



Fiscal and Other Challenges Facing Governments: What Auditors Can Do to Make a Difference

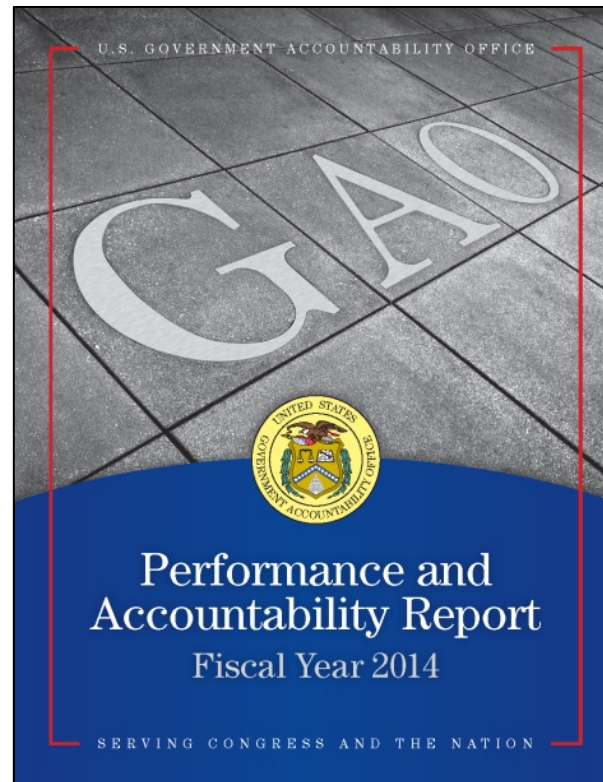
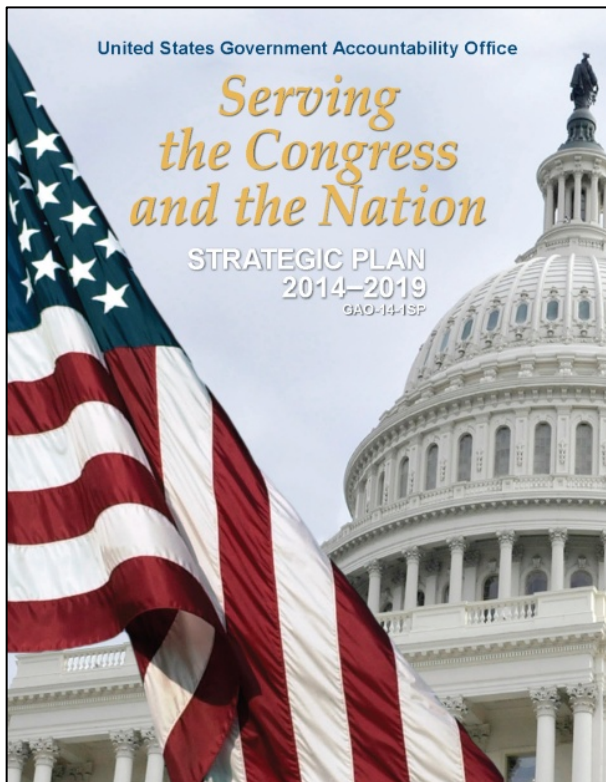
**Southeastern and Southwest Intergovernmental Audit Forum
Fall 2015 Joint Meeting
Huntsville, AL – September 17, 2015**

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

Overview

- GAO's Strategic Plan
- Key trends and related GAO work
- Roles for the financial management community
- Partnerships and capacity building

GAO's Planning & Performance Documents



www.gao.gov/sp.html

Strategic Plan – Trends

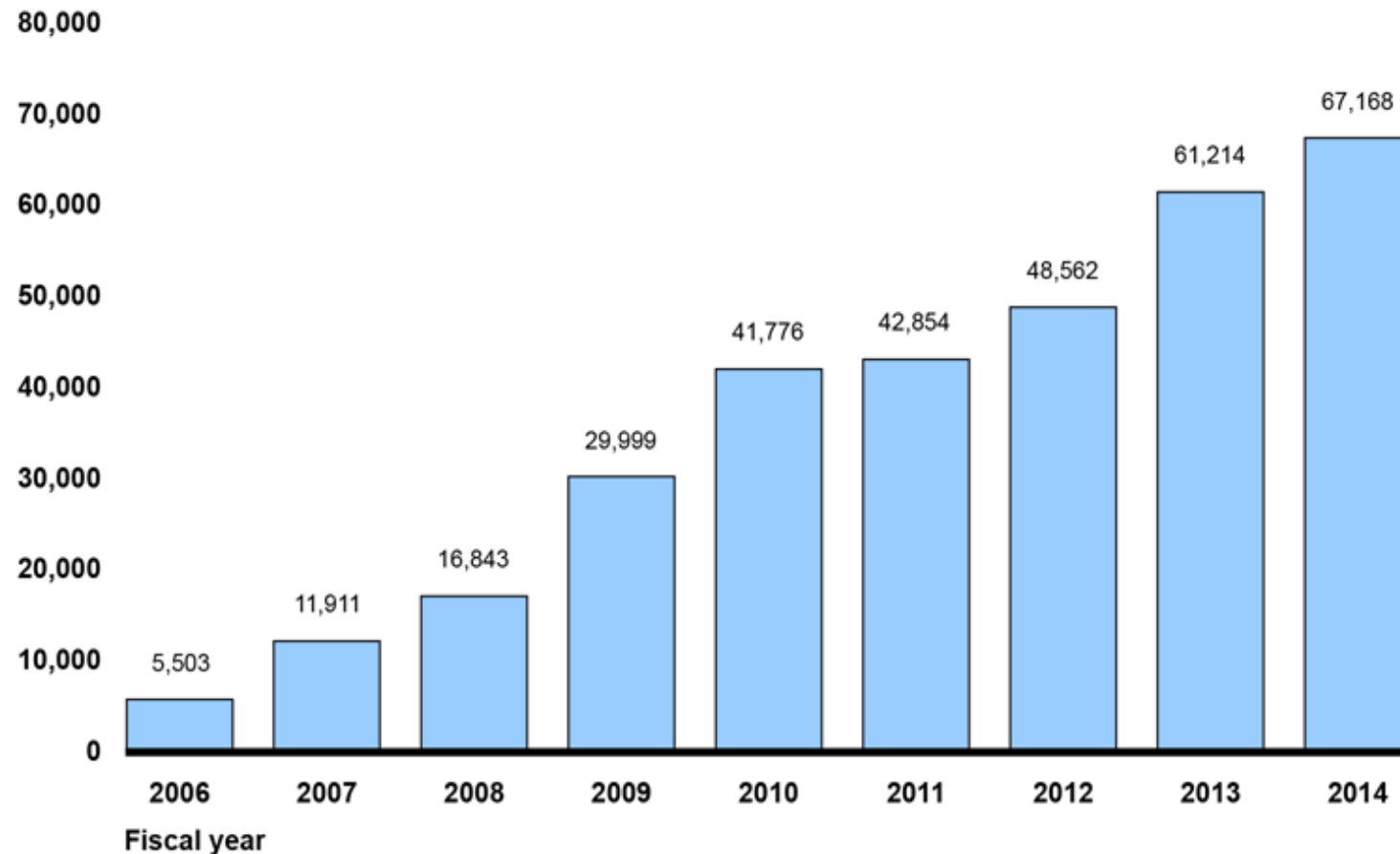
- Threats Confronting U.S. National Security Interests
- Fiscal Sustainability and Debt Challenges
- Changing Dynamics of Global Interdependence and Multilateral Cooperation
- Science and Technology Trends
- Advances in Communications Networks and Information Technologies
- Shifting Roles in Governance and Government
- Demographic and Societal Changes

Trend 1: Threats Confronting U.S. National Security Interests

- Continuing regional political instability (Middle East, Africa, South Asia)
- Potential for further proliferation of nuclear, biological, and chemical weapons
- Climate-related risks
- Growing fiscal pressures on national security agencies
- Evolving and growing threats in cyberspace

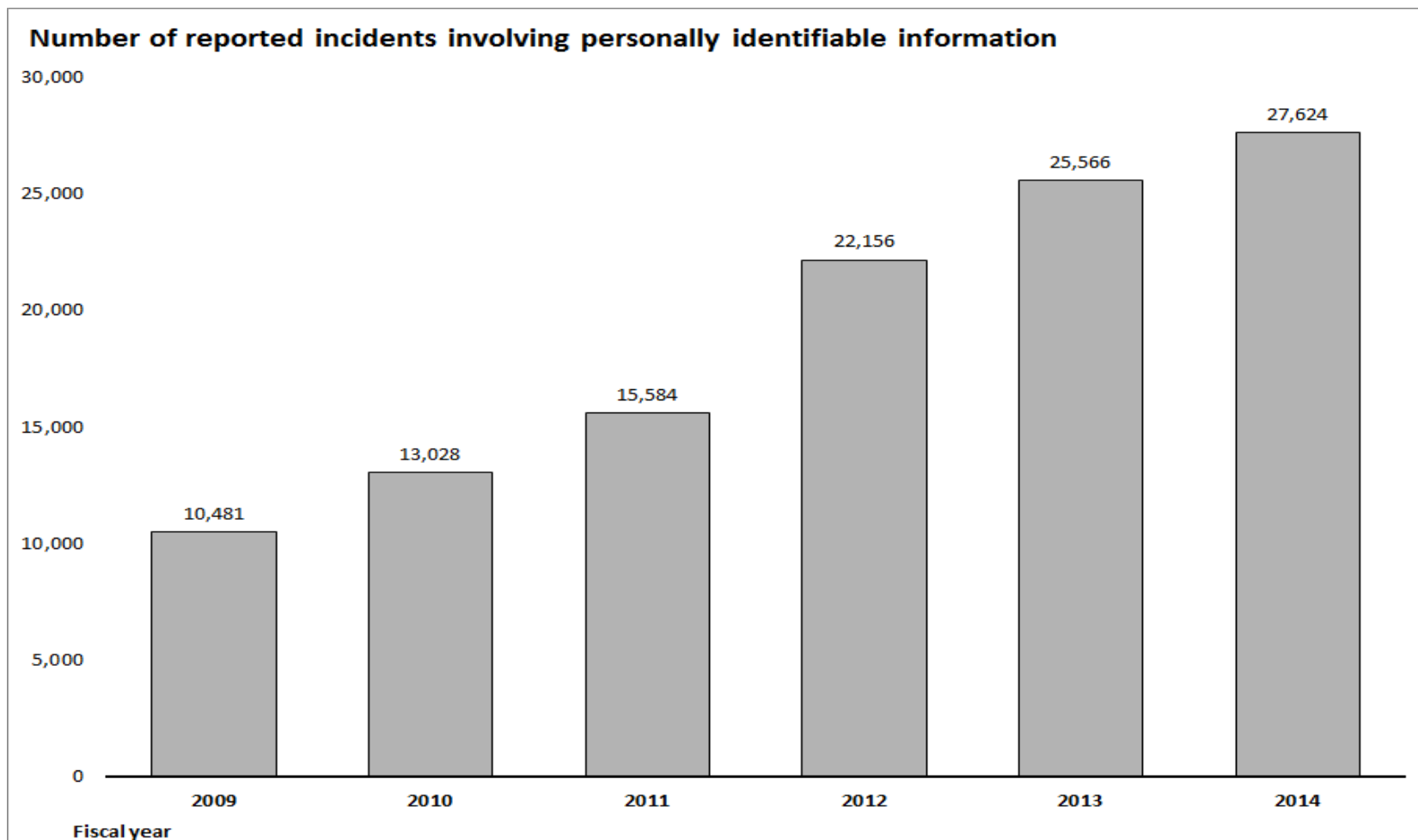
Security Incidents Continue to Rise

Number of reported incidents



Source: GAO analysis of United States Computer Emergency Readiness Team data for fiscal years 2006-2014. | GAO-15-758T

