



Preparing for the Future: Major Challenges in Government Accountability

**Northern Illinois University
Department of Accountancy Colloquium
DeKalb, IL – October 19, 2016**

**Gene L. Dodaro
Comptroller General of the United States**

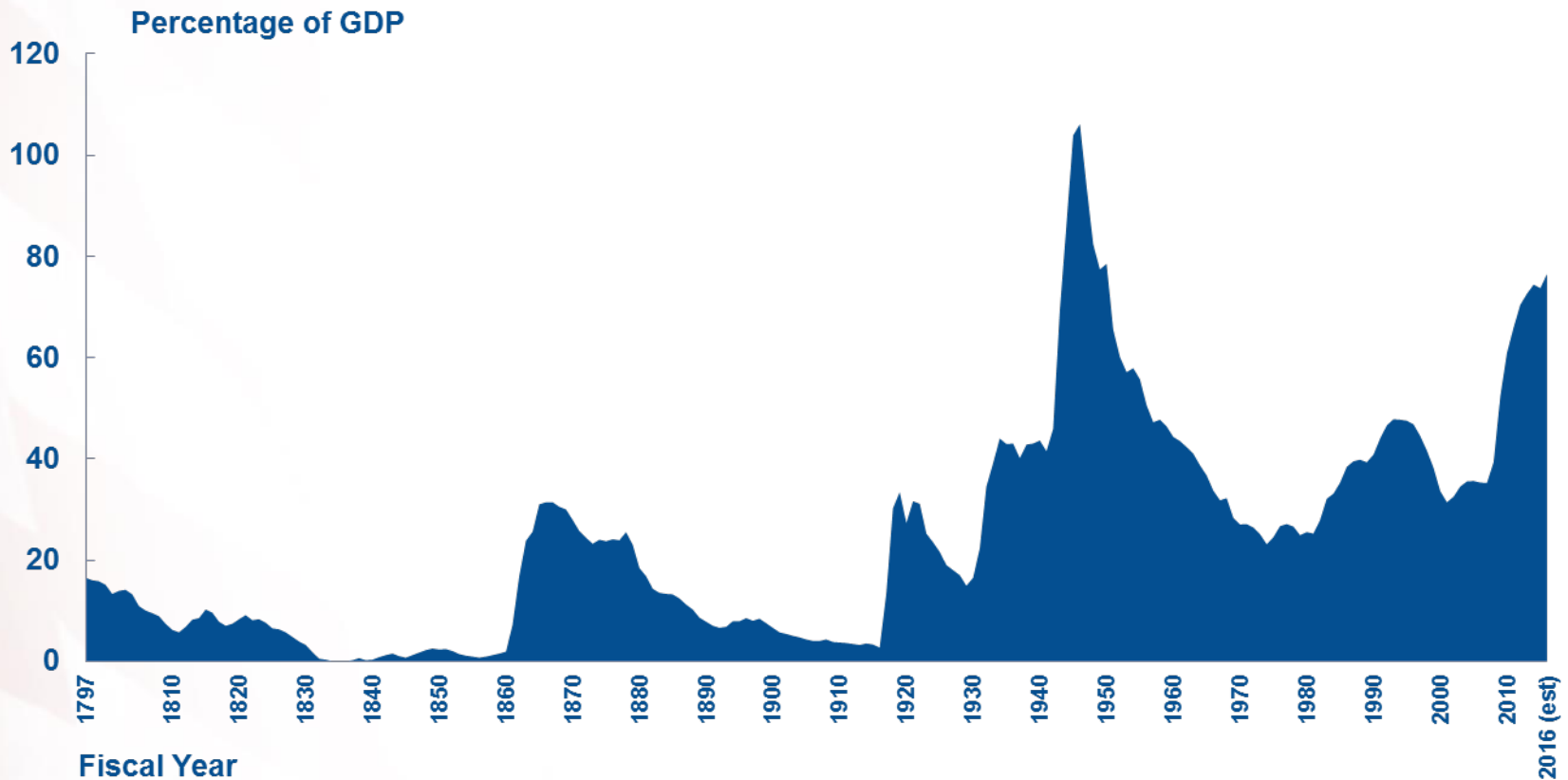
Overview

- Managing Finances
- Leveraging Technology
- Adapting to Change
- Securing Talent
- Assisting the Upcoming Transition



Managing Finances

Federal Debt Held by the Public as a Share of GDP (1797-2016)



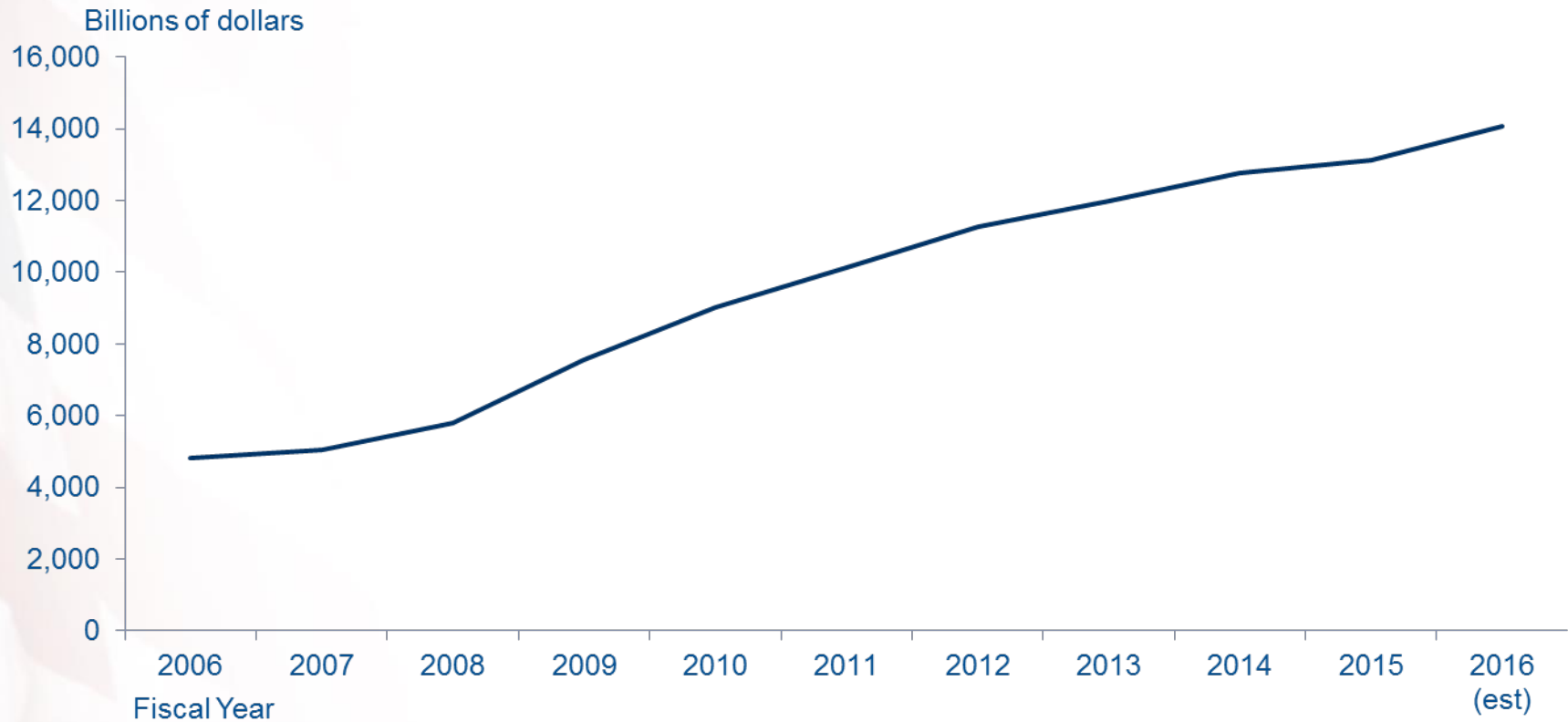
Note: Data through 2015 are historical actuals from the Office of Management and Budget. The 2016 estimate is from the Congressional Budget Office's *Updated Budget Projections: 2016 to 2026* (August, 2016).

