
Perspectives on Selected U.S. Fiscal and High Risk Issues

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Comptroller General of the United States**

Outline

I. Context – Budget Environment

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

II. Selected High Risk Areas

- Reforming the Nation's Financial Regulatory System
- Modernizing the Federal Role in Housing
- PBGC Insurance Programs
- USPS Financial Viability

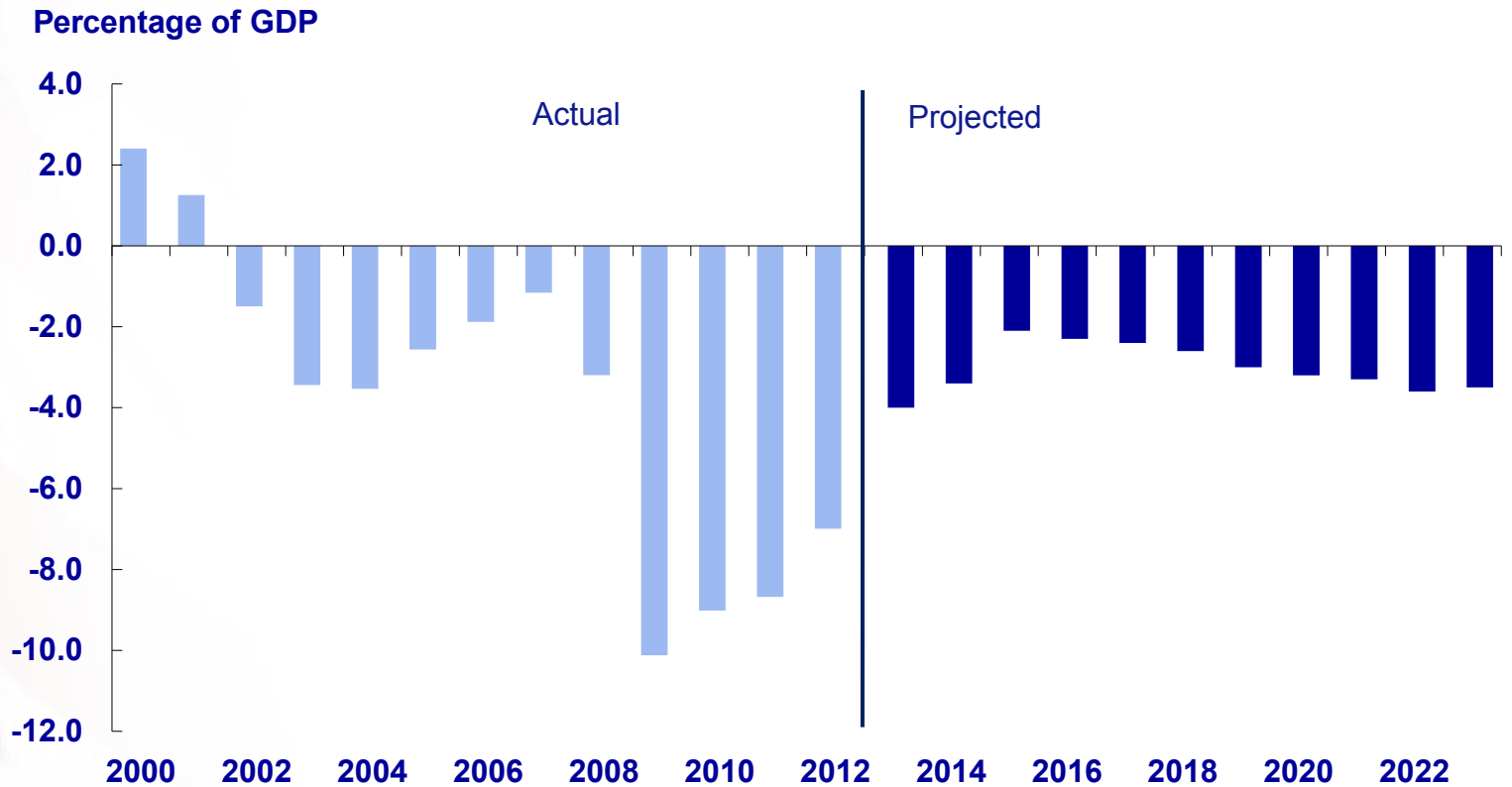
III. Other Areas of Interest

- US Government Financial Statements
- Improper Payments
- Internal Controls
- Fragmentation, Overlap & Duplication