Incidents Involving Personal Information are Also Increasing



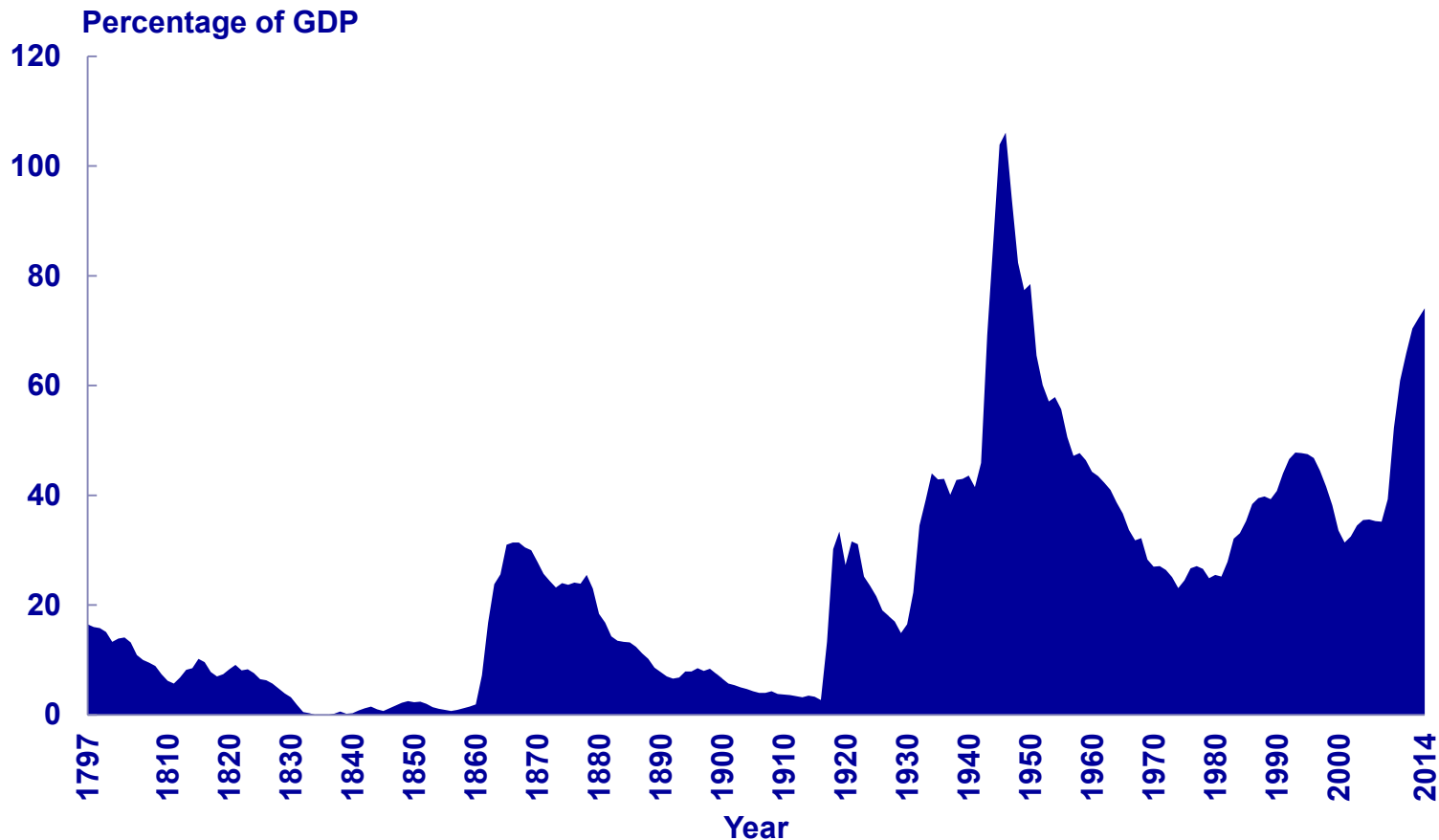
Trend 1: Threats Confronting U.S. National Security Interests

Related GAO work

- Examining the implementation of U.S. programs to strengthen **counterterrorism** capacity in the **Middle East and Africa**, including efforts to **train and equip** Syrian and Iraqi forces to counter the Islamic State of Iraq and the Levant (ISIL).
- Reviewing U.S. transition from a military to civilian-led presence in **Afghanistan**, including oversight of grants and contracts.
- Reviewing U.S. efforts to identify and act on credible **threats to homeland and border security**, including **cybersecurity**.
- Evaluating efforts to ensure the reliability, security, and affordability of **energy supply infrastructure**.
- Evaluating the implications of **climate-related risks** for U.S. national security agencies and plans & programs to address these implications.

Trend 2: Fiscal Sustainability and Debt Challenges

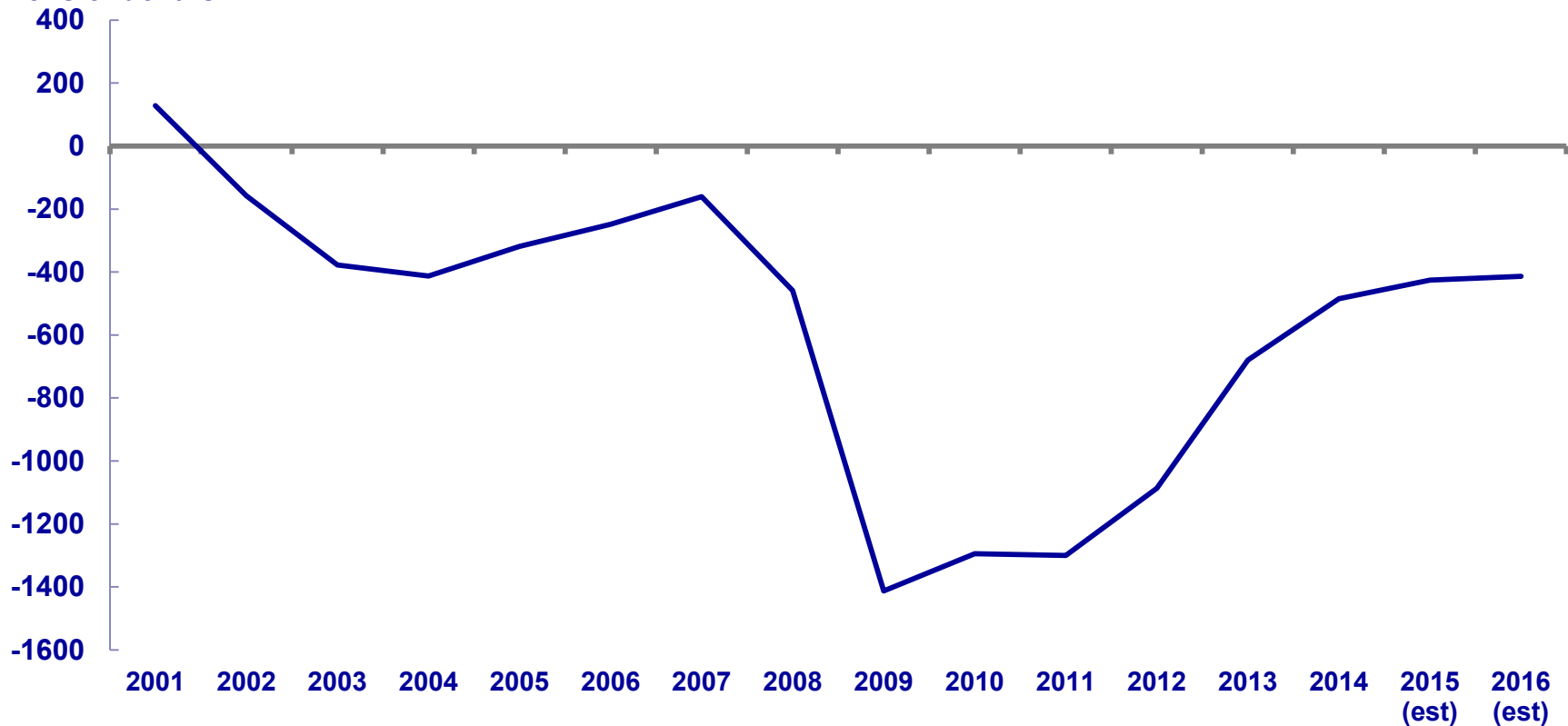
Federal Debt Held by the Public as a Share of GDP (1797-2014)



Trend 2: Fiscal Sustainability and Debt Challenges

Surpluses & Deficits (2001-2016)