Annual Deficit (2006-2016)



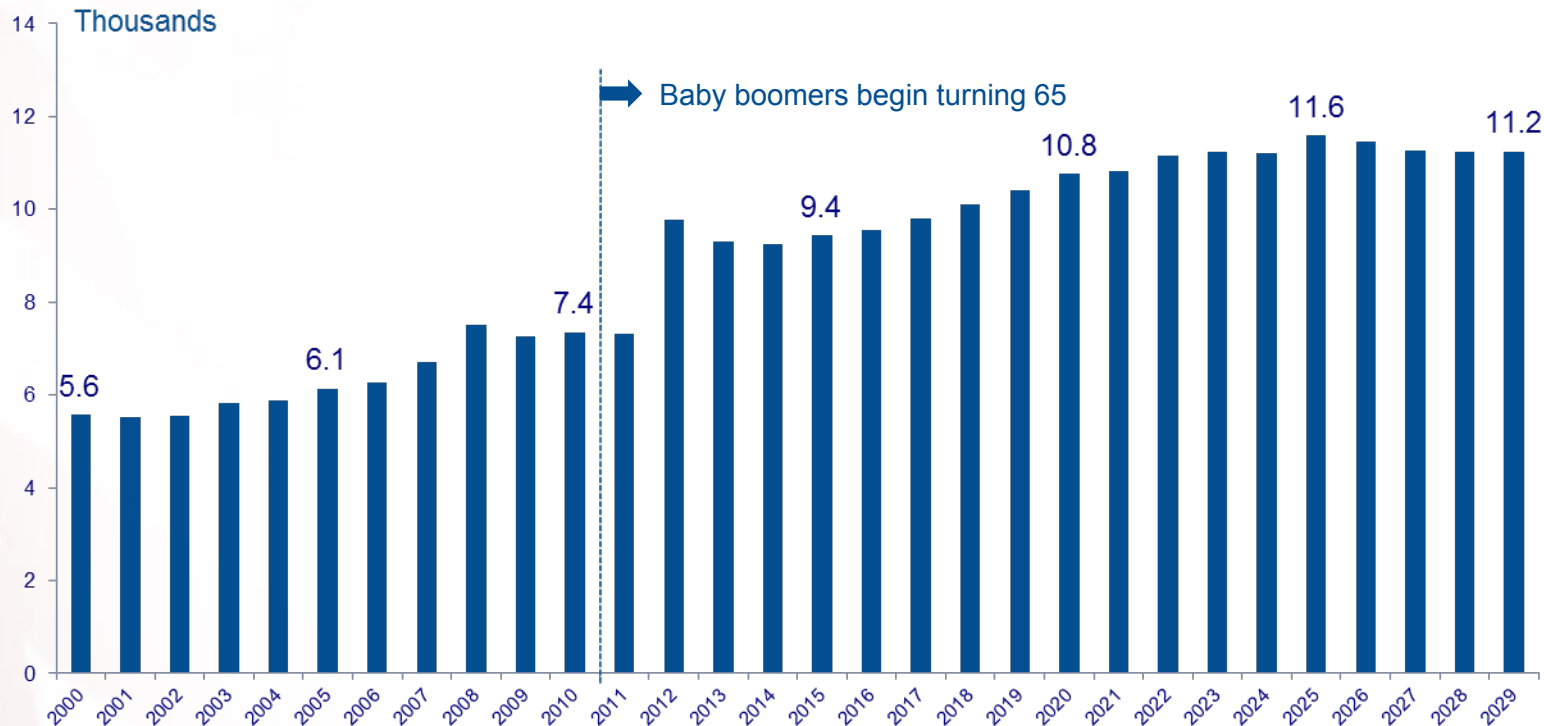
Note: Data from 2006-2015 are historical actuals from the Office of Management and Budget. The 2016 estimate is from the Congressional Budget Office's *Updated Budget Projections: 2016 to 2026* (August, 2016).

Cumulative Debt (2006 – 2016)



Note: Data from 2006-2015 are historical actuals from the Office of Management and Budget. The 2016 estimate is from the Congressional Budget Office's *Updated Budget Projections: 2016 to 2026* (August, 2016).

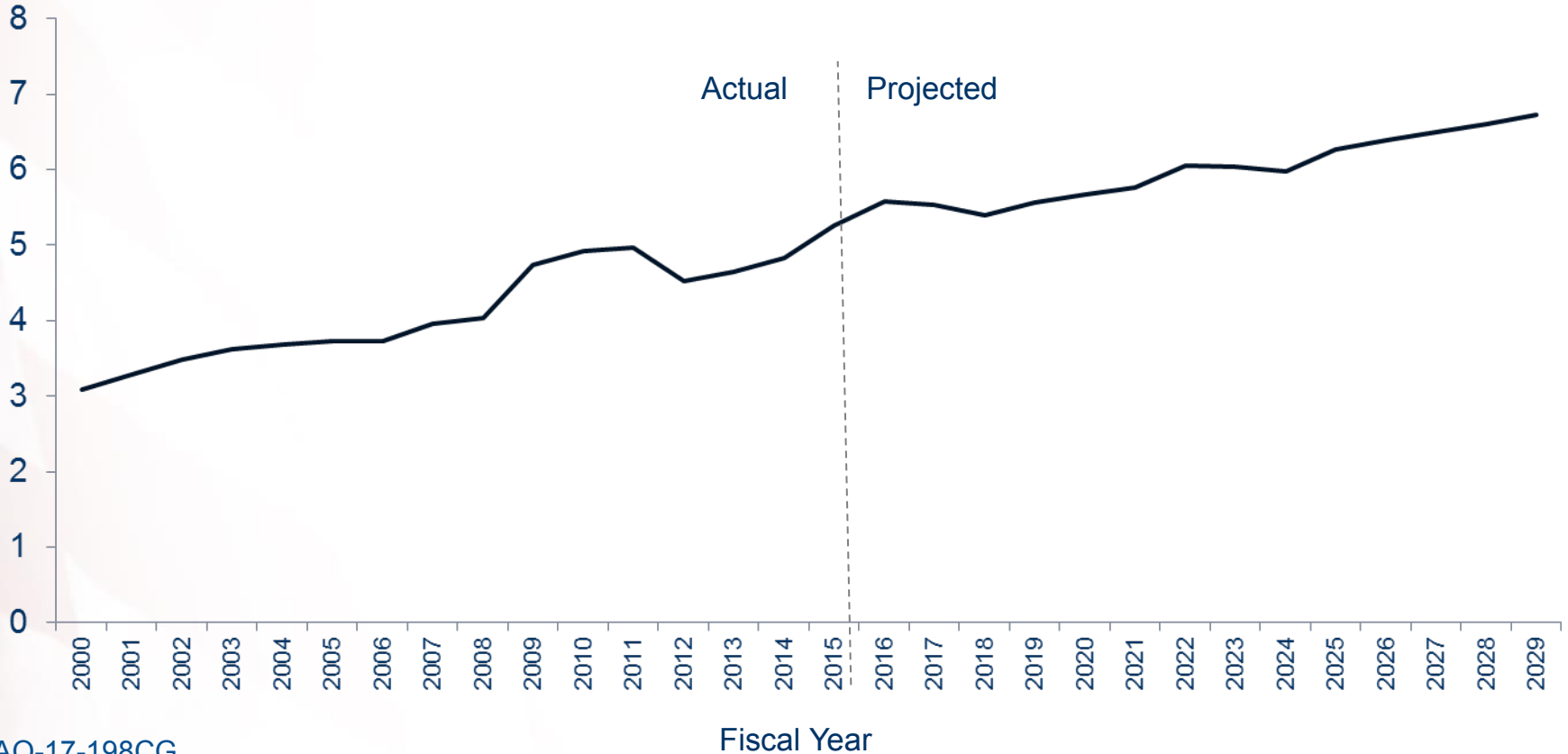
Daily Average Number of People Turning 65



