GAO’s Mission

GAO’s role is to support the Congress in carrying out its constitutional responsibilities and to help improve the performance and assure accountability of government for the benefit of the American people.

We do this in four fundamental ways:

- **Oversight**—preventing and detecting fraud, waste, abuse, and mismanagement
- **Insight**—making government more efficient and effective
- **Foresight**—examining the role of government
- **Adjudication**—bid protest resolution, legal opinions (e.g. appropriations law)
The Need for Good Governance, Transparency, and Accountability

Good governance, transparency, and accountability are critical in:

- The private sector, to promote efficiency and effectiveness in the capital and credit markets, and overall economic growth, both domestically and internationally
- The public sector, for the effective and credible functioning of a healthy democracy, and in fulfilling the government’s responsibility to citizens and taxpayers
- Both sectors, to support a healthy economy that provides economic opportunities and benefits to citizens

Sorting out the needs—as well as the effective and appropriate governance and accountability mechanisms for different sectors and types of organizations—will be essential, both on a domestic and international scale
The Need for More Efficient and Effective Government

Federal, State, and Local Collaboration

Federal Grants as a Percent of State and Local Receipts and Federal Expenditures

Source: GAO analysis of data from the U.S. Dept. of Commerce, Bureau of Economic Analysis
The Case for Change

The federal government is on a “burning platform,” and the status quo way of doing business is unacceptable for a variety of reasons, including:

- Past fiscal trends and significant long-range challenges
- Selected trends and challenges having no boundaries
- Additional resource demands due to Iraq, Afghanistan, incremental homeland security needs, and recent natural disasters in the United States
- Numerous government performance/accountability and high risk challenges
- Outdated federal organizational structures, policies, and practices
- Rising public expectations for demonstrable results and enhanced responsiveness
Composition of Federal Spending

1966
- 34% Defense
- 15% Social Security
- 7% Net interest
- 1% All other spending
- 43% Medicare & Medicaid

1986
- 29% Defense
- 14% Social Security
- 10% Net interest
- 20% All other spending
- 28% Medicare & Medicaid

2006
- 32% Defense
- 9% Social Security
- 19% Net interest
- 21% All other spending
- 20% Medicare & Medicaid

Source: Office of Management and Budget and the Department of the Treasury.
Note: Numbers may not add to 100 percent due to rounding.
Federal Spending for Mandatory Programs Crowds Out Spending for Discretionary Programs

Percent of total outlays

Discretionary
Mandatory
Net interest

Sources: Office of Management and Budget and the Congressional Budget Office.
Social Security, Medicare, and Medicaid Spending as a Percent of GDP

Percent of GDP

Source: GAO analysis based on data from the Office of the Chief Actuary, Social Security Administration, Office of the Actuary, Centers for Medicare and Medicaid Services, and the Congressional Budget Office.

## Fiscal Year 2005 and 2006 Deficits and Net Operating Costs

<table>
<thead>
<tr>
<th></th>
<th>Fiscal Year 2005 ($ Billion)</th>
<th>Fiscal Year 2006 ($ Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On-Budget Deficit</td>
<td>(494)</td>
<td>(434)</td>
</tr>
<tr>
<td>Unified Deficit&lt;sup&gt;a&lt;/sup&gt;</td>
<td>(318)</td>
<td>(248)</td>
</tr>
<tr>
<td>Net Operating Cost&lt;sup&gt;b&lt;/sup&gt;</td>
<td>(760)</td>
<td>(450)</td>
</tr>
</tbody>
</table>

Sources: Office of Management and Budget and Department of the Treasury.

<sup>a</sup>Includes $173 billion in Social Security surpluses for fiscal year 2005 and $185 billion for fiscal year 2006; $2 billion in Postal Service surpluses for fiscal year 2005 and $1 billion for fiscal year 2006.