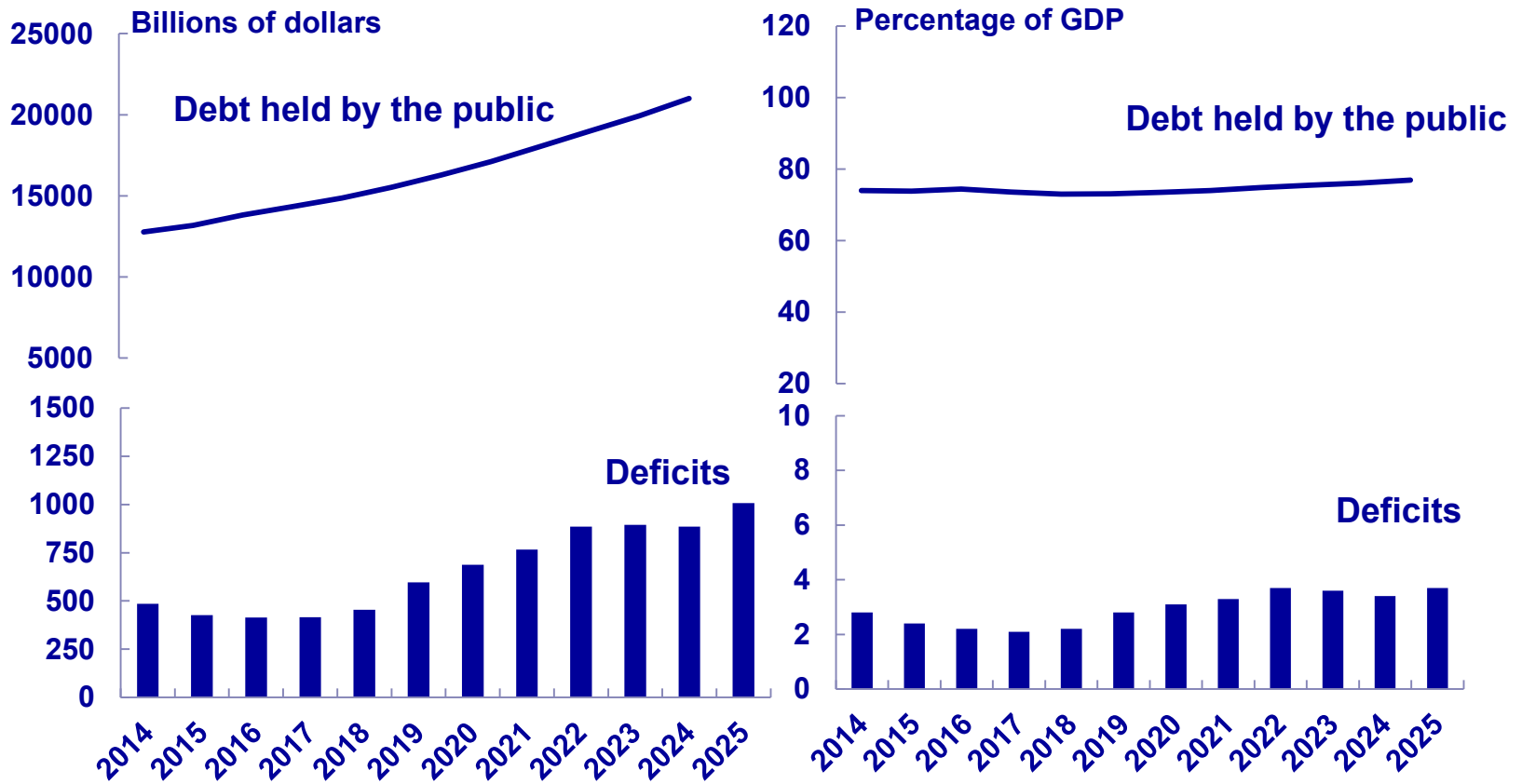
Billions of dollars



Notes: Data from 2001-2014 are historical actuals from the Office of Management and Budget. Data for 2015 and 2016 estimates are from the Congressional Budget Office's *Update to the Budget and Economic Outlook: 2015 to 2025* (August 25, 2015).

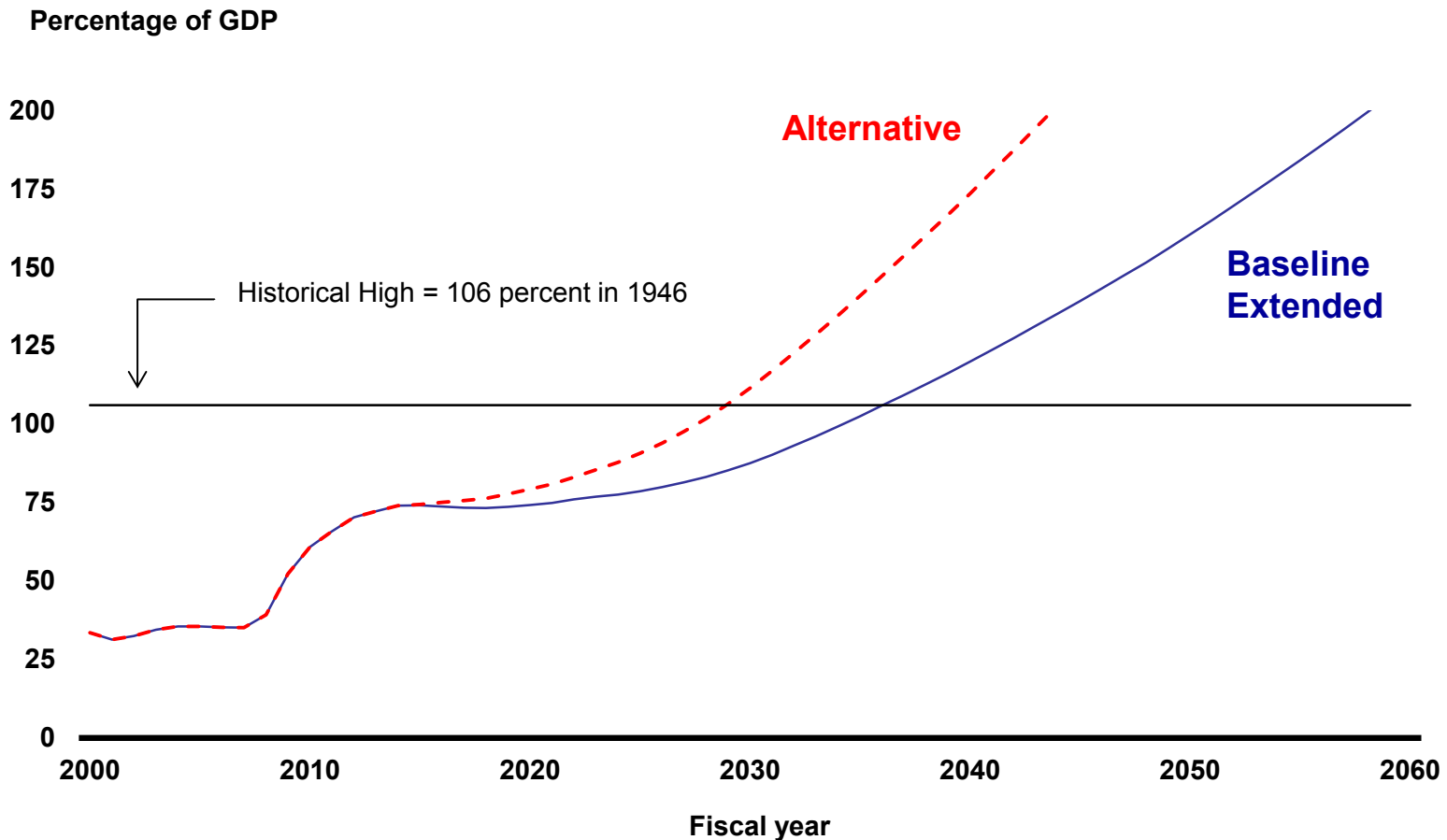
Trend 2: Fiscal Sustainability and Debt Challenges

Deficits and Debt Held by the Public Under CBO's August 2015 Baseline



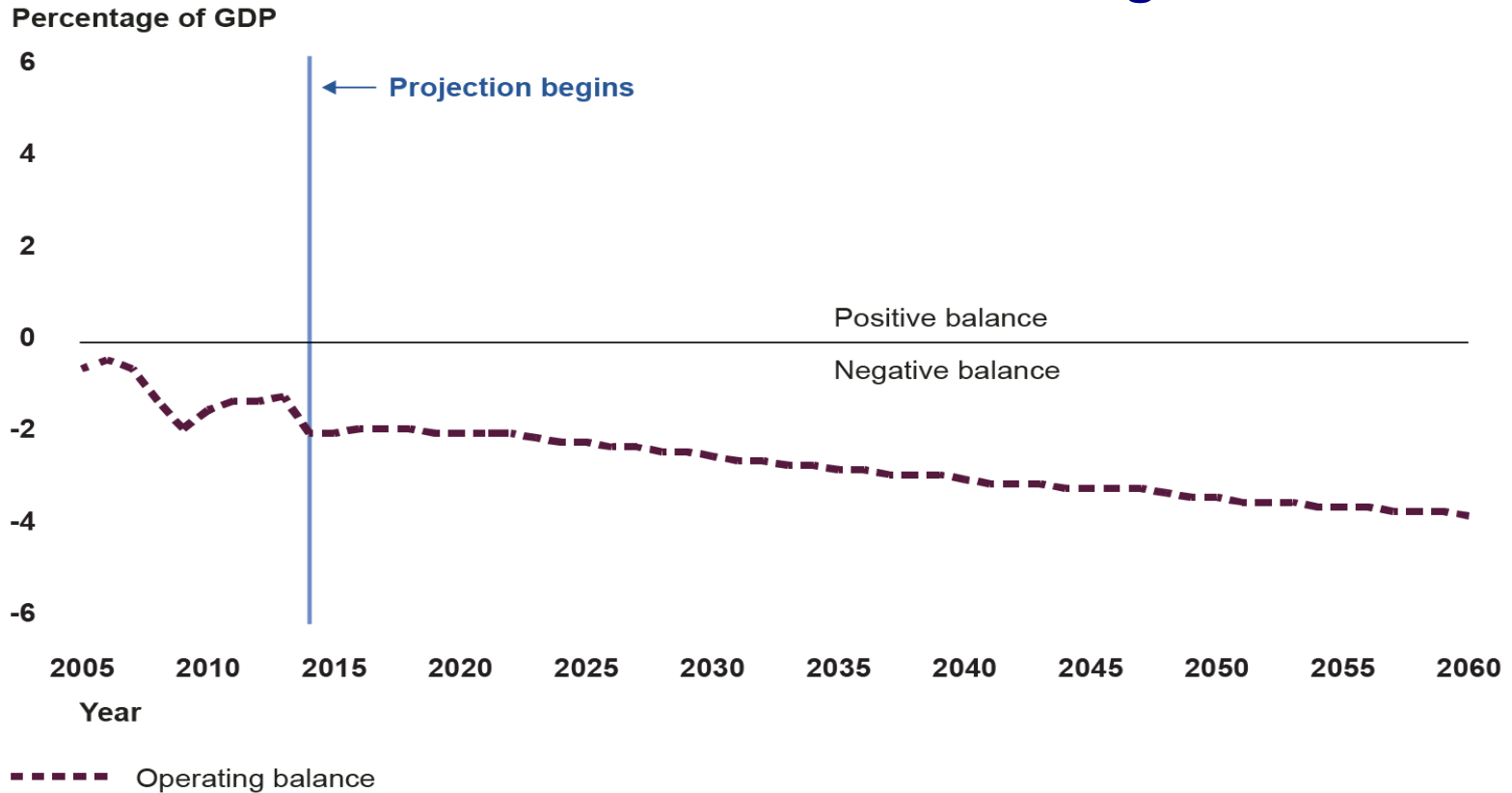
Trend 2: Fiscal Sustainability and Debt Challenges