Context: Overall Budget Environment

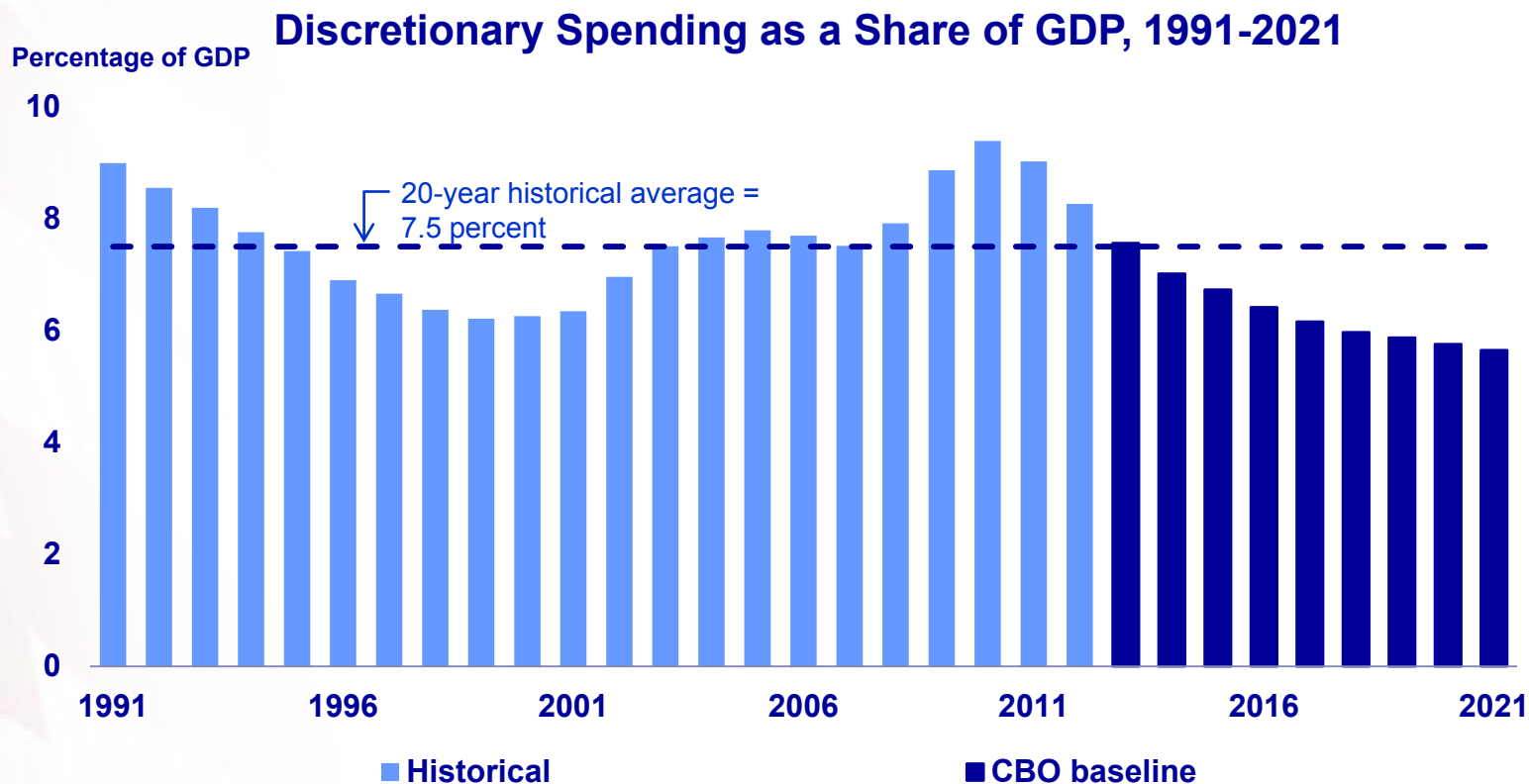
- Currently face competing demands:
 - Need to sustain economic growth
 - Need for significant actions to change the long-term fiscal path
- Budget Control Act and the American Taxpayer Relief Act help reduce the deficit in the near term
 - Focus of BCA is discretionary spending
- Long-term path is still unsustainable:
 - Imbalance between spending & revenues
 - Spending side driven by demographics and health care cost growth