<sup>b</sup>Fiscal year 2005 and 2006 net operating cost figures reflect significant but opposite changes in certain actuarial costs. For example, changes in interest rates and other assumptions used to estimate future veterans’ compensation benefits increased net operating cost by $228 billion in 2005 and reduced net operating cost by $167 billion in 2006. Therefore, the net operating costs for fiscal years 2005 and 2006, exclusive of the effect of these actuarial cost fluctuations, were ($532) billion and ($617) billion, respectively.
## Major Fiscal Exposures

($ trillions)

<table>
<thead>
<tr>
<th>Category</th>
<th>2000</th>
<th>2006</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Explicit liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Publicly held debt</td>
<td>$6.9</td>
<td>$10.4</td>
<td>52</td>
</tr>
<tr>
<td>Military &amp; civilian pensions &amp; retiree health</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commitments &amp; contingencies</td>
<td>0.5</td>
<td>1.3</td>
<td>140</td>
</tr>
<tr>
<td>E.g., PBGC, undelivered orders</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Implicit exposures</td>
<td>13.0</td>
<td>38.8</td>
<td>197</td>
</tr>
<tr>
<td>Future Social Security benefits</td>
<td>3.8</td>
<td>6.4</td>
<td></td>
</tr>
<tr>
<td>Future Medicare Part A benefits</td>
<td>2.7</td>
<td>11.3</td>
<td></td>
</tr>
<tr>
<td>Future Medicare Part B benefits</td>
<td>6.5</td>
<td>13.1</td>
<td></td>
</tr>
<tr>
<td>Future Medicare Part D benefits</td>
<td>--</td>
<td>7.9</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$20.4</td>
<td>$50.5</td>
<td>147</td>
</tr>
</tbody>
</table>


Note: Totals and percent increases may not add due to rounding. Estimates for Social Security and Medicare are at present value as of January 1 of each year and all other data are as of September 30.
How Big is Our Growing Fiscal Burden?

This fiscal burden can be translated and compared as follows:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total –major fiscal exposures</td>
<td>$50.5 trillion</td>
</tr>
<tr>
<td>Total household net worth¹</td>
<td>$53.3 trillion</td>
</tr>
<tr>
<td>Burden/Net worth ratio</td>
<td>95 percent</td>
</tr>
<tr>
<td>Burden²</td>
<td></td>
</tr>
<tr>
<td>Per person</td>
<td>$170,000</td>
</tr>
<tr>
<td>Per full-time worker</td>
<td>$400,000</td>
</tr>
<tr>
<td>Per household</td>
<td>$440,000</td>
</tr>
<tr>
<td>Income</td>
<td></td>
</tr>
<tr>
<td>Median household income³</td>
<td>$46,326</td>
</tr>
<tr>
<td>Disposable personal income per capita⁴</td>
<td>$31,519</td>
</tr>
</tbody>
</table>

Source: GAO analysis.

Notes: (1) Federal Reserve Board, Flow of Funds Accounts, Table B.100, 2006:Q2 (Sept. 19, 2006); (2) Burdens are calculated using estimated total U.S. population as of 9/30/06, from the U.S. Census Bureau; full-time workers reported by the Bureau of Economic Analysis, in NIPA table 6.5D (Aug. 2, 2006); and households reported by the U.S. Census Bureau, in Income, Poverty, and Health Insurance Coverage in the United States: 2005 (Aug. 2006); (3) U.S. Census Bureau, Income, Poverty, and Health Insurance Coverage in the United States: 2005 (Aug. 2006); and (4) Bureau of Economic Analysis, Personal Income and Outlays: October 2006, table 2, (Nov. 30, 2006).
Potential Fiscal Outcomes
Under Baseline Extended (January 2001)
Revenues and Composition of Spending as a Share of GDP

Source: GAO's January 2001 analysis.

Notes: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2017 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2017, revenue as a share of GDP is held constant—implicitly assuming action to offset the impact of bracket creep and to modify or offset the AMT.

All other spending is net of offsetting interest receipts.
Discretionary Spending Grows with GDP After 2007 and All Expiring Tax Provisions Extended through 2017 (Thereafter Revenue Returns to Historical Average of 18.3% of GDP plus Deferred Revenue)

Source: GAO’s January 2007 analysis.
Health Care Is the Nation’s Top Tax Expenditure in Fiscal Year 2006

Source: Office of Management and Budget (OMB), Analytical Perspectives, Budget of the United States Government, Fiscal Year 2008.