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

Health Care Spending

Percentage of GDP

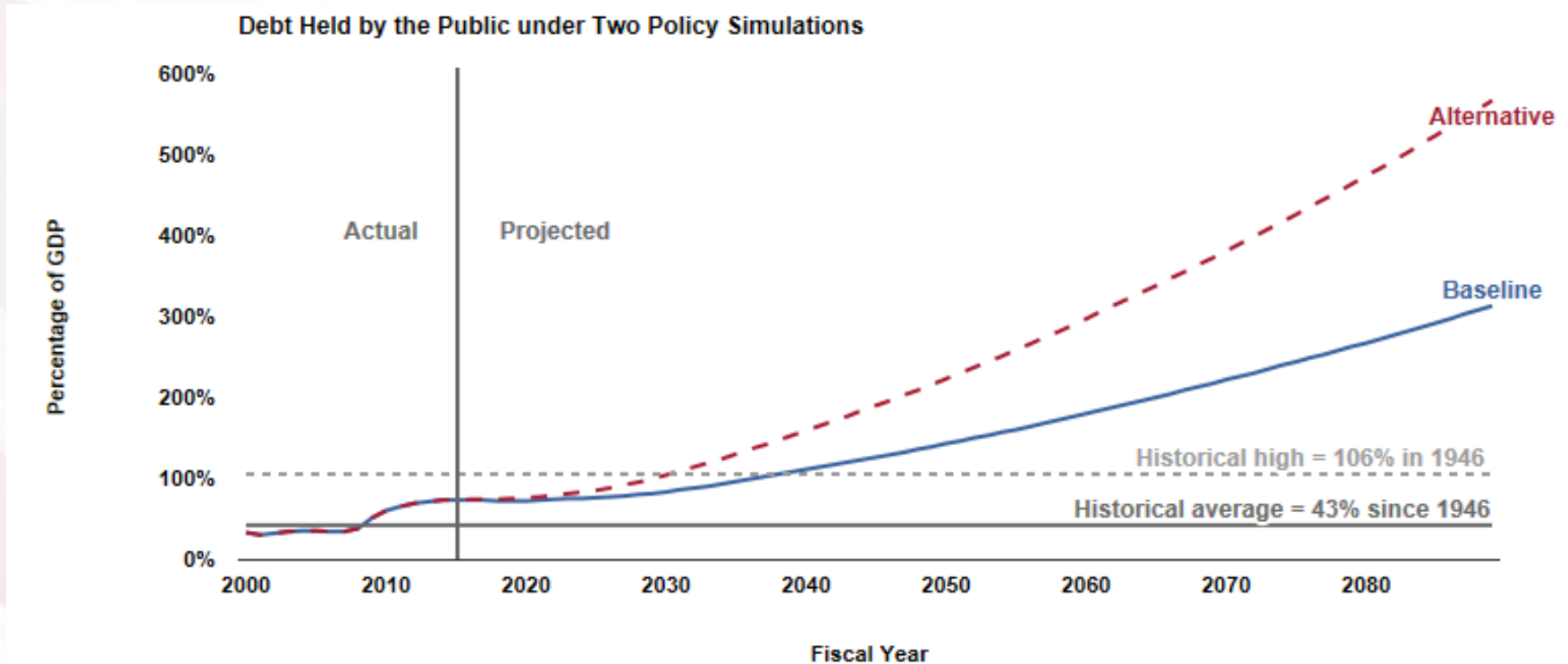


GAO-17-198CG

Fiscal Year

Note: Actual health care costs (consisting of spending for Medicare, net of premiums and offsetting receipts; Medicaid, and the Children's Health Insurance Program, and subsidies) are presented through 2015 and are based on CBO and OMB data. Costs from 2016 on are based on GAO's 2016 Alternative simulation.

Debt Held by the Public Under Two Policy Simulations

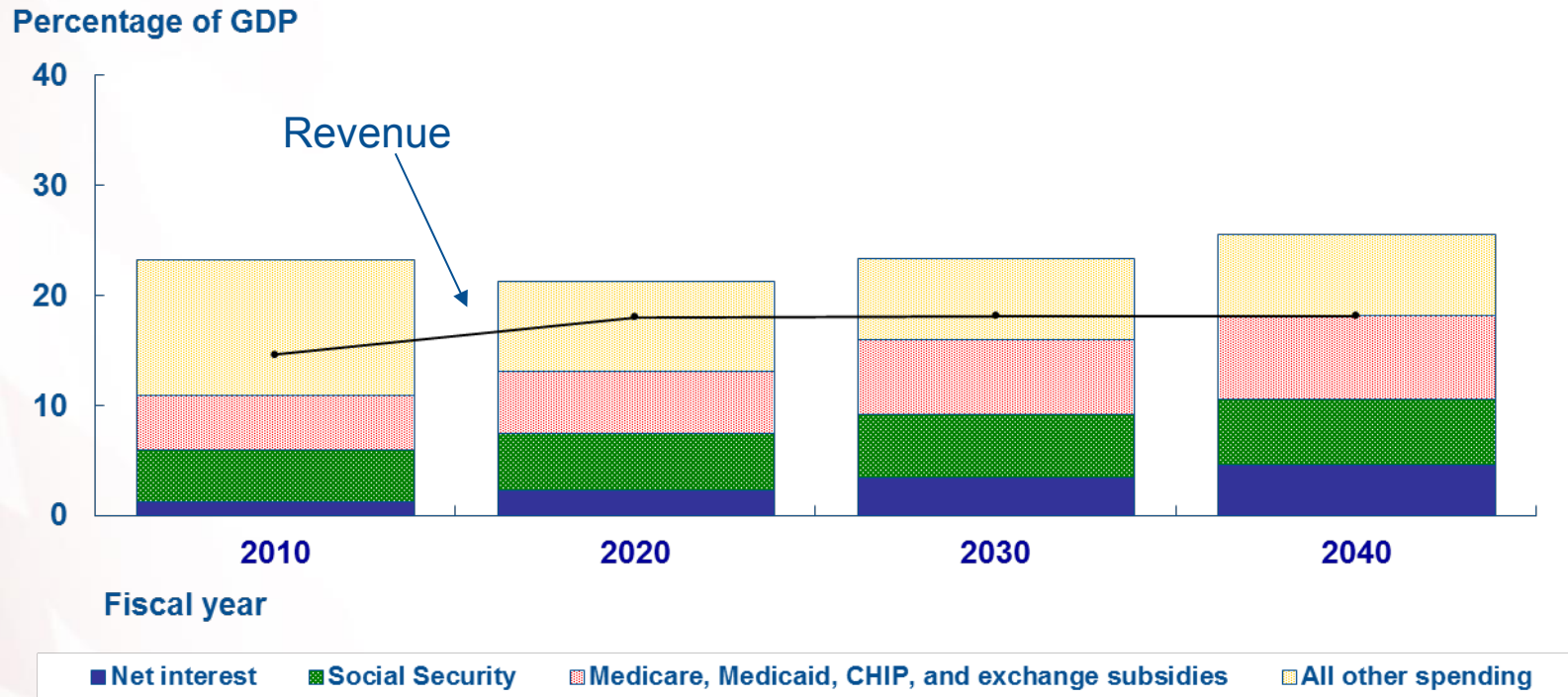


Source: GAO.

Notes: Data are from GAO's 2016 simulations. See the Assumptions and Data tab of the Federal Fiscal Outlook website for a description of the assumptions underlying this simulation. 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.

Potential Fiscal Outcomes

Revenues and Composition of Spending in the Baseline Extended Simulation

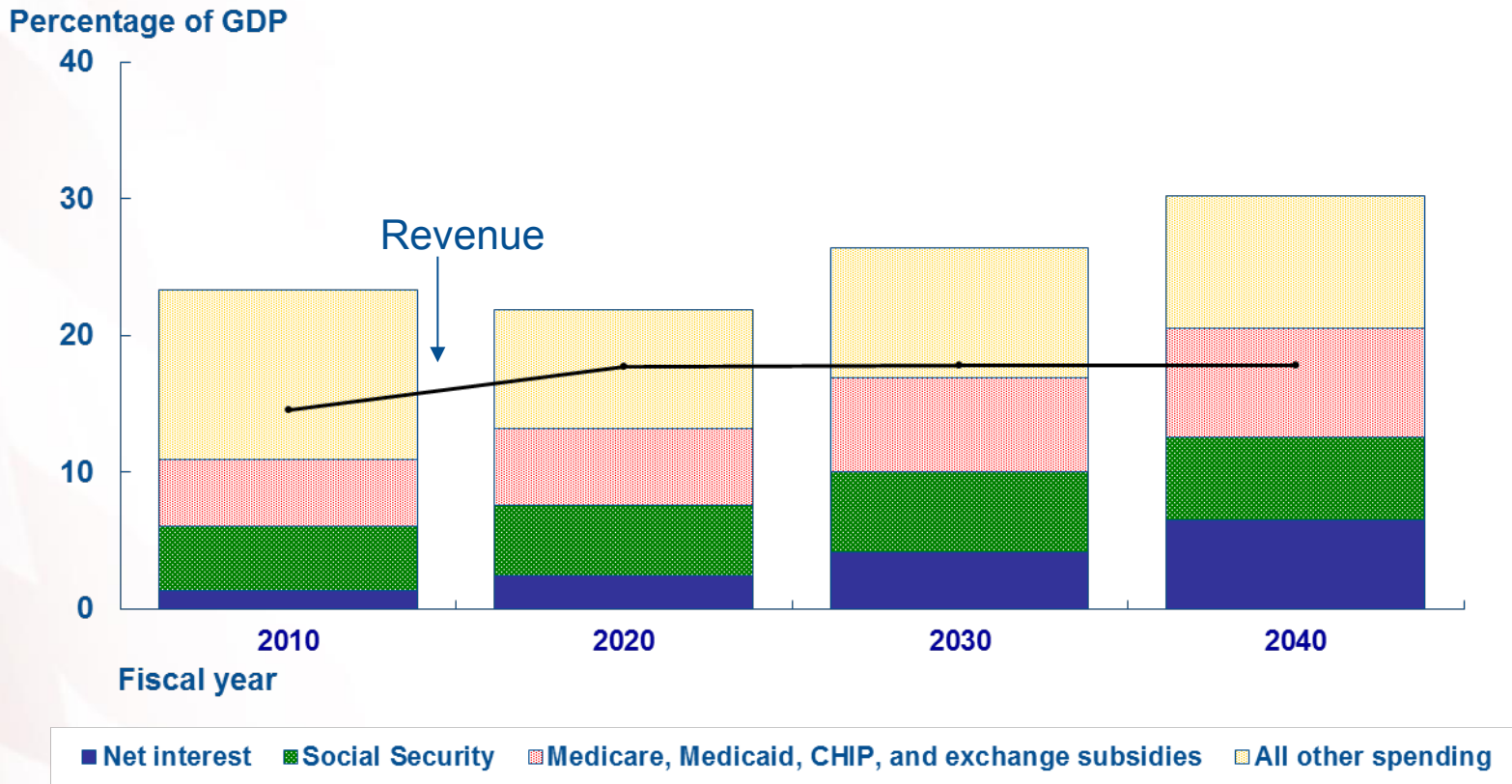


Source: GAO.

Note: Data are from GAO's 2016 Baseline Extended simulation.