Debt Held by the Public under Two Fiscal Policy Simulations



Trend 2: Fiscal Sustainability and Debt Challenges

State and Local Governments Face Increasing Fiscal Challenges



Sources: GAO calculations using Bureau of Economic Analysis data and GAO simulations, updated December 2014. | GAO-15-224SP

Note: Historical data from 2005 to 2013 are from the Bureau of Economic Analysis's National Income Product Accounts. Our simulations are from 2014 to 2063, using many CBO projections and assumptions, particularly for the next 10 years.

Trend 2: Fiscal Sustainability and Debt Challenges

Related GAO work

- Performing long-term **fiscal simulations** and analyzing the drivers of the fiscal position of **federal** and **state and local sectors**, including **tax policy, health, disability & retirement programs**.
- Analyzing **federal debt & debt management**, including the debt limit.
- Improving the quality of **financial and cost information**.
- Identifying specific opportunities to reduce the **tax gap**.
- Monitoring and evaluating **GPRO** program effectiveness.
- Identifying and recommending solutions to reduce the risk of **waste, fraud, and abuse** and **improper payments**.
- Identifying opportunities to reduce or eliminate **fragmentation, overlap, and duplication** in government programs and activities.

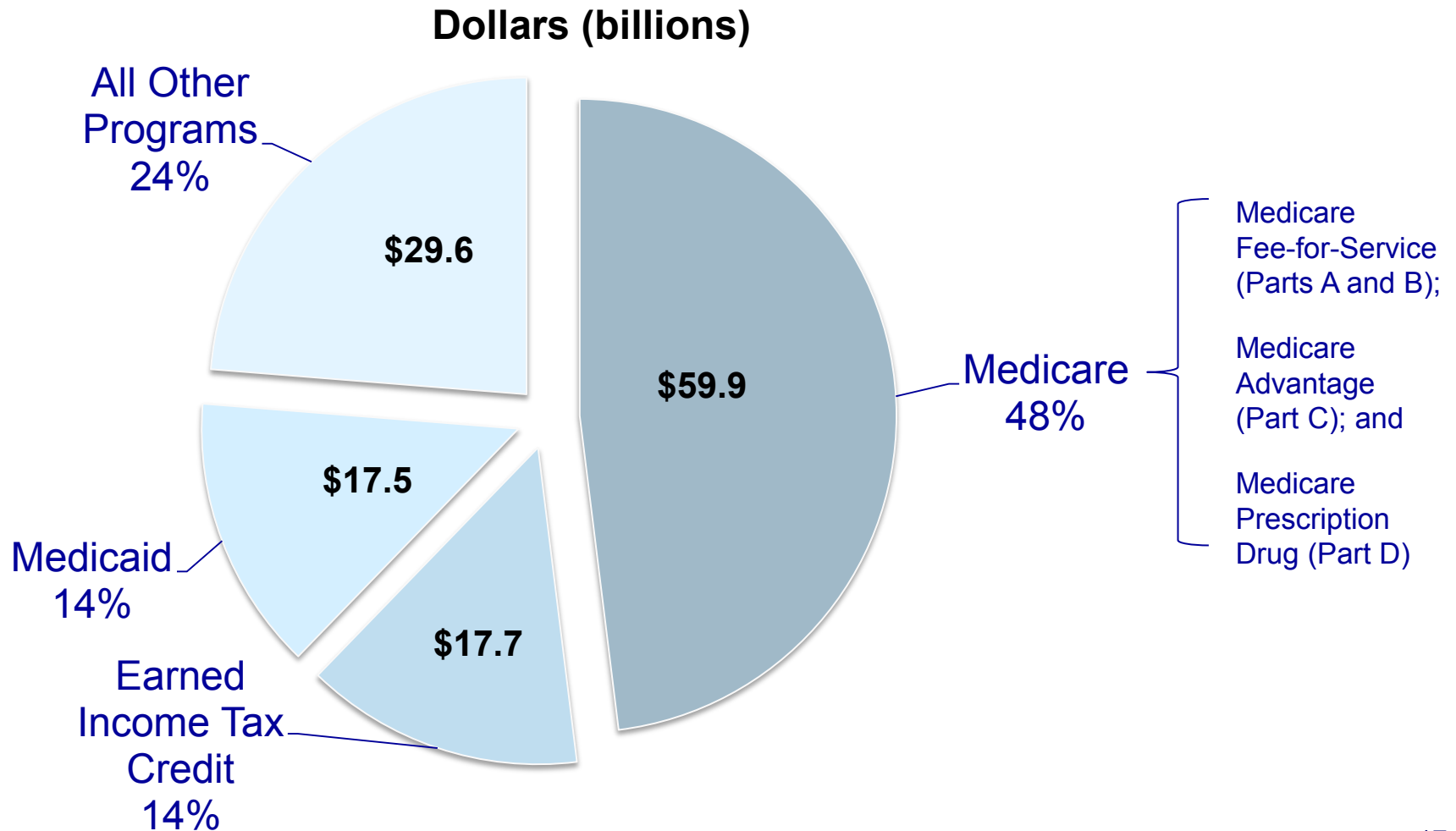
Important Roles for The Financial Management Community

- Improper Payments
- DATA Act
- Fragmentation, Overlap and Duplication
- High Risk Issues
- Internal Control / Fraud Framework

Improper Payments

- FY 2014 estimate: **\$124.7 billion**
 - About **\$19 billion** increase from FY 2013
- FY 2014 estimate covers 124 programs at 22 agencies
- No estimate developed for the Temporary Assistance for Needy Families program
- Higher error rates in 3 major programs drove the increase

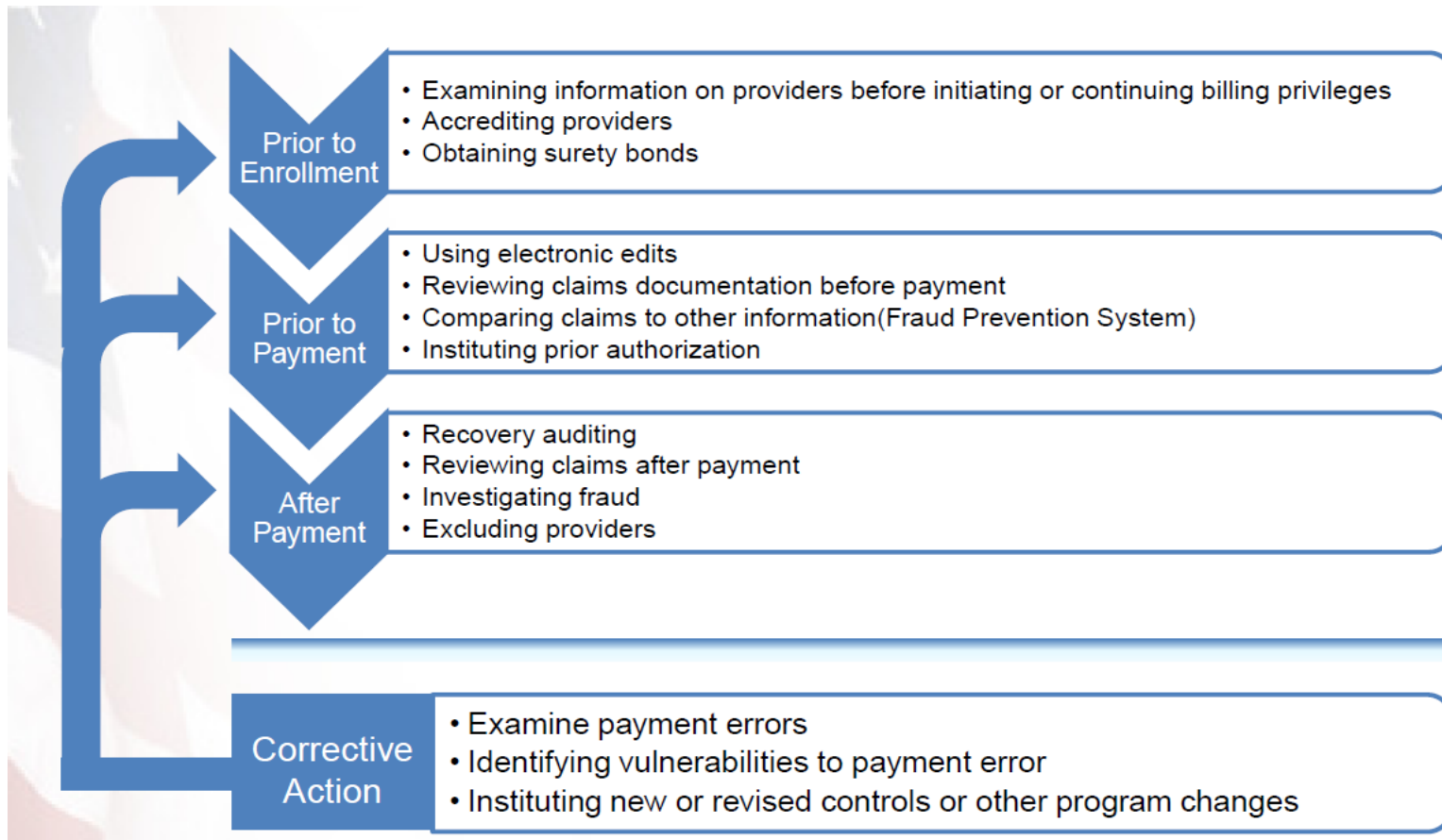
Improper Payments (FY 2014)