Note: “Tax expenditures” refers to the special tax provisions that are contained in the federal income taxes on individuals and corporations. Treasury does not include forgone revenue from other federal taxes such as Social Security and Medicare payroll taxes.

aIf the payroll tax exclusion were also counted here, the total tax expenditure for employer contributions for health insurance premiums would be about 50 percent higher or $187.5 billion.

bThis tax expenditure does not include $40.8 billion in revenue losses due to defined contribution plans.
Current Fiscal Policy Is Unsustainable

- **The “Status Quo” is Not an Option**
  - We face large and growing structural deficits largely due to known demographic trends and rising health care costs.
  - GAO’s simulations show that balancing the budget in 2040 could require actions as large as
    - Cutting total federal spending by 60 percent or
    - Raising federal taxes to 2 times today’s level

- **Faster Economic Growth Can Help, but It Cannot Solve the Problem**
  - Closing the current long-term fiscal gap based on reasonable assumptions would require real average annual economic growth in the double digit range every year for the next 75 years.
  - During the 1990s, the economy grew at an average 3.2 percent per year.
  - As a result, we cannot simply grow our way out of this problem. Tough choices will be required.
The Way Forward: A Three-Pronged Approach

1. Improve Financial Reporting, Public Education, and Performance Metrics

2. Strengthen Budget and Legislative Processes and Controls

3. Fundamentally Reexamine & Transform for the 21st Century (i.e., entitlement programs, other spending, and tax policy)

Solutions Require Active Involvement from both the Executive and Legislative Branches
The Objective of Transformation

To create a more positive future by maximizing value and mitigating risk within current and expected resource levels
Key National Indicators

- **WHAT**: A portfolio of economic, social, and environmental outcome-based measures that could be used to help assess the nation’s and other governmental jurisdictions’ position and progress

- **WHO**: Many countries and several states, regions, and localities have already undertaken related initiatives (e.g., Australia; New Zealand; Canada; United Kingdom; Oregon; Silicon Valley (California); Jacksonville (Florida); Boston (Massachusetts))

- **WHY**: Development of such a portfolio of indicators could have a number of possible benefits, including
  - Serving as a framework for related strategic planning efforts
  - Enhancing performance and accountability reporting
  - Informing public policy decisions, including much needed baseline reviews of existing government policies, programs, functions, and activities
  - Facilitating public education and debate as well as an informed electorate

- **WAY FORWARD**: Key players working through a consortium within a nonprofit organization receiving technical assistance from the National Academies domestically and OECD and others providing assistance internationally on related efforts
The United States may be the only superpower, but compared to most other OECD countries on selected key economic, social, and environmental indicators, on average, the U.S. ranks

16 OUT OF 28

OECD Categories for Key Indicators
(2006 OECD Factbook)

<table>
<thead>
<tr>
<th>Population/Migration</th>
<th>Energy</th>
<th>Environment</th>
<th>Quality of Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Macroeconomic Trends</td>
<td>Labor Market</td>
<td>Education</td>
<td>Economic Globalization</td>
</tr>
<tr>
<td>Prices</td>
<td>Science &amp; Tech.</td>
<td>Public Finance</td>
<td></td>
</tr>
</tbody>
</table>
### Where the United States Ranks on Selected Health Outcome Indicators

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life expectancy at birth</td>
<td><strong>23 out of 30 in 2003</strong></td>
</tr>
<tr>
<td><em>U.S. = 77.5 years in 2003</em></td>
<td></td>
</tr>
<tr>
<td>Infant Mortality</td>
<td><strong>25 out of 30 in 2003</strong></td>
</tr>
<tr>
<td><em>U.S. = 6.9 deaths in 2003</em></td>
<td></td>
</tr>
<tr>
<td>Potential Years of Life Lost</td>
<td><strong>23 out of 26 in 2002</strong></td>
</tr>
<tr>
<td><em>U.S. = 5,066 in 2002</em></td>
<td></td>
</tr>
</tbody>
</table>

Source: OECD Health Data 2006.