Potential Fiscal Outcomes

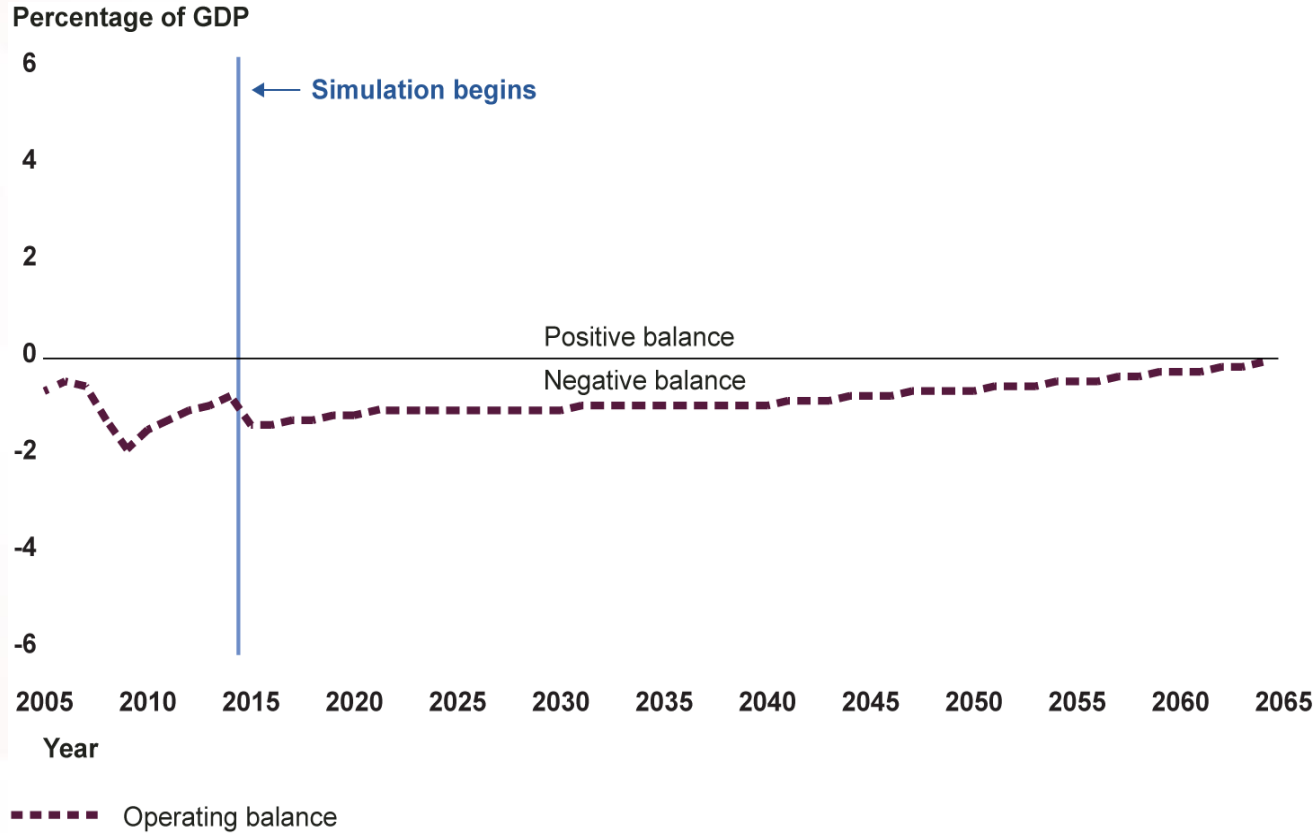
Revenues and Composition of Spending in the Alternative Simulation



Source: GAO.

Note: Data are from GAO's 2016 Alternative simulation.

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

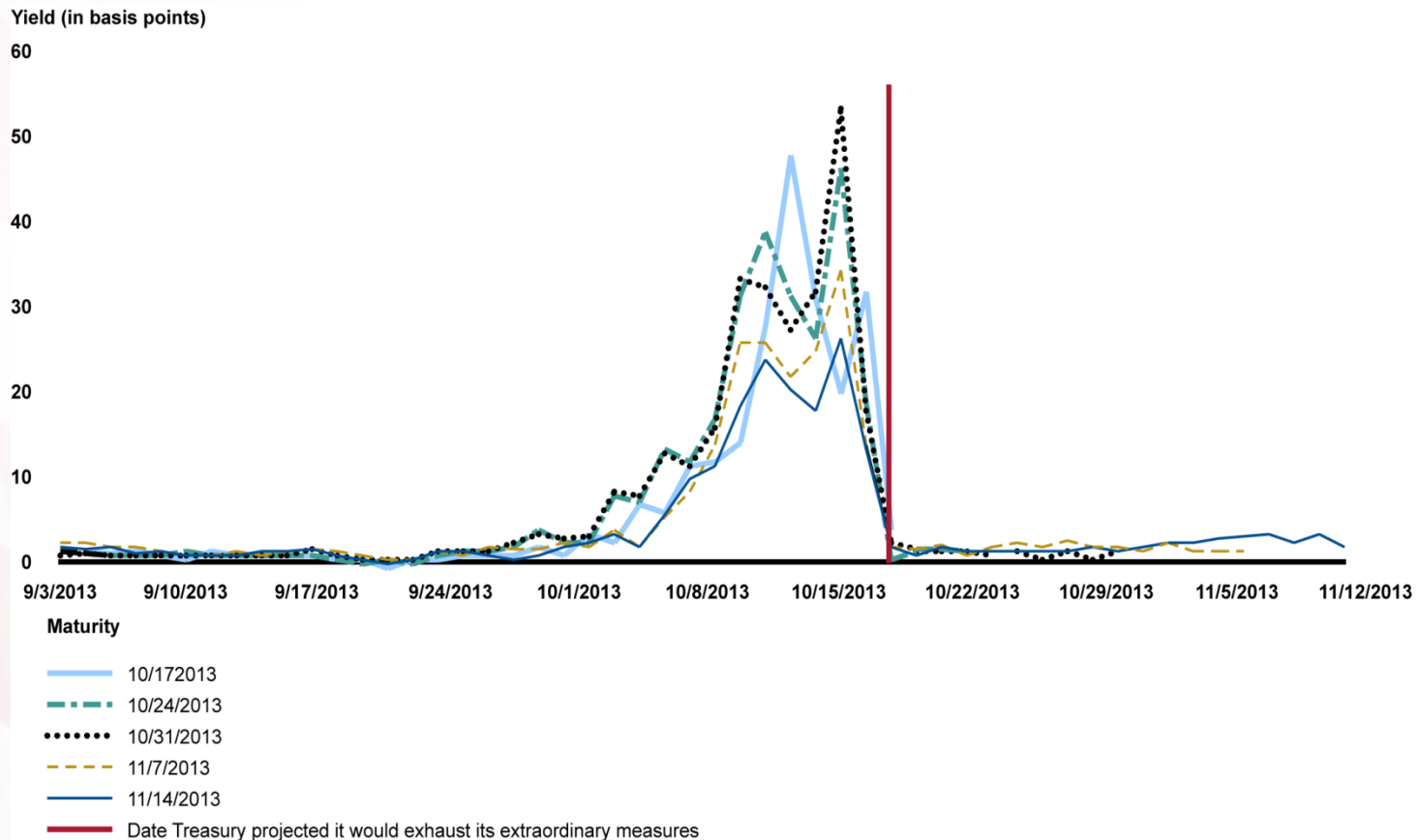


Sources: GAO calculations using Bureau of Economic Analysis data and GAO simulations, updated December 2015. | GAO-16-541T

Debt Limit Impasses and Market Response

- The debt limit has been increased or temporarily suspended 13 times in the last 10 years. The debt limit:
 - Does not restrict the ability to enact spending and revenue legislation that affects the level of debt or limit the government's ability to run deficits
 - Does limit the Department of the Treasury's authority to borrow to pay the bills already legally incurred
- Delays in raising the debt limit can cause disruptions in financial markets
 - For example, during the 2013 debt limit impasse, investors reported taking the unprecedented action of systematically avoiding certain Treasury securities

Secondary Market Yields of Treasury Bills Maturing in Late October through Mid-November 2013 (in Basis Points)



Source: GAO analysis of Bloomberg data. | GAO-16-541T

Opportunities for GAO and the Accountability Community

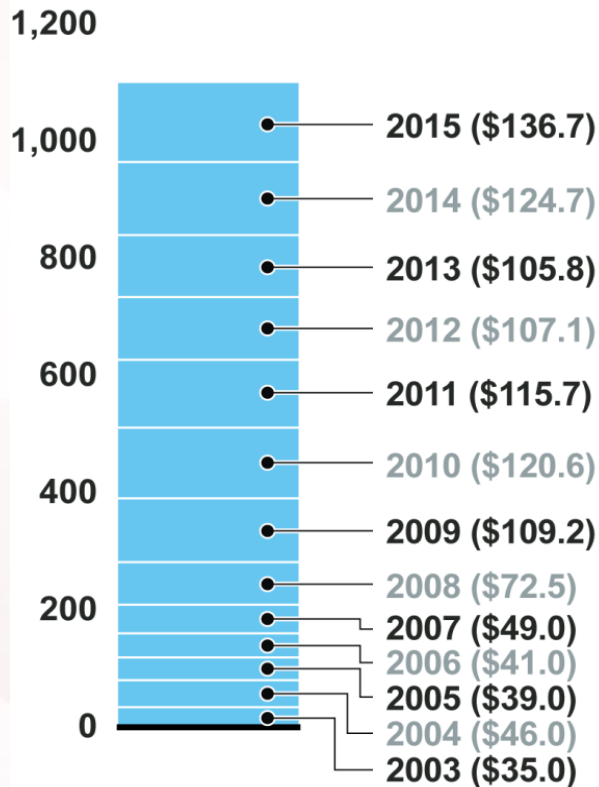
- Eliminating duplication and overlap in federal programs
- Reducing improper payments
- Closing the tax gap
- Providing better financial information to manage costs and increase transparency
- Addressing areas at high risk

Duplication, Overlap and Fragmentation

- Mandate to report annually
- Added opportunities for cost savings or enhanced revenues
- From 2011-2016, GAO found over 200 areas and 636 actions for improvement
- So far, roughly \$56 billion in financial benefits from fiscal years 2010 through 2015, with at least an additional \$69 billion in estimated benefits projected to be accrued through 2025.