CBO's May 2013 Baseline



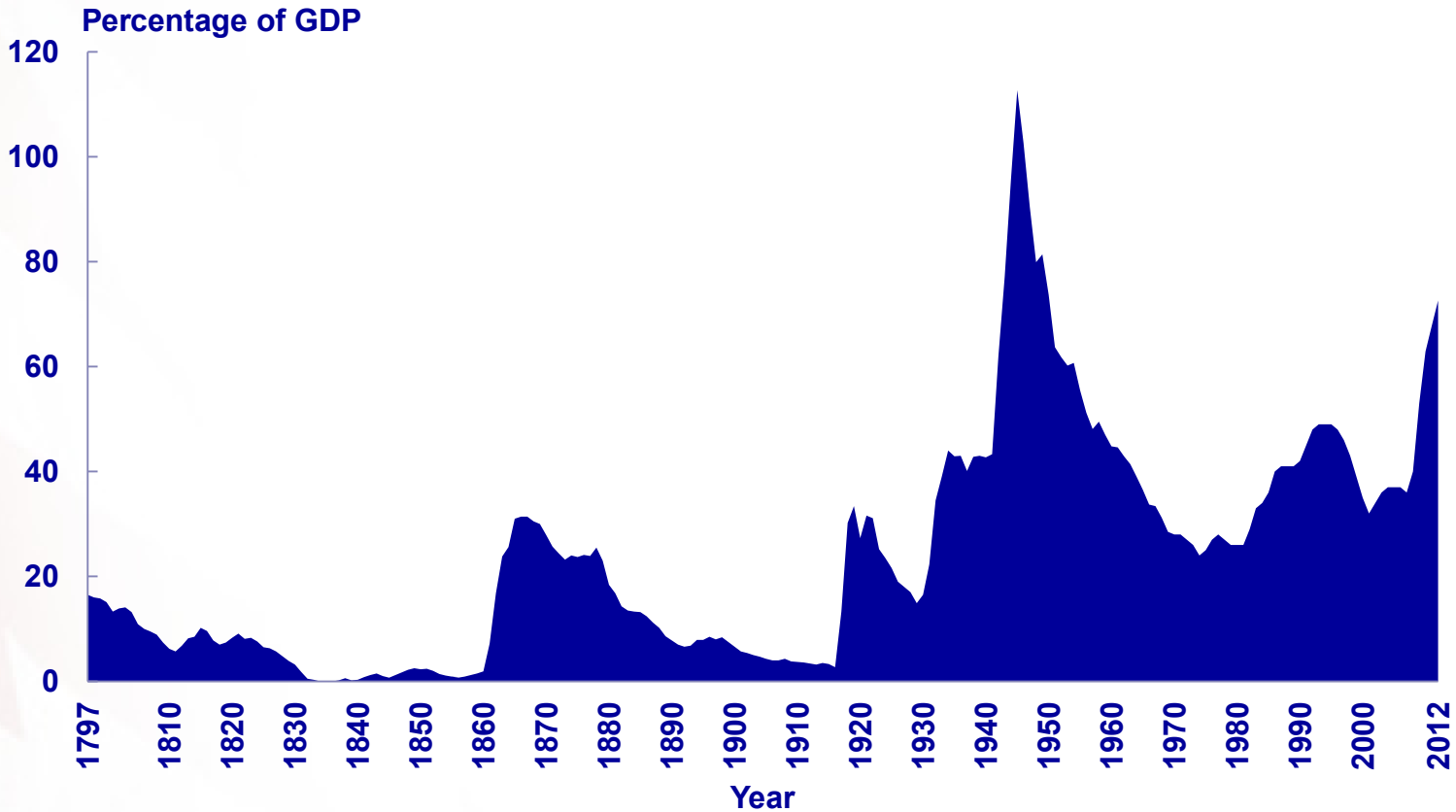
Source: GAO analysis of data from the Congressional Budget Office.