OMB and Treasury Have Committed to Actions to Address Improper Payments

- Do Not Pay initiative
- Revision to OMB's improper payment guidance
 - More detailed reporting through expanded improper payment categories
 - Emphasis on internal control
- Request for four agencies with the highest improper payments to implement portions of revised guidance early
- Analysis and follow-up on IG reports on agencies' noncompliance with Improper Payments Elimination and Recovery Act of 2010 for fiscal year 2014

Reducing Medicare Fee-for-Service Improper Payments: Points of Intervention



Reducing Medicaid Improper Payments: GAO Recommendations

Centers for Medicare & Medicaid Services should:

- Require states to conduct audits of payments to and by managed care organizations
- Provide guidance and support efforts to monitor and share information on third-party liability challenges across states
- Strengthen efforts to calculate return on investment for program integrity activities

DATA Act

(Digital Accountability and Transparency Act)

- Effective implementation holds great promise
 - Enhance transparency and oversight
 - Improve federal management and decision-making
- Data standards for all federal funds — including funds expended by states and localities
- OMB and Treasury required to consult with public and private stakeholders in establishing data standards

DATA Act

(Digital Accountability and Transparency Act)

- OMB and Treasury finalized 57 financial data elements on August 31, 2015
- Required pilot program to explore ways to reduce compliance costs and burden on federal award recipients: OMB/HHS are holding a 2-year national online dialogue to solicit feedback and ideas from grantees
- GAO's oversight strategy and work with the accountability community
- July testimony on progress and challenges

Fragmentation, Overlap, and Duplication: Mandate for GAO Duplication Reviews

- Enacted in 2010
 - Identify overlap and duplication
 - Identify opportunities for cost savings and revenue enhancement
- Annual reports 2011-2015 identify over 500 actions
- 37 percent of actions fully addressed and 39 percent of actions partially addressed
- Financial benefits
 - FY 2011-2014: about \$20 billion
 - Approximately another \$80 billion projected to be accrued through 2023

Fragmentation, Overlap, and Duplication: Looking across Sectors of Government

- Develop guidelines to assist states in developing uniform environmental analyses that could be used to meet state and federal requirements for water and wastewater infrastructure projects
- Coordinate DOJ grant award review to reduce the risk of potential duplication across more than 11,000 grant awards

Fragmentation, Overlap, and Duplication: Looking across Sectors of Government

- Enhance collaboration of overlapping federal and state export promotion efforts
- Look across levels of government for programs and activities aimed at same issue or population
 - GAO with 25 state & local audit offices designed audit plan for 6 participating audit offices to use for identifying overlap and fragmentation in rental housing assistance for low-income households.

High Risk Issues

- Fiscal Exposures from Climate Change Risks
- Surface Transportation
- Cyber Security
- Enforcement of Tax Laws

High Risk Area: Limiting the Federal Government's Fiscal Exposure by Better Managing Climate Change Risks

- Climate change poses risks to many environmental and economic systems.
- The federal government annually invests billions of dollars in infrastructure projects, such as roads and bridges, that state and local decision makers prioritize and supervise.
- Enhancing resilience to changes in the climate—for example, raising coastal dikes to protect infrastructure from sea level rise or building higher bridges—is a risk management strategy.
- It is hard for state and local decision makers to implement climate risk management strategies because federal climate information and technical assistance is difficult to access, understand, and use.

High Risk Area: Funding Surface Transportation

- Traditional funding sources are eroding.
- Congress has transferred over \$70 billion in general revenues to the Highway Trust Fund since 2008.
 - This approach may not be sustainable given competing demands and the federal government's fiscal challenges.
- The Fund requires \$168 billion in additional revenues to maintain current spending levels over the next 10 years (CBO).
- Congress and the administration need to agree on a long-term sustainable plan for funding surface transportation.

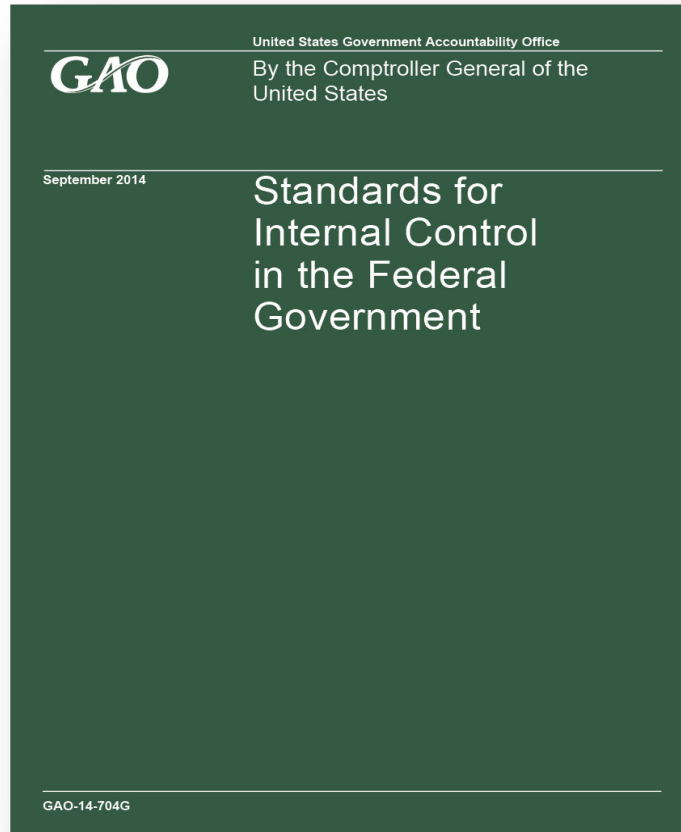
High Risk Area: Cyber Security

- Cyber threats and incidents to systems supporting federal government and national critical infrastructures are increasing.
- Coordination and monitoring
 - Federal stakeholders need to enhance their coordination and monitoring efforts with state/local governments and private sector entities, including the adoption or use of a cybersecurity framework.
- Privacy of personal information
 - In 2015, GAO expanded area to include protecting the privacy of personal information – due to advances in technologies, expanding volumes of personal information collected by governmental and commercial entities, increasing sophistication of hackers, and rising number of reported data breaches.

High Risk Area: Enforcement of Tax Laws

- Covers tax compliance—the tax gap—and tax refund fraud due to identify theft (IDT).
- Maximizing tax compliance has been a persistent challenge for decades; the net tax gap was most recently estimated (in 2012) to be \$385 billion.
- Potential solutions to reduce the tax gap include IRS developing a long-term operational strategy, improving data on the effectiveness of its enforcement efforts, and better leveraging automated processes to detect noncompliance.
- IRS has taken some steps to combat IDT refund fraud; assessing the costs and benefits of other options—such as accelerating Form W-2 filing deadlines—will be important.

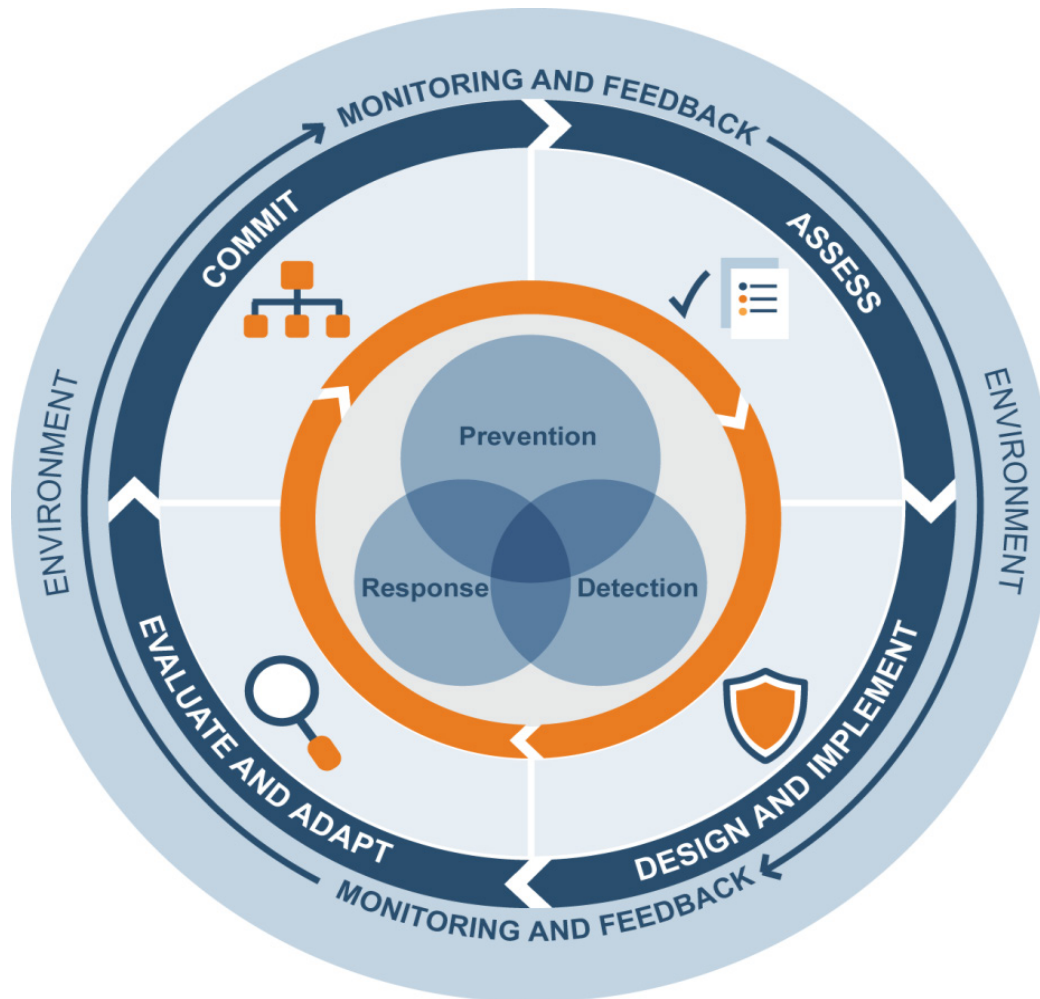
The 2014 Green Book



GAO-14-704G

Source: GAO.