Improper Payments – Current Status

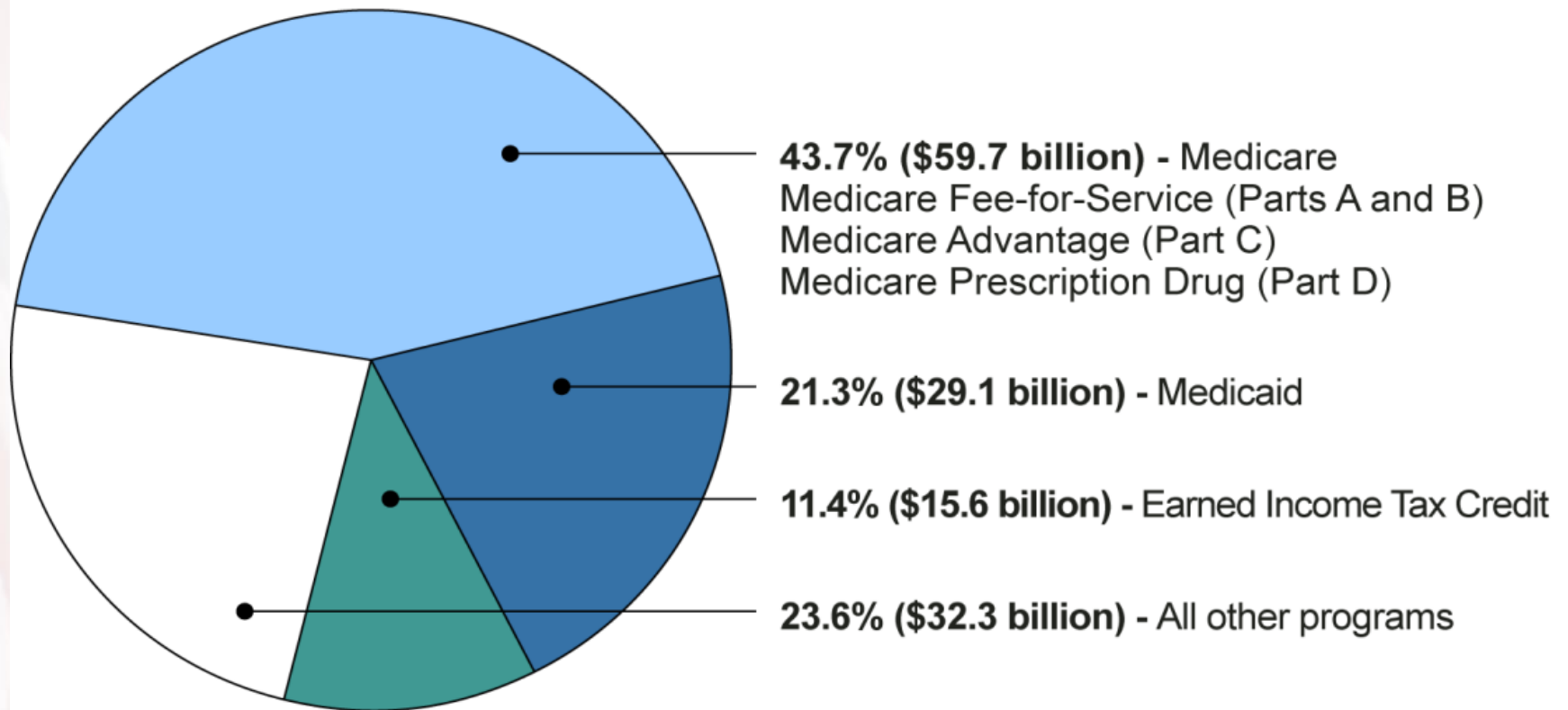
Dollars in billions



- The cumulative amount of reported improper payments since FY 2003 now exceeds \$1 trillion
- The FY 2015 government-wide improper payment estimate totaled \$136.7B, an increase of \$12B from the prior year

Source: GAO. | GAO-16-541T

FY 2015 Government-wide Improper Payment Estimates (by program)



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

Updated Tax Gap Estimates

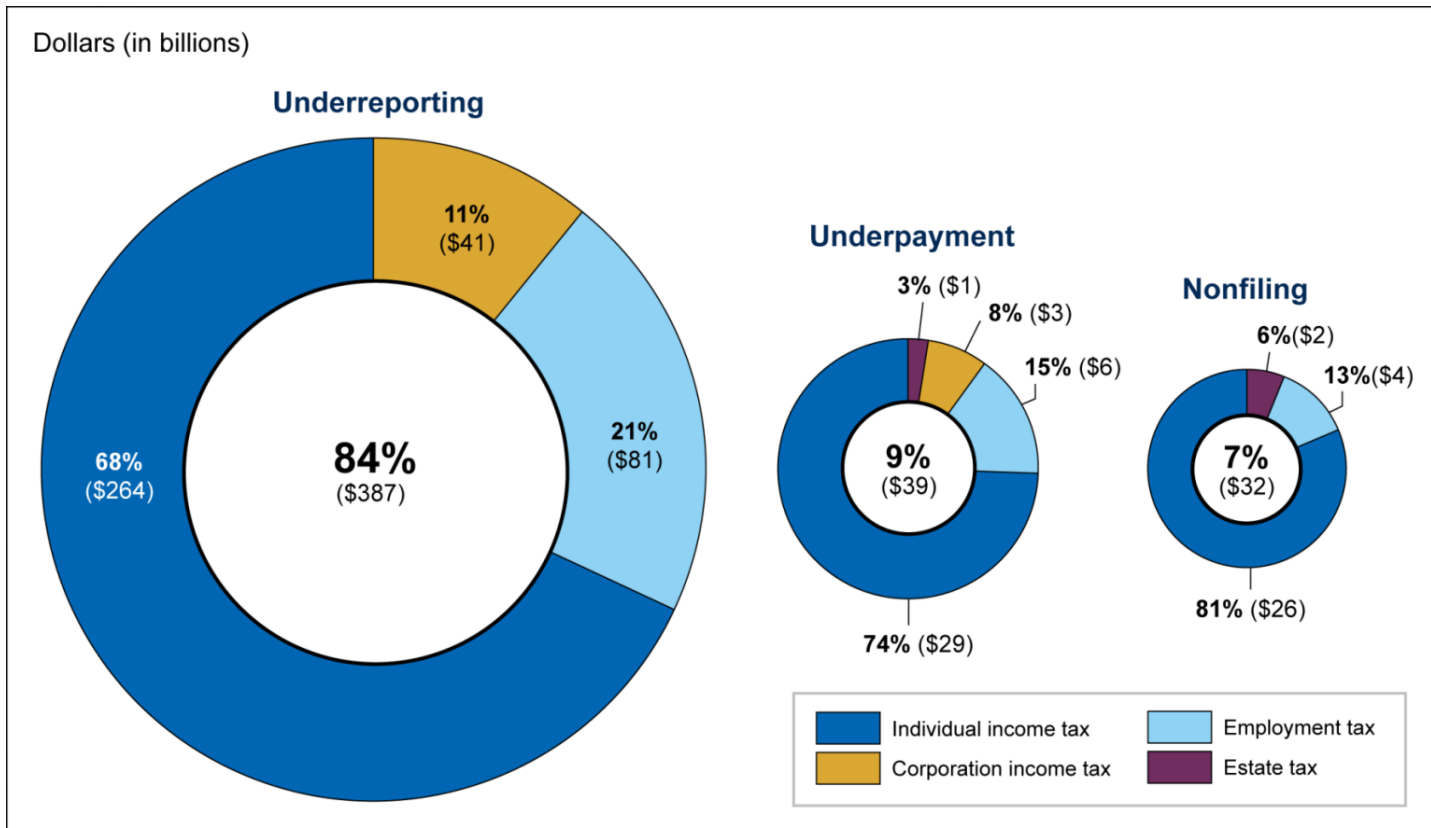
IRS New Tax Gap Estimates Released 4-28-16

	Tax Year 2006	Tax Years 2008 - 2010
Gross Tax Gap ^a	\$450 billion	\$458 billion
Net Tax Gap ^b	\$385 billion	\$406 billion
Voluntary Compliance Rate (VCR)	83.1%	81.7%
Net Compliance Rate (NCR)	85.5%	83.7%

^aThe gross tax gap is the amount of true tax liability that is not paid voluntarily and timely.