The Budget Control Act: Focus on Discretionary Spending

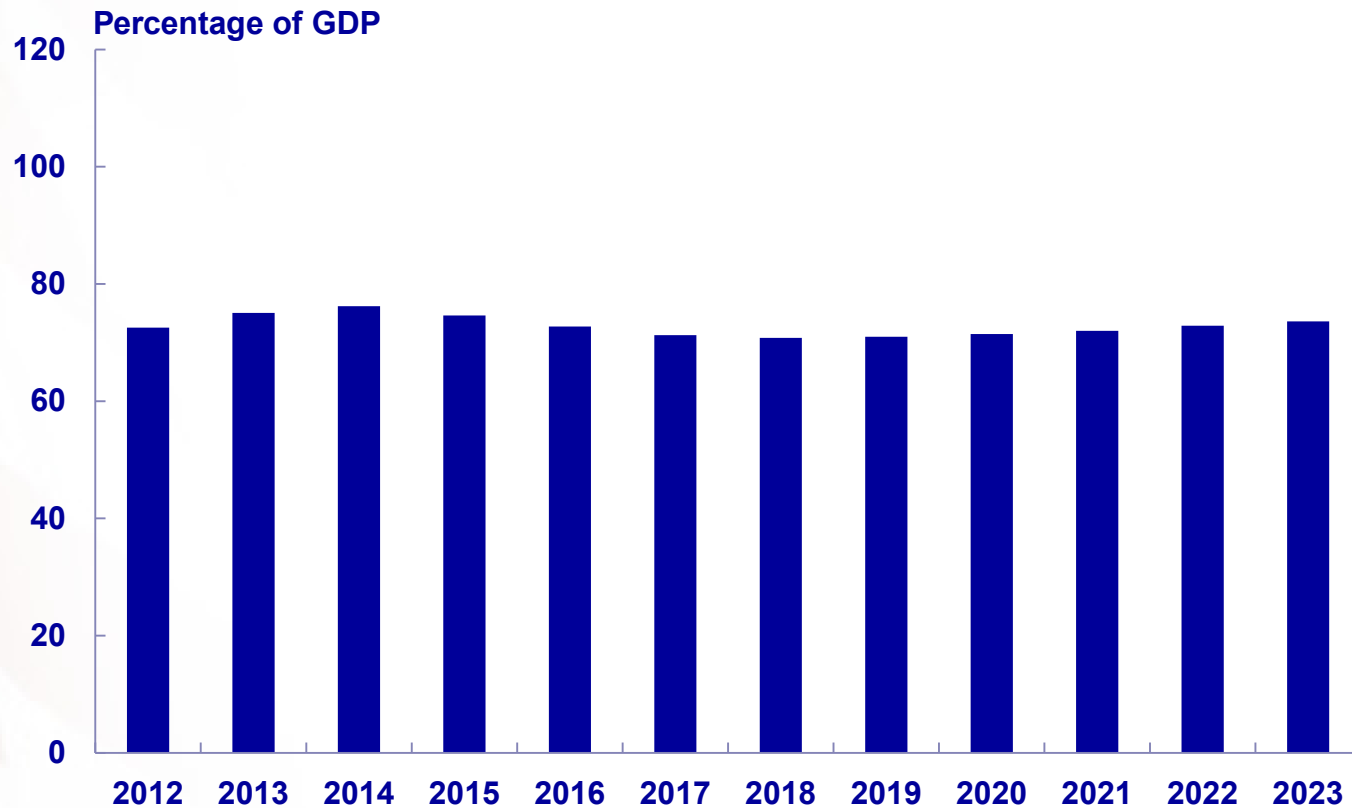


Source: GAO analysis of data from the Congressional Budget Office.

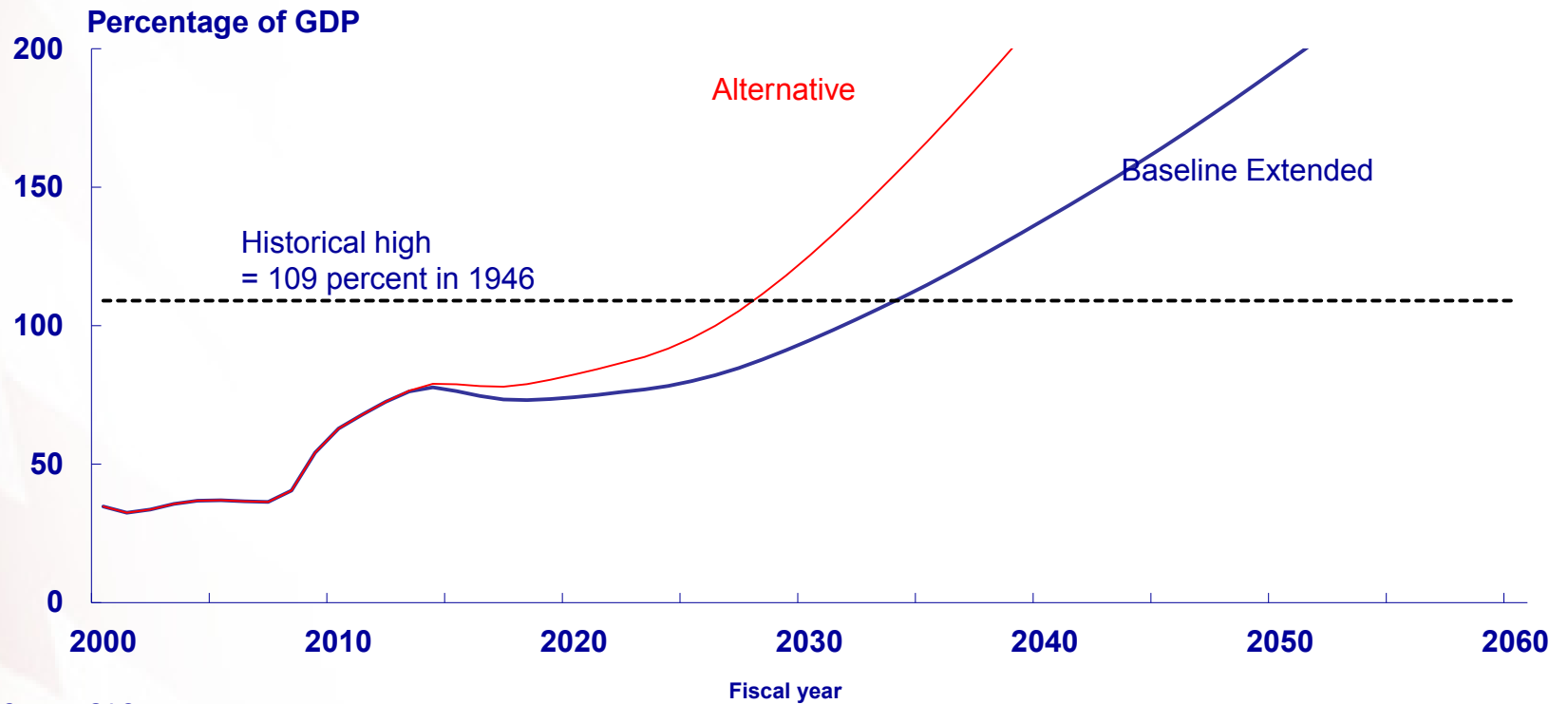
Federal Debt Held by the Public as a Share of GDP (1797-2012)