Notes: Data are the most recent available for all countries. Life expectancy at birth for the total population is estimated by the OECD Secretariat for all countries, as the unweighted average of the life expectancy of men and women. Infant mortality is measured as the number of deaths per 1,000 live births. Potential years of life lost (PYLL) is the sum of the years of life lost prior to age 70, given current age-specific death rates (e.g., a death at 5 years of age is counted as 65 years of PYLL).
Growth in Health Care Spending: Health Care Spending as a Percentage of GDP

Source: The Centers for Medicare & Medicaid Services, Office of the Actuary.
Note: The figure for 2015 is projected.
Issues to Consider in Examining Our Health Care System

- The public needs to be educated about the differences between wants, needs, affordability, and sustainability at both the individual and aggregate level.

- Ideally, health care reform proposals will:
  - **Align Incentives** for providers and consumers to make prudent decisions about the use of medical services,
  - **Foster Transparency** with respect to the value and costs of care, and
  - **Ensure Accountability** from insurers and providers to meet standards for appropriate use and quality.

- Ultimately, we need to address four key dimensions: access, cost, quality, and personal responsibility.
Reform proposals should be evaluated as packages that strike a balance among individual reform elements and important interactive effects.

Comprehensive proposals can be evaluated against three basic criteria:

- Financing sustainable solvency
- Balancing adequacy and equity in the benefits structure
- Implementing and administering reforms
<table>
<thead>
<tr>
<th>Addressing Challenges in Broad-based Transformations</th>
<th>Year Designated</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Strategic Human Capital Management(^a)</td>
<td>2001</td>
</tr>
<tr>
<td>• Managing Federal Real Property(^a)</td>
<td>2003</td>
</tr>
<tr>
<td>• <strong>Protecting the Federal Government's Information Systems and the Nations' Critical Infrastructures</strong></td>
<td>1997</td>
</tr>
<tr>
<td>• Implementing and Transforming the Department of Homeland Security</td>
<td>2003</td>
</tr>
<tr>
<td>• Establishing Appropriate and Effective Information-Sharing Mechanisms to Improve Homeland Security</td>
<td>2005</td>
</tr>
<tr>
<td>• DOD Approach to Business Transformation(^a)</td>
<td>2005</td>
</tr>
<tr>
<td>• DOD Business Systems Modernization</td>
<td>1995</td>
</tr>
<tr>
<td>• DOD Personnel Security Clearance Program</td>
<td>2005</td>
</tr>
<tr>
<td>• DOD Support Infrastructure Management</td>
<td>1997</td>
</tr>
<tr>
<td>• DOD Financial Management</td>
<td>1995</td>
</tr>
<tr>
<td>• DOD Supply Chain Management</td>
<td>1990</td>
</tr>
<tr>
<td>• DOD Weapon Systems Acquisition</td>
<td>1990</td>
</tr>
<tr>
<td>• FAA Air Traffic Control Modernization</td>
<td>1995</td>
</tr>
<tr>
<td>• Financing the Nation’s Transportation System(^a) (New)</td>
<td>2007</td>
</tr>
<tr>
<td>• <strong>Ensuring the Effective Protection of Technologies Critical to U.S. National Security Interests</strong>(^a) (New)</td>
<td>2007</td>
</tr>
<tr>
<td>• Transforming Federal Oversight of Food Safety(^a) (New)</td>
<td>2007</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Managing Federal Contracting More Effectively</th>
</tr>
</thead>
<tbody>
<tr>
<td>• DOD Contract Management</td>
</tr>
<tr>
<td>• DOE Contract Management</td>
</tr>
<tr>
<td>• NASA Contract Management</td>
</tr>
<tr>
<td>• Management of Interagency Contracting</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Assessing the Efficiency and Effectiveness of Tax Law Administration</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Enforcement of Tax Laws(^a)</td>
</tr>
<tr>
<td>• <strong>IRS Business Systems Modernization</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Modernizing and Safeguarding Insurance and Benefit Programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Modernizing Federal Disability Programs(^a)</td>
</tr>
<tr>
<td>• Pension Benefit Guaranty Corporation Single-Employer Pension Insurance Program</td>
</tr>
<tr>
<td>• Medicare Program(^a)</td>
</tr>
<tr>
<td>• Medicaid Program(^a)</td>
</tr>
<tr>
<td>• National Flood Insurance Program(^a)</td>
</tr>
</tbody>
</table>