^bThe net tax gap is the gross tax gap less tax that will be subsequently collected—either paid voluntarily or as the result of IRS administrative and enforcement activities. It is the portion of the gross tax gap that will not be paid.

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



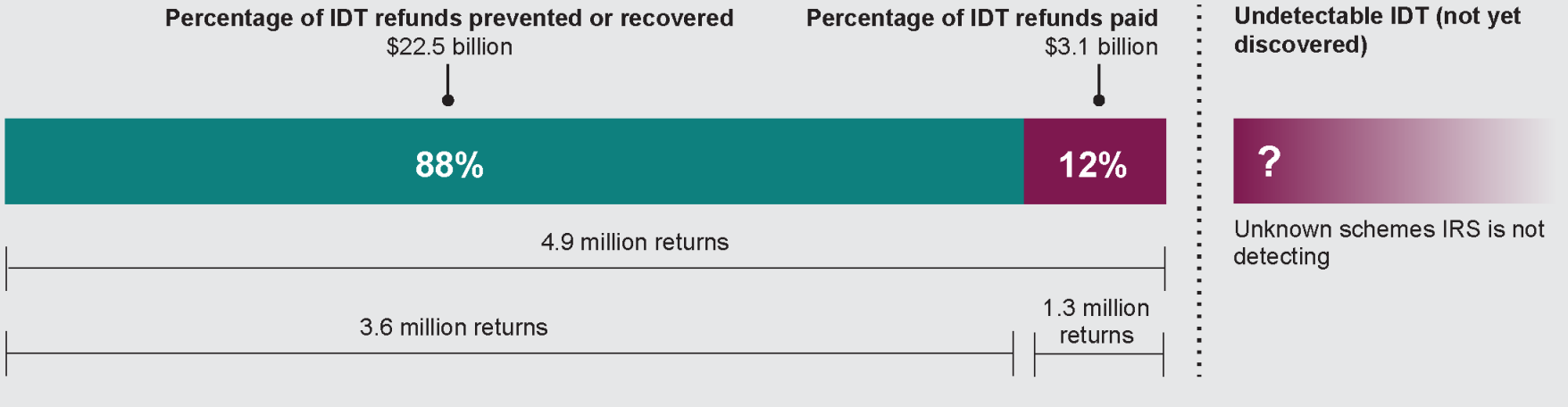
GAO-17-198CG

Source: GAO analysis of IRS information.

Note: Individual income tax includes individual business income tax. Estate tax underreporting noncompliance is not shown in this graphic because it represents less than one-half percent of total underreporting noncompliance. Excise tax is not shown in this graphic because IRS does not have excise tax underreporting noncompliance or nonfiling noncompliance estimates, and its estimate for excise tax underpayment noncompliance represents less than one-half percent of total underpayment noncompliance. In addition, IRS does not have an corporation income tax estimate for nonfiling noncompliance.

Identity Theft Refund Fraud

Total attempted identity theft (IDT) refund fraud estimated by IRS in 2014: \$25.6 billion



Source: GAO analysis of IRS data. | GAO-16-578T

U.S. Government's Consolidated Financial Statement Audit Results

- 21 of 24 CFO Act agencies received unmodified (“clean”) opinions on their respective entities’ FY 2015 financial statements
- 3 agencies received disclaimers of opinion on their FY2015 financial statements
 - Department of Defense (DOD)
 - Department of Housing and Urban Development
 - U.S. Department of Agriculture
- 3 major impediments prevent rendering an opinion on government’s accrual-based consolidated financial statements
 - DOD’s inability to accurately account for assets or costs
 - Intragovernmental activity and balances between federal entities not adequately reconciled
 - Ineffective process for preparing the consolidated financial statements

Sustainability Financial Statements

- Includes
 - 2015 Statement of Long-Term Fiscal Projections - a new comprehensive basic financial statement and related disclosures that provide information on the federal government's long-term financial condition
 - Statements of Social Insurance and Changes in Social Insurance Amounts
- Disclaimer of opinion due to (1) significant uncertainties, primarily related to the achievement of projected reductions in Medicare cost growth*, and (2) for the new Statement of Long-Term Fiscal Projections, a material weakness in internal control over financial reporting

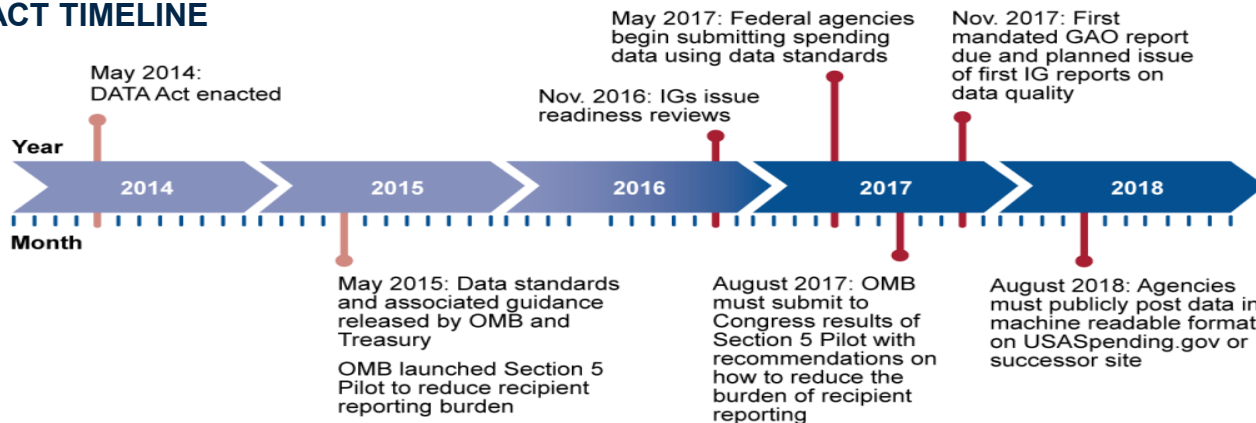
* HHS also received a disclaimer on its Statements of Social Insurance and Changes in Social Insurance

Digital Accountability and Transparency Act (DATA Act)

The DATA Act covers four primary areas:

- Expands reporting of federal funds in machine readable and downloadable formats
- Establishes government-wide data standards
- Requires OMB to conduct a pilot on recipient reporting burden
- Increases accountability for data quality by holding agencies accountable for data quality and requiring Inspectors General (IG) and GAO to conduct reviews

DATA ACT TIMELINE



Source: GAO analysis of Pub. L. 113-101, 128 Stat. 1146 and December 22, 2015 letter from the Council of the Inspectors General on Integrity and Efficiency to Congressional committees.

High Risk List

- Focuses attention on government operations at high risk due to their greater vulnerabilities to fraud, waste, abuse, and mismanagement
- Also highlights areas in need of transformation to address economy, efficiency, or effectiveness challenges
- 32 high-risk areas currently on the list, which is online at <http://www.gao.gov/highrisk/>
- Next update scheduled for early 2017
- Lasting solutions to the federal government's high-risk problems offer the potential to save billions of dollars