Debt Held by the Public as a Share of GDP Under CBO's May 2013 Baseline



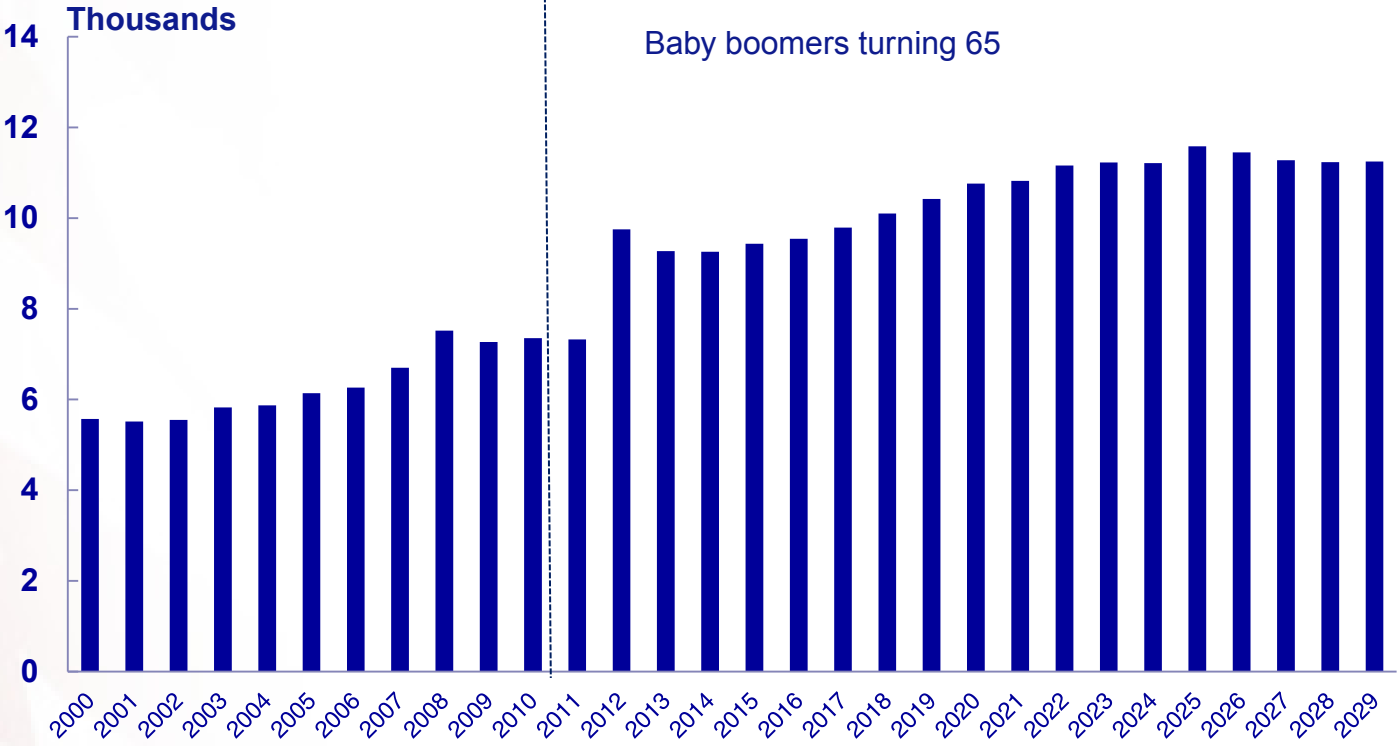
Debt Held by the Public Under Two Fiscal Policy Simulations



Source: GAO.

Note: Data are from GAO's Spring 2013 simulations based on the Trustees' assumptions for Social Security and the Trustees' and CMS Actuary's assumptions for Medicare.