\(^a\) Legislation is likely to be necessary, as a supplement to actions by the executive branch, in order to effectively address this high-risk area.
2007 High-Risk Changes

Two areas removed from list:

- U.S. Postal Service Transformation Efforts and Long-Term Outlook
- HUD Single-Family Mortgage Insurance and Rental Housing Assistance Programs

Three new areas added:

- Transforming Federal Oversight of Food Safety
- Ensuring the Effective Protection of Technologies Critical to U.S. National Security Interests
- Financing the Nation’s Transportation System
21st Century Challenges Report

- Provides background, framework, and questions to assist in reexamining the base

- Covers entitlements & other mandatory spending, discretionary spending, and tax policies and programs

- Based on GAO’s work for the Congress

Source: GAO.
Twelve Reexamination Areas

**MISSION AREAS**

- Defense
- Education & Employment
- Financial Regulation & Housing
- Health Care
- Homeland Security
- International Affairs
- Natural Resources, Energy & Environment
- Retirement & Disability
- **Science & Technology**
- Transportation

**CROSSCUTTING AREAS**

- Improving Governance
- Reexamining the Tax System
Illustrative 21st Century Questions: Scientific and Technological Innovation Challenges

- How can the federal government develop a more coordinated and targeted approach to setting the U.S. research agenda that also ensures the best return on investment?

- Are different kinds of federal incentives needed to encourage greater private sector collaboration and nurture interdisciplinary research and development approaches that can enhance U.S. competitiveness and productivity?

- How can the United States better develop a world-class technical and scientific domestic workforce that is not as dependent on large inflows of international students and researchers?
Illustrative 21st Century Questions: Scientific and Technological Innovation Challenges

- Do current workforce retraining programs provide adequate incentives to help the United States develop lifelong learning strategies and proactive training programs that will meet the needs of a rapidly changing technological environment?

- How can the federal government effectively utilize advanced technologies to further enhance homeland security while also protecting the privacy of U.S. citizens?

- What cyber-security technologies can be applied to protect critical infrastructures from attack given current threat assessments and what implementation challenges, such as effective information sharing among key public and private stakeholders, will have to be addressed?
Three Suggested Areas of Congressional Oversight

*Illustrative Examples Related to IT*

- **Targets for near-term oversight**
  - Enhancing computer security and deterring identity theft

- **Policies and programs that are in need of fundamental reform and re-engineering**
  - Ensuring a strategic and integrated approach to prepare for, respond to, recover, and rebuild from catastrophic events

- **Governance issues that should be addressed to help ensure an economical, efficient, effective, ethical, and equitable federal government capable of responding to the various challenges and capitalizing on related opportunities in the 21st century**
  - Reviewing the need for various budget controls and legislative process revisions in light of current deficits and our long-range fiscal imbalance
Key Topics Needing Congressional Oversight Related to Information Technology

- Establishing accountability measures for implementing effective information security programs at federal agencies, including effective policies and practices for detecting, responding, and reporting information on security incidents.

- Determining the extent to which relevant federal and state organizations consider risk-based factors when making management and resource decisions related to catastrophic events.

- Reviewing agencies’ delivery of information technology to improve mission performance by determining whether major provisions of the Clinger-Cohen Act are being effectively addressed (e.g., capital planning and investment control processes, enterprise architecture, information technology leadership and human capital).
Key Leadership Attributes Needed for These Challenging and Changing Times

- **Courage**
- **Integrity**
- **Creativity**
- **Stewardship**
- **Partnership**
On the Web
Web site: www.gao.gov/cghome.htm

Contact
Paul Anderson, Managing Director, Public Affairs
AndersonP1@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.