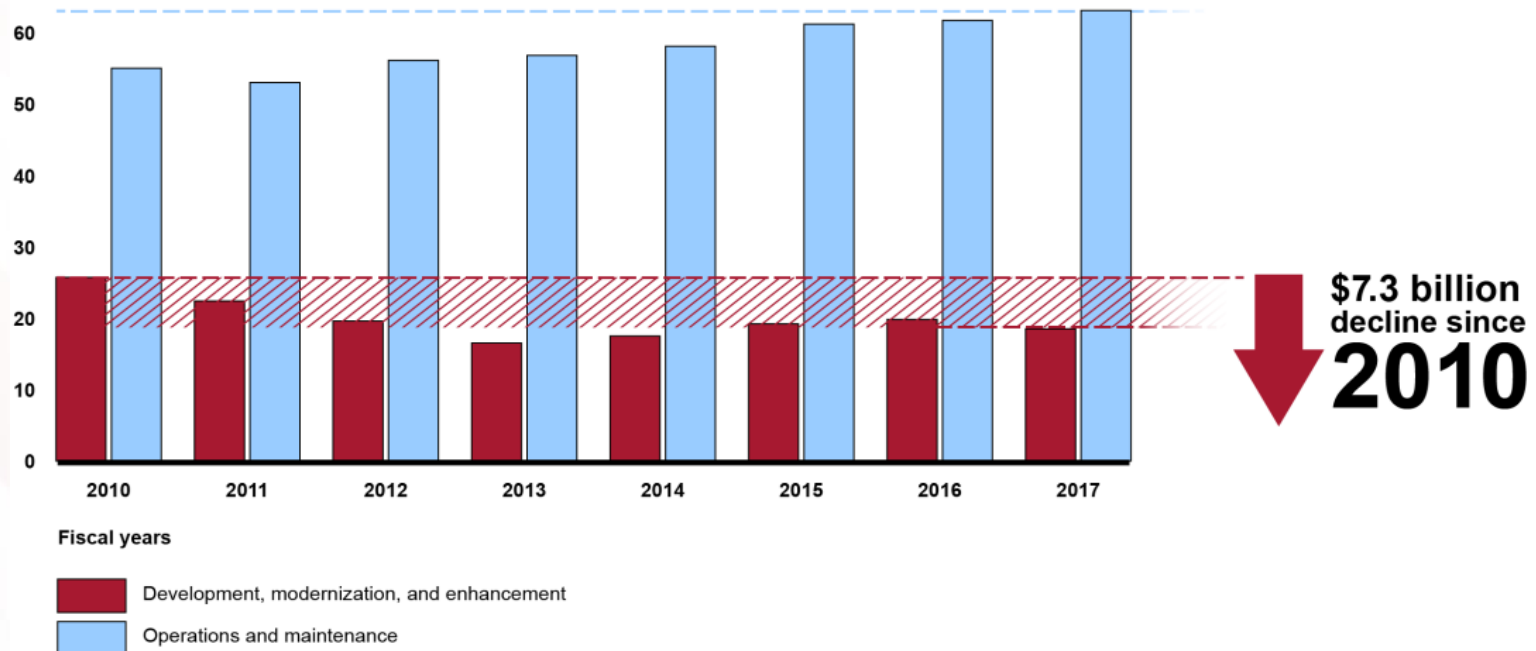
Leveraging Technology

GAO High Risk List: IT Acquisitions and Operations

- Area added to GAO's High Risk List in February 2015
- Federal IT investments frequently fail or incur cost overruns and schedule slippages while adding little to mission-related outcomes.
- There have been numerous initiatives aimed at addressing these issues, including an emphasis on incremental development, a transparency initiative, an effort to consolidate data centers, and an effort to streamline agencies' IT portfolios.
- However, implementation of these initiatives has been inconsistent. In the last 6 years we have made about 800 recommendations to address these issues. About 45% have been implemented.

Federal IT Acquisition and Operations

- Operations and maintenance spending has increased, while the amount invested on developing new systems has decreased \$7.3 billion over the past 7 years.

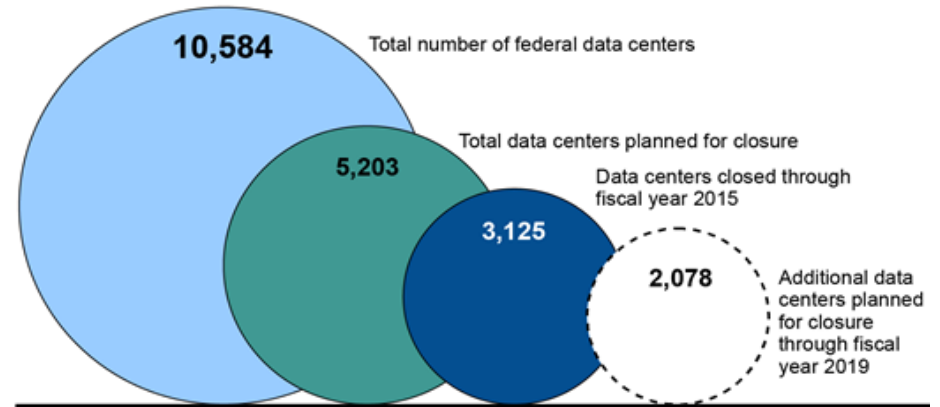


Federal IT Acquisition Reform Legislation

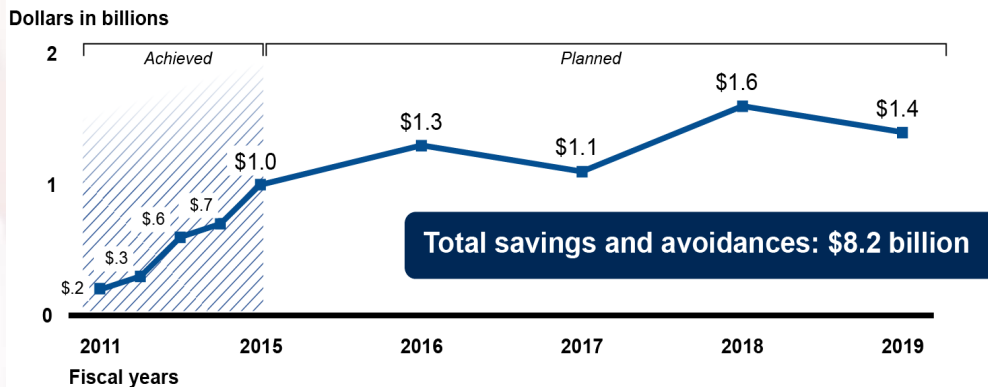
- FITARA provisions enacted in December 2014
- Goals include
 - Improving agencies' acquisition of IT
 - Enabling Congress to monitor agencies' progress
 - Reducing duplication and achieving cost savings
- Specific requirements in 7 areas, including federal data center consolidation

FITARA – Data Center Consolidation

- 3,125 data centers closed
 - Agriculture, Defense, the Interior, and the Treasury accounted for 84% of the closures
- 2,078 additional closures planned through FY2019



Source: GAO analysis of agency data. | GAO-16-323



Source: GAO analysis of agency data. | GAO-16-323

- \$2.8 billion in savings achieved
 - Commerce, Defense, Homeland Security, and the Treasury accounted for 86% of the savings
- \$8.2 billion in total planned savings through FY2019

FITARA – Ongoing Related Work

- **Office of Management and Budget’s IT Dashboard**
 - Provides detailed information on major investments at federal agencies, including ratings from Chief Information Officers (CIO) that should reflect the level of risk facing an investment.

Scope of GAO’s work

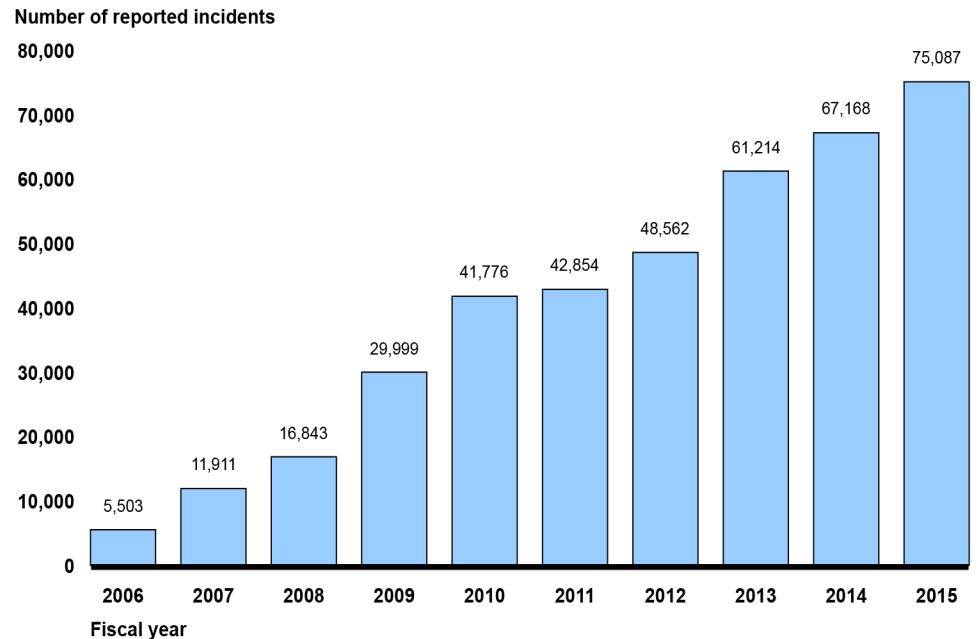
- Assess the risks associated with 96 major investments across 15 agencies and analyze any differences with the CIO ratings.
- **Incremental Development**
 - Agencies’ investments are expected to deliver functionality every 6 months to reduce investment risk.

Scope of GAO’s work

- Determine the number of major investments primarily in development reporting delivery of functionality every 6 months.
- Assess seven selected departments’ delivery of incremental functionality.