Fraud Risk Management Framework

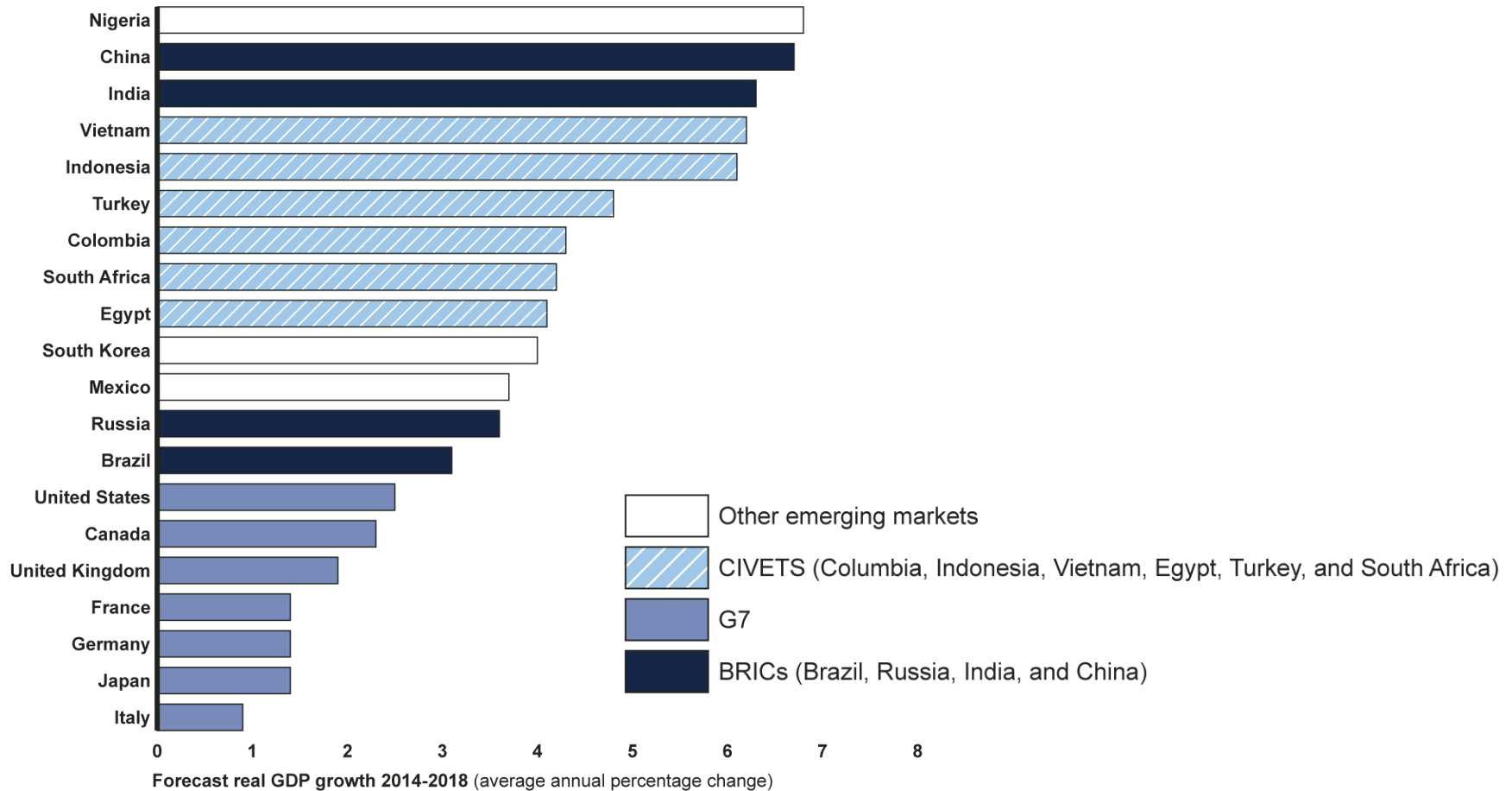


- Encompasses control activities to **prevent, detect, and respond** to fraud, with an emphasis on prevention.
- Recognizes **environmental factors** that influence or help managers achieve their objective to mitigate fraud risks.
- Highlights the importance of **monitoring and incorporating feedback**.

GAO-15-593SP

Trend 3: The Changing Dynamics of Global Interdependence & Multilateral Cooperation

Five Year Economic Growth Forecast for Select Countries



Source: GAO analysis of Economist Intelligence Unit data.

Trend 3: The Changing Dynamics of Global Interdependence & Multilateral Cooperation

Related GAO work

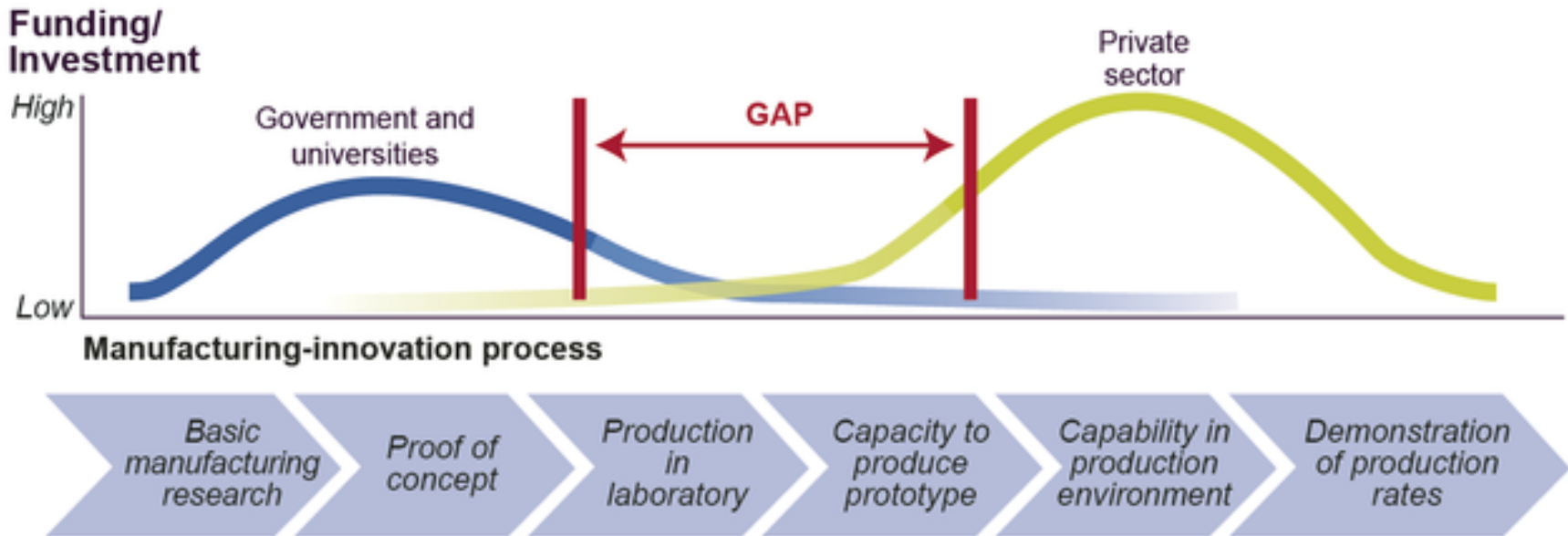
- Examining the implementation, progress, and efficacy of national & international **financial regulatory reforms** and efforts to create a more **stable financial system**.
- Evaluating threats to exploit **vulnerabilities across the global financial system**, including tax evasion, corruption, fraud, cyber attacks on financial institutions, and money laundering.
- Evaluating efforts to ensure a **safe food supply** and **medical products**.
- Evaluating the effectiveness of federal programs to prevent, prepare for, and respond to **public health emergencies**.
- Assessing U.S. **export promotion** programs and other **trade-related jobs** creation activities.
- Analyzing **energy** market regulation, competition, and information.

Trend 4: Advances in Science and Technology

- Emerging technologies:
 - Nanotechnology & manufacturing
 - 3-D printing
 - Synthetic biology
 - Unmanned aircraft systems
- Energy and natural resources nexus
- Science, technology, engineering and mathematics education

Trend 4: Advances in Science and Technology

Funding/Investment Gap: The “Missing Middle”



Source: GAO adapted from Executive Office of the President.

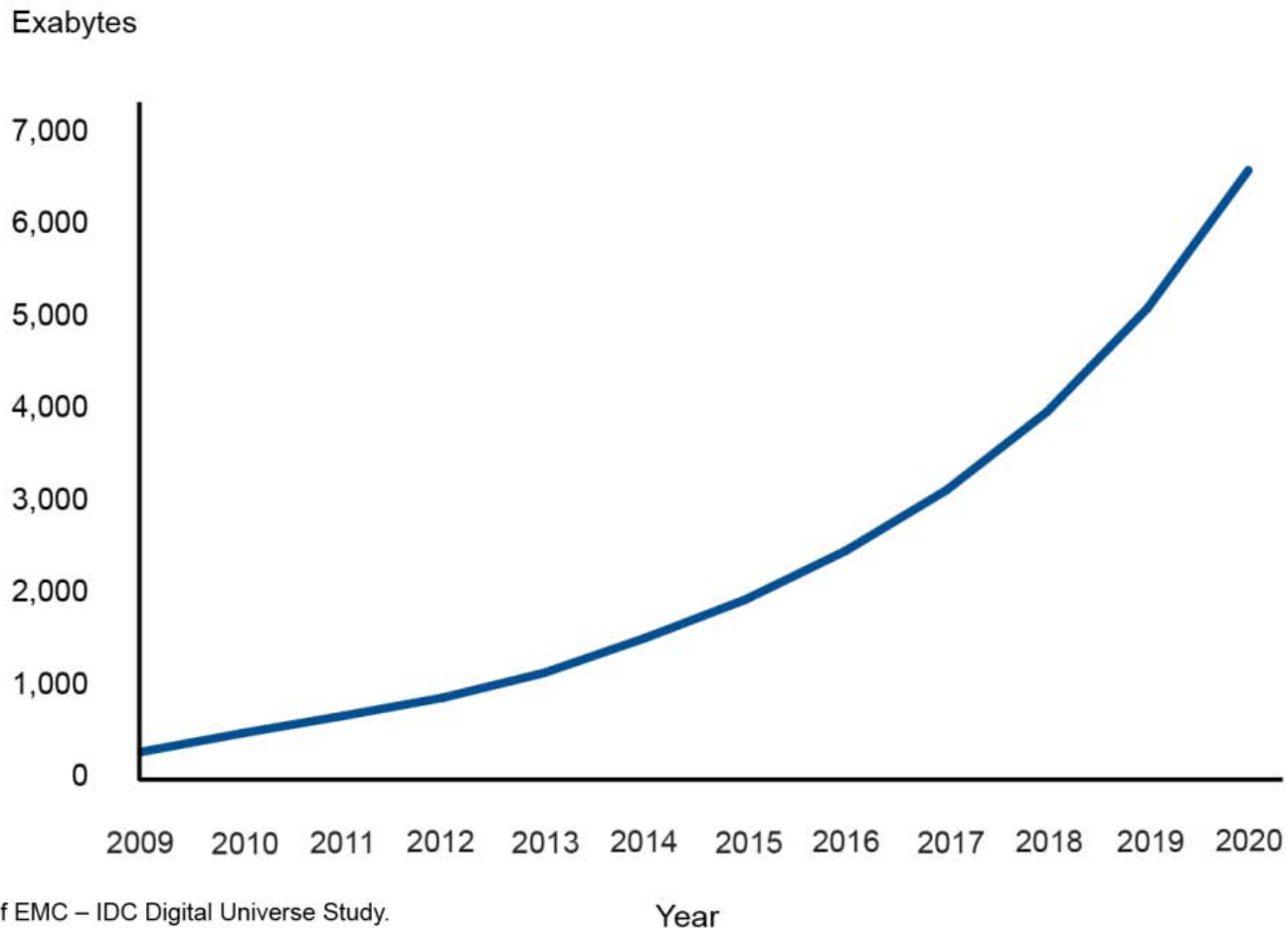
Trend 4: Advances in Science and Technology