Daily Average Number of People Turning 65 Each Year

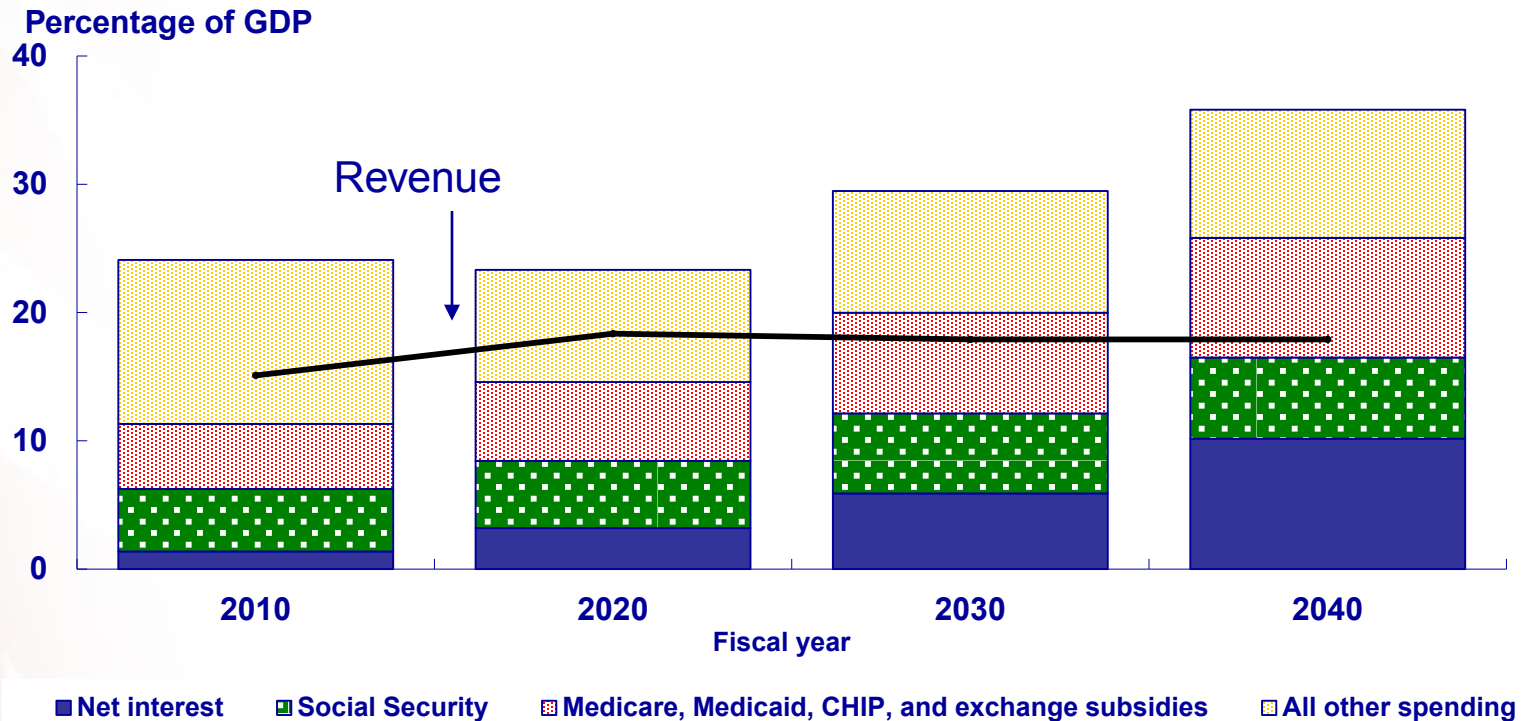


Source: GAO analysis of U.S. Census Bureau data.

Note: Based on years ending July 1.

Potential Fiscal Outcomes

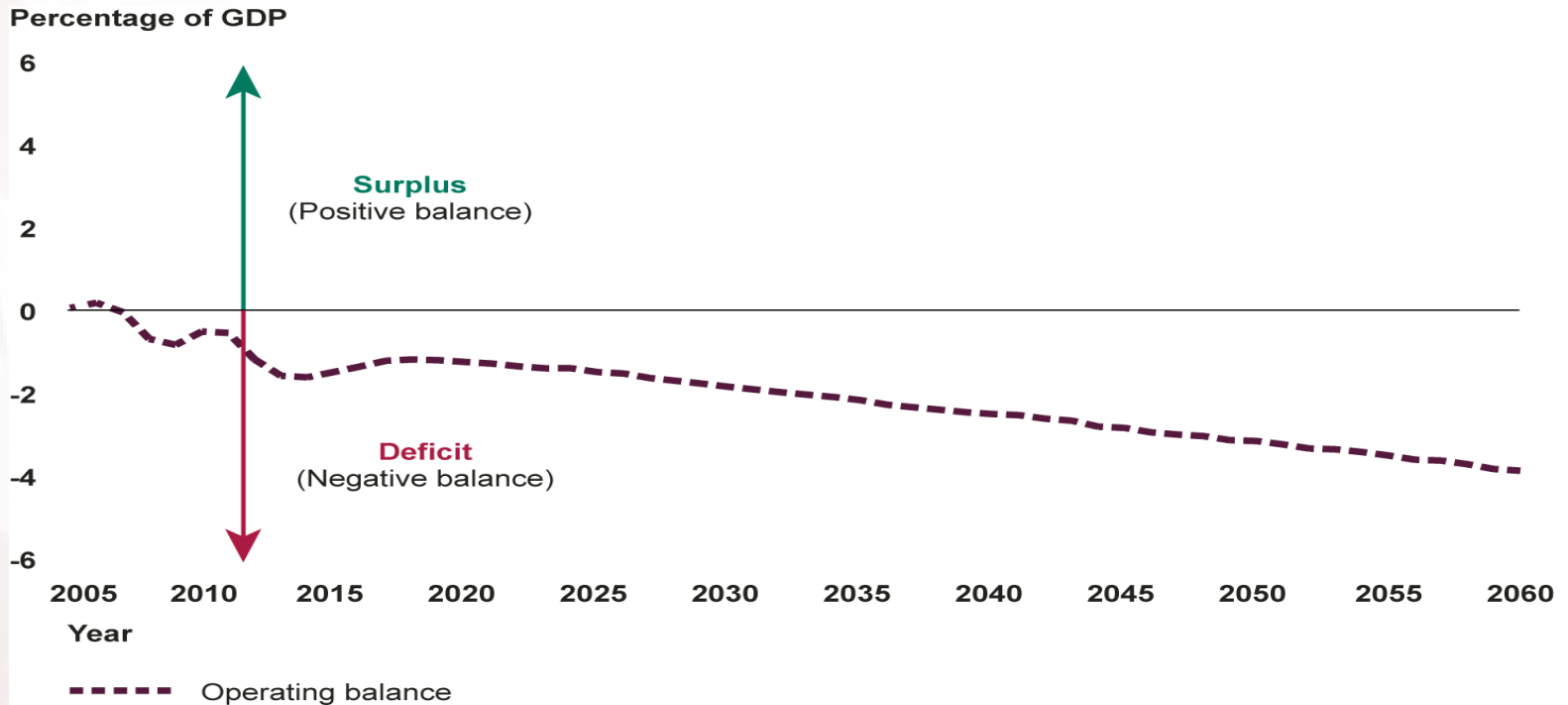
Revenues and Composition of Spending in the Alternative Simulation