Security Incidents Continue to Rise

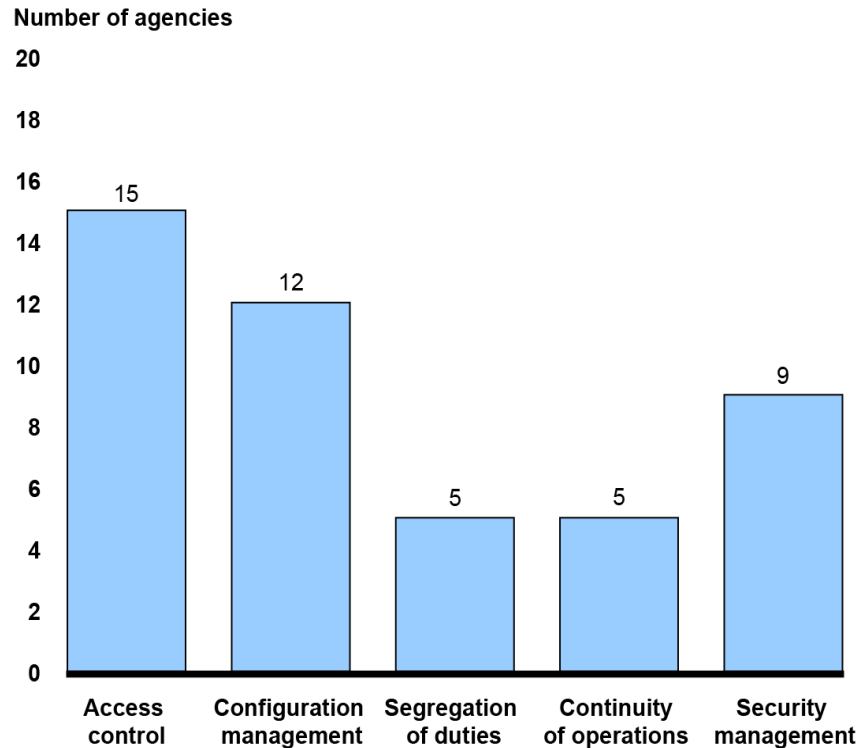
- Information security incidents reported by federal agencies rose 1,264 percent since FY 2006 to 75,087 in FY2015.
- Most prevalent types of incidents in fiscal year 2015 include:
 - 21% were malicious code/social engineering/unauthorized access/suspicious network activity
 - 15% were policy violations/improper usage
 - 16% were non-cyber incidents involving personal information
- Impact of incidents can be significant (OPM, IRS)



Source: GAO analysis of United States Computer Emergency Readiness Team data for fiscal years 2006-2014 and Office of Management and Budget data for fiscal year 2015.

Agency Financial Systems Remain Vulnerable

- **19 of 24 CFO Act agencies reported information security as significant deficiency (10) or material weakness (9) for financial reporting purposes in FY 2015.**
- **22 of 24 IGs cited information security as a major management challenge.**
- **Information security continues to be a government-wide high risk area.**



Source: GAO analysis of agencies' annual financial reports and performance and accountability reports for fiscal year 2015.



Adapting to Change

Global Financial Markets and Regulatory Reform

- INTOSAI Working Group on Financial Modernization and Regulatory Reform – established in 2012
- 24 global members
- 3 areas of focus
 - Tools and knowledge-sharing opportunities for evaluating national reforms
 - Mechanisms for sharing information on the progress of reforms
 - Tracking reforms at national and international levels and identifying gaps and emerging risks where additional study is needed

Globalization and Medical Product Safety

- About 80 percent of the manufacturers producing active pharmaceutical ingredients for the U.S. market are located abroad.
- Nearly 40 percent of finished drugs and about 50 percent of all medical devices are made overseas.
- Need to improve FDA's ability to inspect foreign establishments that market drugs and medical devices for the U.S. market.
- GAO is currently studying FDA's progress.

Federal Fiscal Exposures from Climate Risks

- Significant financial risks for the federal government
- Need for a cohesive national strategy
- Federal government investment of billions of dollars in vulnerable infrastructure that state and local governments plan, construct, and maintain
- Need for strategic approach to identifying, prioritizing, and implementing disaster resilience investments
- Authoritative, locally-focused climate information needed by state and local decision-makers to help them use the information in local planning processes



Center for Audit Excellence

- Promotes good governance and helps build the institutional capacity of domestic and international accountability organizations.
- Provides affordable, high quality training, technical assistance, and related products and services to local, state, federal and international audit organizations.
- Delivers fee-based services in four core areas including:

Performance Audits	Institutional Capacity Building
Financial Audits	Leadership and Supervision

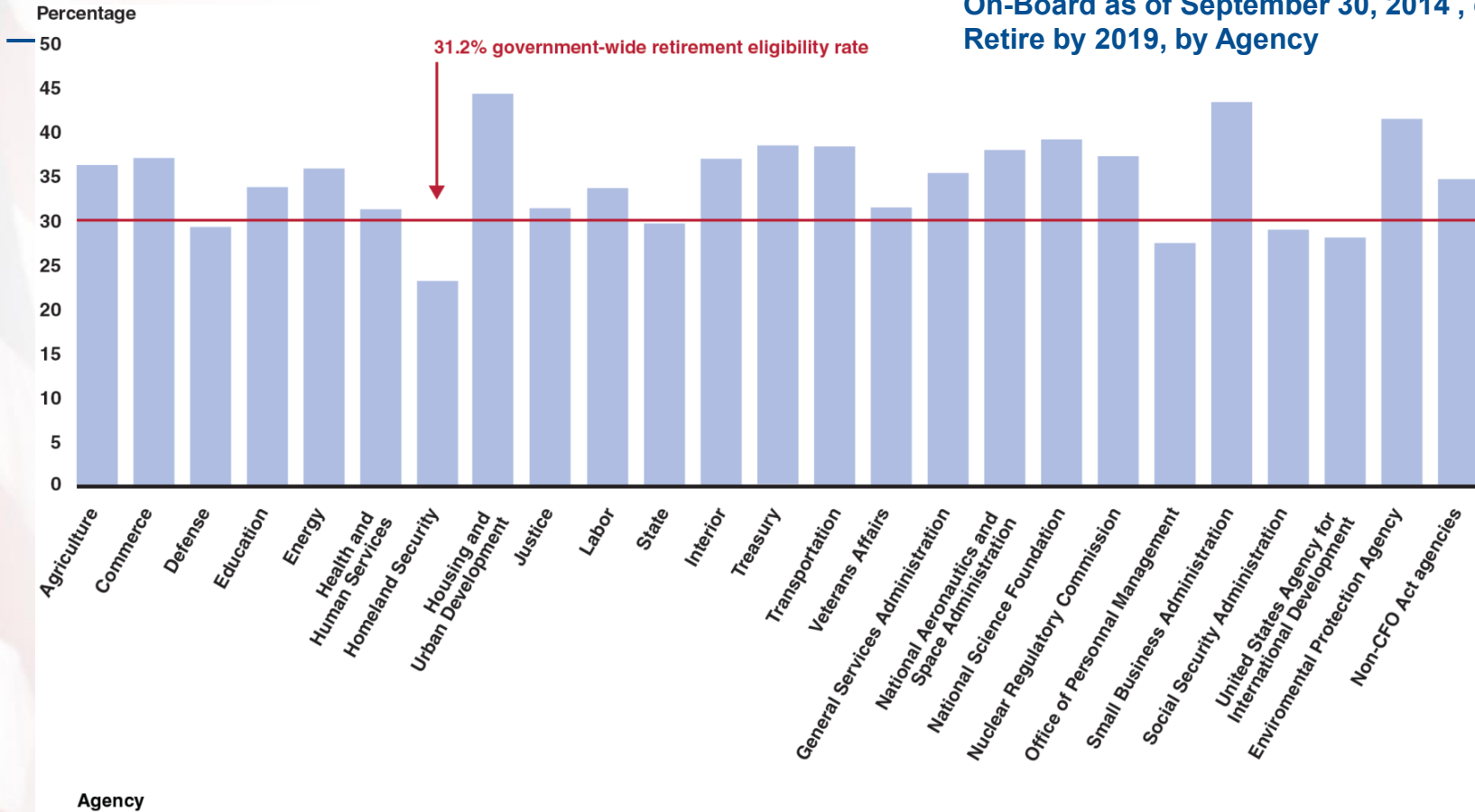
- Center can also provide training and technical assistance on other specialized topics such as internal control, procurement, and audit methodologies.
- For more information, visit website at www.gao.gov/resources/centerforauditexcellence/overview or email the Center at centerforauditexcellence@gao.gov



Securing Talent

Agencies Face Critical Human Capital Management Challenges

Percentage of Career Permanent Employees On-Board as of September 30, 2014, eligible to Retire by 2019, by Agency



Source: GAO analysis of data from the OPM Enterprise Human Resources Integration Statistical Data Mart. | GAO-15-619T

Skills Gap & Succession Planning

Going forward, it will be important for agencies to address mission critical skills gaps through such actions as:

- Workforce planning and data driven reviews
- Close skills gaps through rigorous succession planning—don't just backfill vacancies; recruit people with the skills and competencies needed to address future mission requirements
- Address recruitment and hiring challenges
- Strengthen employee engagement to bolster retention and employee commitment



Assisting the Upcoming Transition

GAO's Role in the Transition

- The Presidential Transition Act of 2000
- GAO efforts include:
 - Mobile app for presidential and congressional transition teams
 - Comprehensive website
 - Priority recommendations
 - Key issues
 - Proposed management agenda
 - Supporting Congress with testimonies on preparations and progress of transition



GAO on the Web

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

Congressional Relations

Katherine Siggerud, Managing Director, siggerudk@gao.gov
(202) 512-4400, U.S. Government Accountability Office
441 G Street, NW, Room 7125, Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov
(202) 512-4800, U.S. Government Accountability Office
441 G Street, NW, Room 7149, Washington, DC 20548

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