Related GAO work

- Performing studies and technology assessments of S&T issues, such as **nanomanufacturing**, next generation **nuclear reactors**, **freshwater conservation**, national and homeland **defense systems**, and **additive manufacturing**.
- Enhancing the **security and privacy** of computer systems and networks supporting federal operations and **critical infrastructures**.
- Assessing the government's planning, implementation, and use of **information technology**, including **health IT**.
- Improving transparency and **governance of major IT projects**.
- Assessing the management and results of the **federal investment in science and technology** and the effectiveness of efforts to protect **intellectual property**.

Trend 5: Communications Networks and Information Technology

Growth in data created, replicated, or consumed in the United States



Source: GAO analysis of EMC – IDC Digital Universe Study.

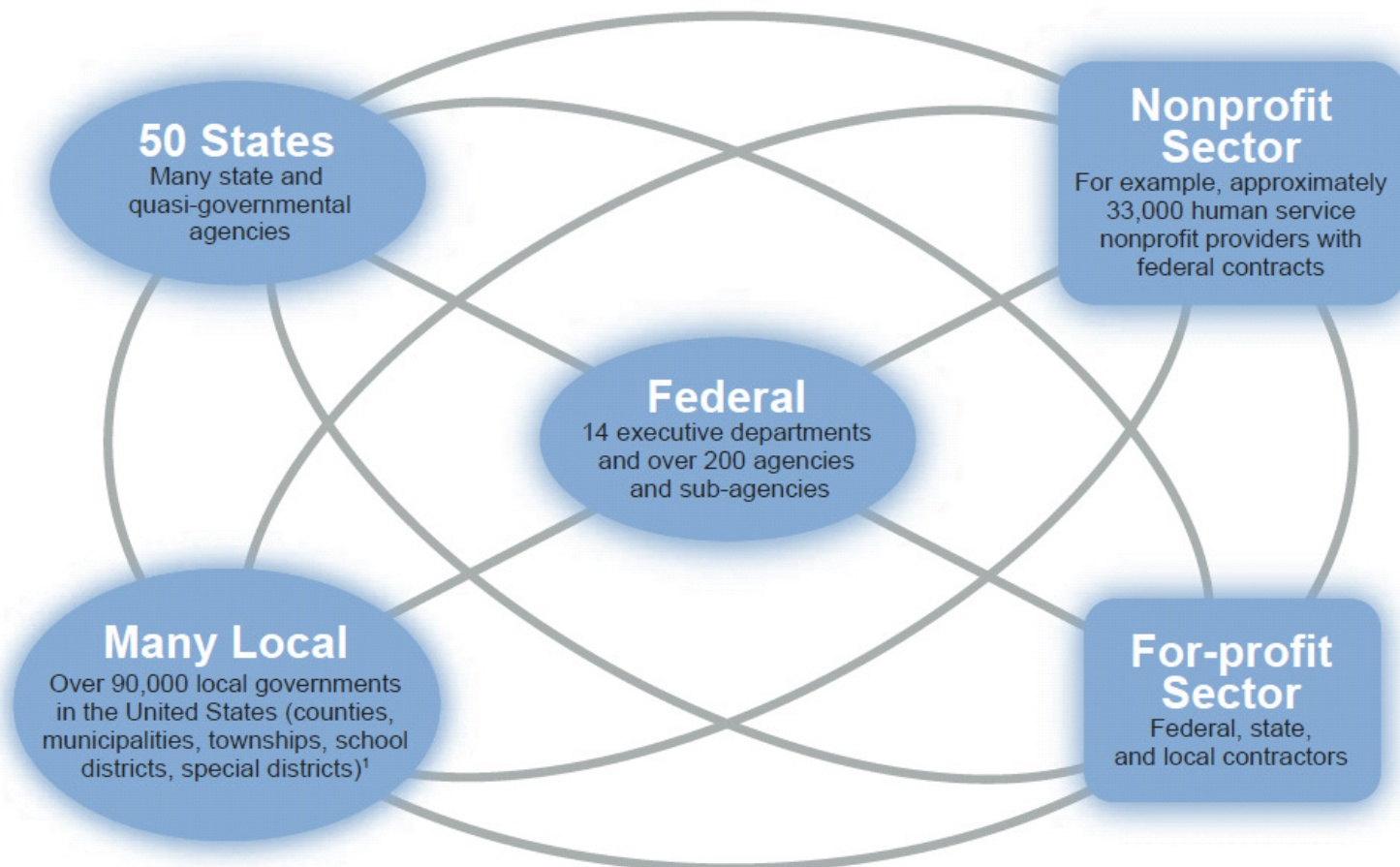
Trend 5: Communications Networks and Information Technology

Related GAO work

- Assessing federal efforts to promote affordable access to **broadband Internet** services.
- Reviewing the management of government and interconnected **public-safety networks**.
- Assessing DHS's efforts to enhance the resiliency of **critical national assets, networks, and systems**.
- Reducing duplicative and inefficient legacy IT spending through **data center consolidation** and portfolio management.
- Evaluating the management of **telecommunications** products and services purchased government-wide.

Trend 6: Shifting Roles in Government and Governance

United States Federalism in Practice

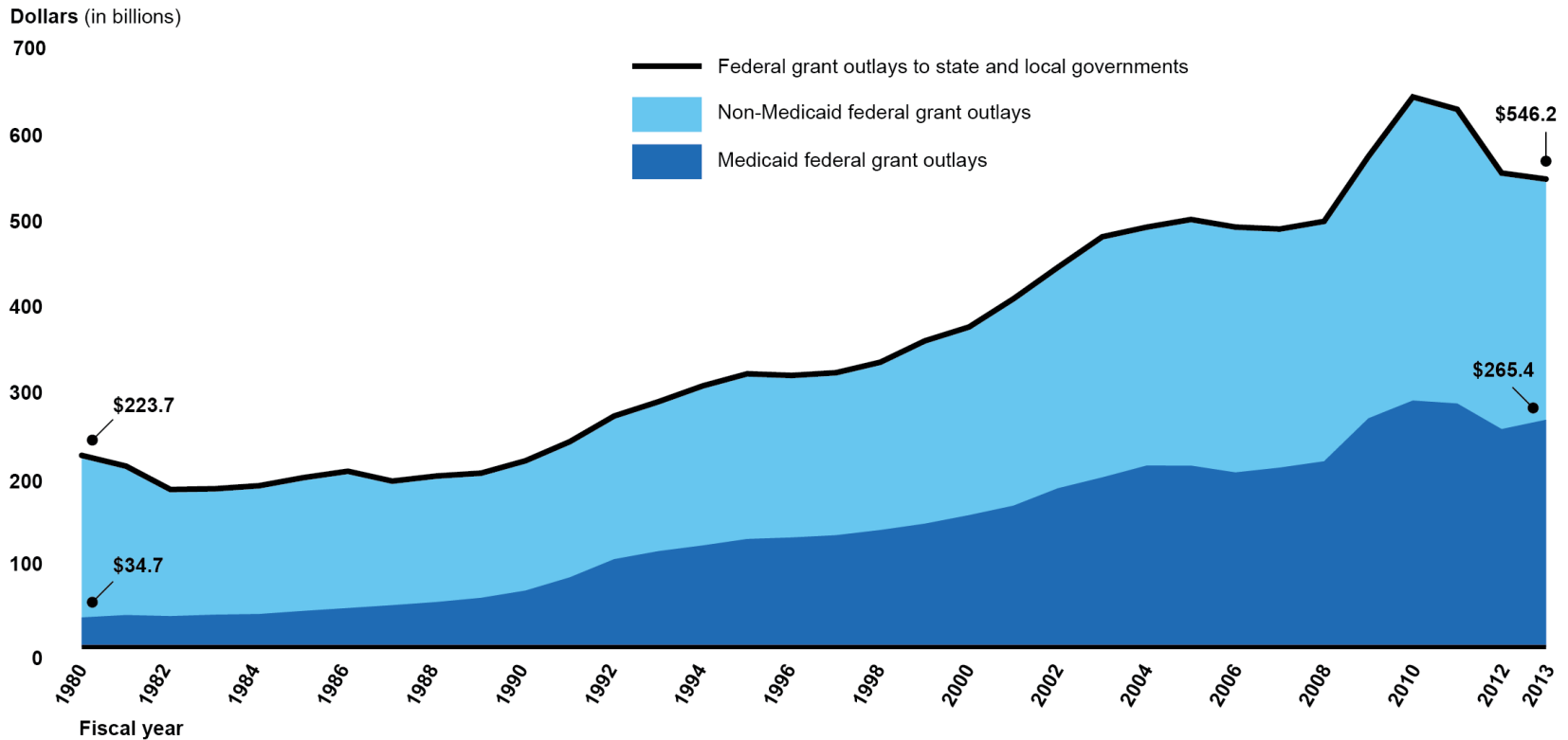


¹ Examples of special districts include mosquito abatement districts, utility districts, water and sewer districts, transit authorities, etc.