Source: GAO.

Note: Data are from GAO's Spring 2013 simulations based on the Trustees' assumptions for Social Security and CMS Actuary's assumptions for Medicare.

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



Source: GAO simulations, updated April 2013.

Note: Historical data are from BEA's National Income and Product Accounts. Data in 2012 are GAO estimates aligned with published data where available. GAO simulations are from 2013 to 2060, using many CBO projections and assumptions, particularly for the next 10 years.

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

- 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 have led to higher borrowing costs; delays in 2011 - \$1.3 billion increase just that year.
- Treasury uses extraordinary actions to manage near the debt limit: where provided for under law, principal and interest is restored; GAO tests this as part of its routine annual audit of federal debt.
- GAO has suggested linking decisions about the debt limit with spending and revenue decisions that create debt—at the time those decisions are made.



GAO's High Risk List

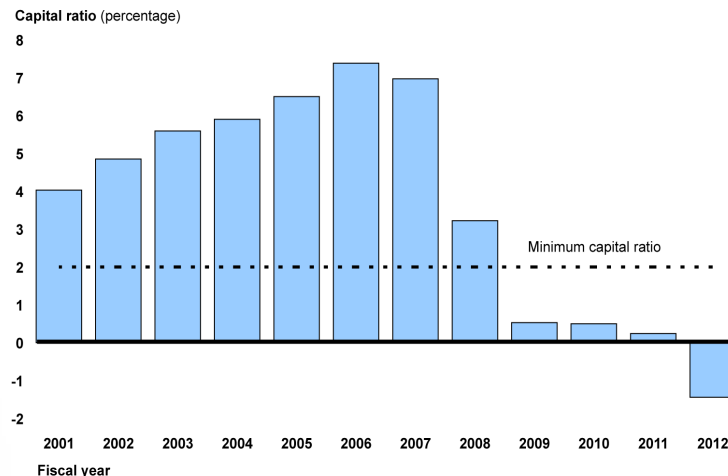
- Historical Perspective
- Selected Areas
 - Reforming the U.S. Financial Regulatory System
 - Modernizing the Federal Role in Housing Finance
 - Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability
 - Pension Benefit Guaranty Corporation Insurance Programs

Reforming the U.S. Financial Regulatory System: GAO's Role

- GAO has actively monitored the reforms being implemented to improve the safety and soundness of the U.S. financial system, including reporting on
 - the costs and benefits of reforms being implemented by financial regulators,
 - issues surrounding individual reforms, such the challenges facing the newly formed Financial Stability Oversight Council, and
 - the status of the entire range of reforms mandated by the Dodd-Frank Act, including the status of the more than 230 rules required by the act and the challenges regulators face in implementing the reforms.

Modernizing the Federal Role in Housing Finance

- Fannie Mae, Freddie Mac, and the Federal Housing Administration (FHA) face interconnected and unresolved challenges concerning their future roles.
- FHA's primary insurance fund is not meeting its 2% capital ratio requirement and may require funding from Treasury.



Source: GAO analysis of FHA data.

