlap and duplication
  - Identify opportunities for cost saving and revenue enhancement
- Reports issue in 2011, 2012: identified 132 areas
- 2013 report to be issued in April
  - Will also follow up on areas identified in 2011 and 2012 reports



## Examples of GAO Duplication, Cost Saving, or Revenue Enhancement Issues in 2011 and 2012 Annual Reports

<b>Duplication, Overlap, or Fragmentation</b>	<b>Cost Saving or Revenue Enhancement</b>
<ul style="list-style-type: none"><li>• Consolidating federal data centers that provide similar services.</li><li>• Lowering costs for administrative operations support services overseas.</li><li>• Avoiding investments in overlapping information technology systems.</li><li>• Minimizing payments for duplicate federal facility risk assessments.</li><li>• Consolidating overlapping housing assistance programs.</li></ul>	<ul style="list-style-type: none"><li>• Reassessing and adjusting federal user fees.</li><li>• Marketing excess uranium inventories for commercial use.</li><li>• Re-evaluating fee rates for Multiple Award Schedules contracts.</li><li>• Adjusting civil tax penalties for inflation.</li><li>• Tracking undisbursed balances in expired grant accounts.</li></ul>



# What does all this Mean for Federal Managers and the Accountability Community

- Important role
- Stewardship for what you control
- Stewardship beyond what you control
  - Ideas for improved operations, for improved program design
  - See programs/activities as part of broader set—crossing bureau, agency, and levels of government lines



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