Sources: GAO graphic based on U.S. Census Bureau, *Government Organization Summary Report 2012* (Released Sept. 26, 2013), *U.S. Government Manual: 2009-10*; and *Urban Institute's National Study of Nonprofit-Government Contracting Survey Results (2009 Data)*.

Trend 6: Shifting Roles in Government and Governance

Total Federal Outlays for Grants to State and Local Governments and Medicaid (2013 Constant Dollars)



Source: GAO analysis of OMB data.

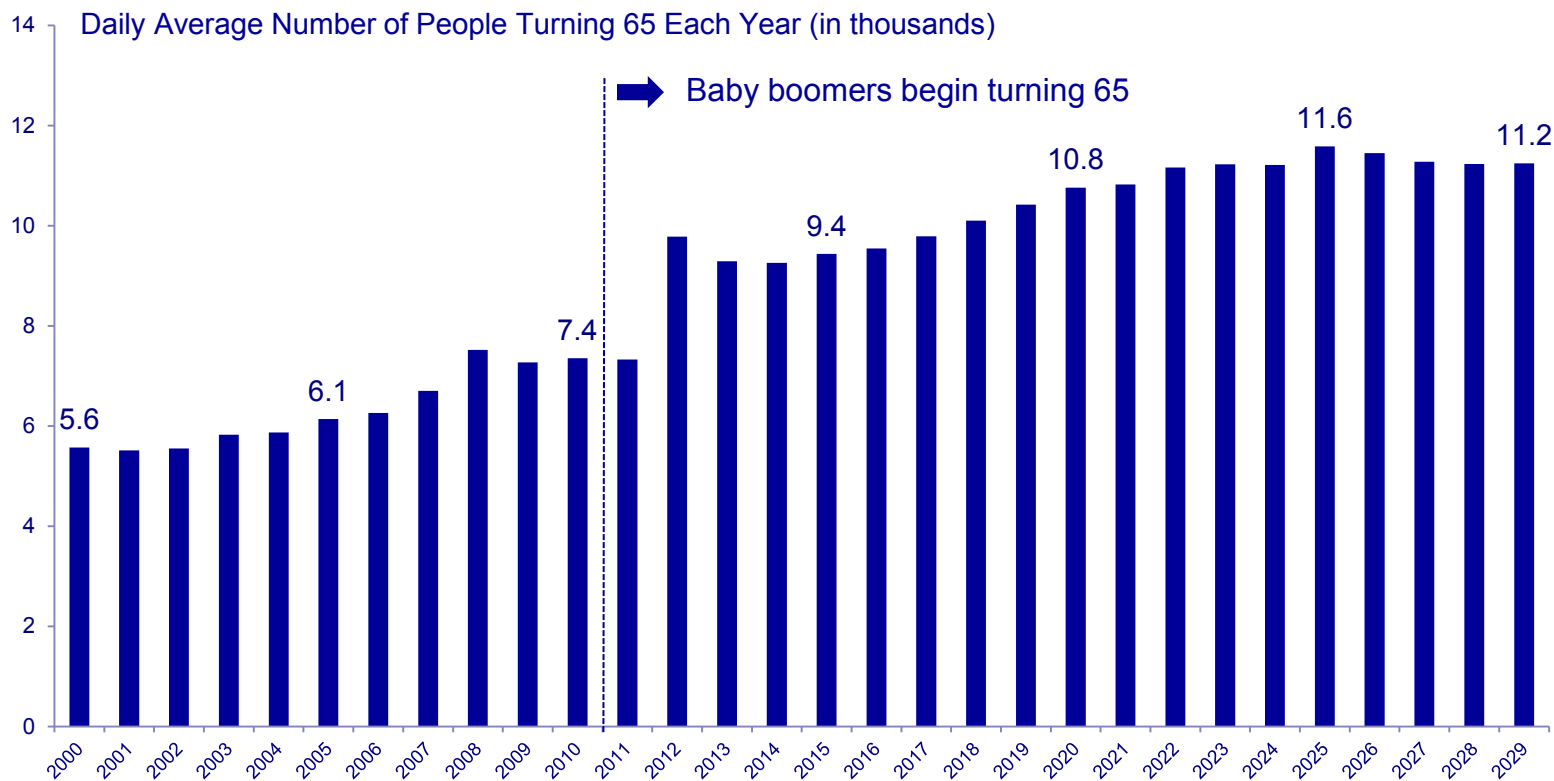
Trend 6: Shifting Roles in Government and Governance

Related GAO work

- Focusing on major areas that are at **high-risk**, including the **U.S. Postal Service's financial condition**, funding the nation's **surface transportation** system, and mitigating gaps in **weather satellite** data.
- Identifying ways to improve federal **acquisition** of goods & services, such as through **strategic sourcing** and enhanced competition.
- Analyzing the extent to which agencies understand and manage risks associated with their large dependence on **contractor-provided services**.
- Evaluating federal agency **collaboration**: across federal agencies, across levels of government, and across sectors.

Trend 7: Demographic and Societal Changes Confronting Young and Old

Large Numbers of Baby Boomers Eligible to Retire in Next 5 Years

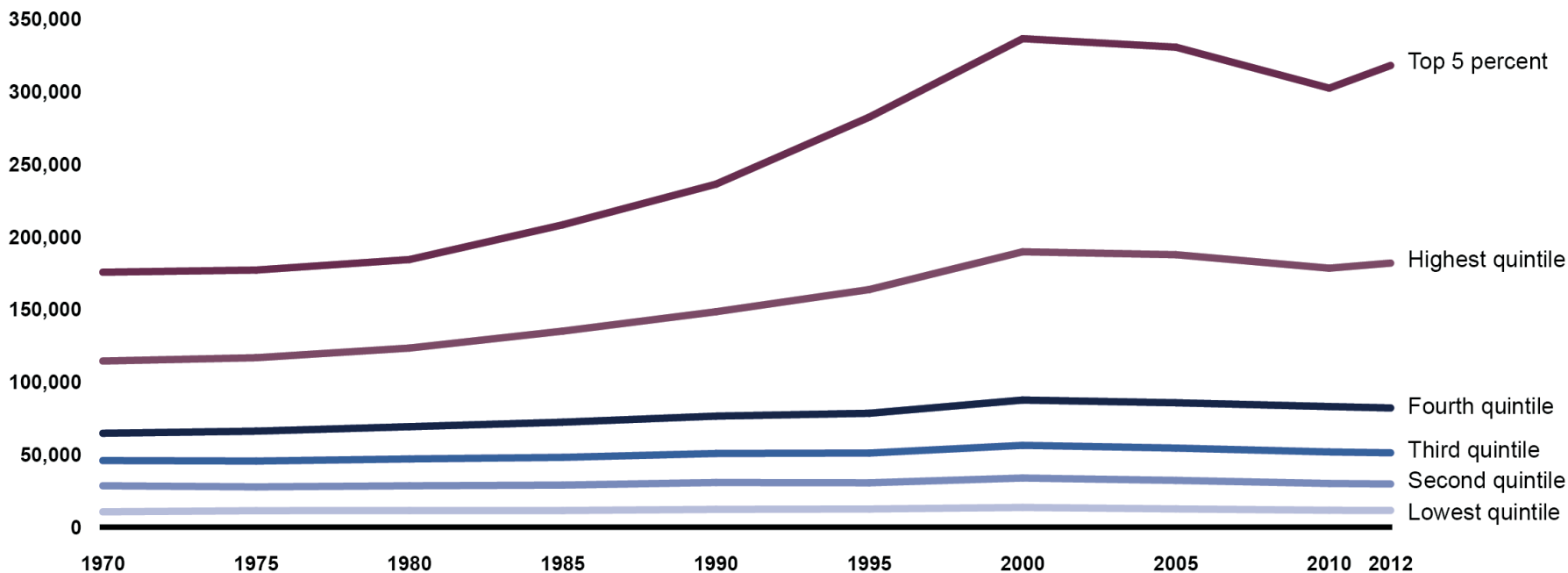


Source: GAO analysis of U.S. Census Bureau data.

Trend 7: Demographic and Societal Changes Confronting Young and Old

Mean Household Incomes, by Quintiles and Top 5 Percent

Average annual income (in 2012 dollars)



Source: GAO analysis of U.S. Census data (Current Population Survey, 1970 to 2012 Annual Social and Economic Supplements).

Trend 7: Demographic and Societal Changes Confronting Young and Old

Related GAO work

- Supporting **health care financing and reform efforts** through analyses of Medicare, Medicaid, and other health programs.
- Evaluating efforts to implement the **Affordable Care Act**.
- Assess the challenges to providing **Social Security and other benefits** for older adults in **retirement**.
- Assess the **housing needs** of older adults and the ability of the housing market and federal programs to respond to those needs.
- Identify ways to improve programs that facilitate **job opportunities and skills** for workers, including **veterans**.
- Assess policy and administrative challenges to improving school readiness and **K-12 education**, and greater access, affordability, and completion of **postsecondary education**.
- Evaluating efforts to assist communities with **combating crime** and to manage growing costs of the **federal prison system**.

Partnerships & Capacity Building: Center for Audit Excellence

- Mission is to promote good governance and build the institutional capacity of domestic and international accountability organizations by providing affordable, high quality training, technical assistance, and related products and services
- Provides customized fee-based training and technical assistance to meet the needs of accountability organizations in four core areas:

Performance Audits	Institutional Capacity Building
Financial Audits	Leadership and Supervision

- Also provides training and technical assistance on other specialized topics such as internal controls, procurement, and audit methodologies
- Scheduled to open in October 2015. For additional information contact center staff via email: centerforauditexcellence@gao.gov

NIAF Strategic Plan: Contribution of Regional Forums

- Strategic plan has 3 major goals:
 - Foster networking, dialogue, and collaboration on current and emerging issues of common interest within the accountability community
 - Enhance the capability, credibility, capacity, effectiveness, and professionalism of audit organizations by advancing audit standards, sharing best practices, & emphasizing the importance of accountability within government & the audit profession
 - Improve the National Forum's outreach, management, and impact to assist members in transforming government operations
- Regional Forums such as SEIAF and SWIAF can play key role in implementing the strategic plan
 - Contact Nancy Donovan, Director of Domestic Relations - DonovanN@gao.gov

On the Web

Web site: www.gao.gov/cghome/index.html

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