A faint, stylized graphic of the American flag is visible in the background on the left side of the slide, showing stars and stripes.

Modernizing the Federal Role in Housing Finance

- FHA has enhanced its actuarial models in response to recommendations by GAO and others.
- A minimum capital ratio is not necessarily the most appropriate benchmark for actuarial soundness for all circumstances.
- GAO previously recommended that Congress or FHA specify the economic conditions that FHA's insurance fund would be expected to withstand without drawing on Treasury.
- Implementing this recommendation would help to address FHA's long-term financial viability and clarify FHA's future role.

Restructuring the U.S. Postal Service (USPS) to Achieve Sustainable Financial Viability

- USPS's financial situation is deteriorating
 - Insufficient revenues to cover expenses and financial obligations.
 - Financial liabilities totaling \$96 billion at the end of fiscal year 2012
 - Failure to make \$11 billion in mandated payments to prefund retiree health benefits
 - Has reached its \$15 billion borrowing limit
 - Declining mail volume—particularly first-class mail
 - Faces a critical shortage of liquidity
- Congress needs to approve a comprehensive package of actions to improve the USPS's financial viability

Restructuring the U.S. Postal Service (USPS) to Achieve Sustainable Financial Viability

- GAO has analyzed consequences and made recommendations on key USPS benefit liabilities
 - Allocation between USPS and rest of federal government of responsibility for pension benefits
 - Wisdom of refunding pension surplus
 - Reasonability of prefunding retiree health benefits
 - Support switching to actuarial approach
 - Support prefunding, with 100% funding target
 - Support appropriate assumption changes for both pension and retiree health care benefits

Pension Benefit Guaranty Corporation Insurance Programs

GAO designated PBGC's programs high risk because:

- Governance and funding structure pose long-term challenges.
- Net accumulated financial deficit = \$34 billion (end of FY 2012).
- Financial risk for potential terminations = \$295 billion (estimate).

Recent GAO reports have addressed risk-based premium options, and the threat of insolvency of the multiemployer trust fund.

July 2012 legislation¹ included provisions to increase premium rates, and improve PBGC governance.

PBGC steps to address areas of weakness identified by GAO include:

- adopting a new investment policy statement,
- implementing new practices to strengthen contract management, and
- modeling more risk-based premium options.

¹The Moving Ahead for Progress in the 21st Century Act (Pub. L. No. 112-141), referred to as "MAP-21."

Pension Benefit Guaranty Corporation Insurance Programs

Financial future continues to be uncertain due to:

- ongoing threat of losses from the termination of underfunded plans
- steady decline in the sources of revenue to finance future claims.

To improve the stability of PBGC's insurance programs, further congressional action that might be considered includes:

- Expand and diversify PBGC's Board of Directors;
- Redesign PBGC's premium structure (one option is risk-based premiums); and
- Develop a strategy for PBGC's long-term financial solvency.



Other Areas

- US Government Financial Statements
- Improper Payments
- Internal Controls
- Overlap/Duplication/Fragmentation

Improving Financial Management

CFS FY 2012: Progress, Key Issues, and Moving Forward

- Vast majority of the 24 Chief Financial Officers Act agencies received unqualified opinions on their financial statements
- Accrual-Based Financial Statements: 3 major impediments, with efforts under way to address issues
 - 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
- Continued progress requires a strong and sustained commitment by federal entities and leadership by Treasury and OMB

Improper Payments Estimates, Actions, Future Initiatives

- OMB reported a governmentwide FY 2012 estimate of \$107.7 billion, down \$8 billion from previous year, but estimate is incomplete.
 - Attributable to 75 programs across 18 agencies
- January 2013 law supplements 2002 and 2010 laws addressing governmentwide improper payments.
- OMB established a crosscutting goal to reduce the governmentwide improper payment rate.
- Enhanced agency and program initiatives are needed to better capture magnitude of problem, identify root causes, and implement effective preventive and detective controls.
- GAO is reviewing preventive strategies, conducting forensic audits, and targeting audit selection based on program risk assessment.

Internal Controls: Updating GAO's Green Book

- GAO is required to issue standards for internal control in the government
- Standards provide the overall framework for:
 - Establishing and maintaining internal control
 - Identifying and addressing major challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement
- Green Book was last issued in November 1999
 - More global, complex, and technological landscape creates new risks and challenges
- Existing Green Book uses Committee of Sponsoring Organizations (COSO) internal control concepts, which has been updated.
- Advisory group appointed to help with update.

Mandate for GAO Duplication Reviews

- Enacted in 2010
 - Identify fragmentation, overlap, and duplication
 - Identify opportunities for cost saving and revenue enhancement
- Reports issued in 2011, 2012, and 2013: identified 162 areas and about 380 suggested actions for executive branch agencies and Congress
 - Collectively, these reports show that the government could save tens of billions of dollars by addressing the issues we identified.
- Public Data base on web site: *GAO's Action Tracker*

GAO on the Web

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

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