FAILURES OF FISCAL MANAGEMENT: A VIEW FROM THE COMPTROLLER GENERAL

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTEENTH CONGRESS

FIRST SESSION

HEARING HELD IN WASHINGTON, D.C., MAY 3, 2017

Serial No. 115–4

Printed for the use of the Committee on the Budget

Available on the Internet:
www.govinfo.gov

U.S. GOVERNMENT PUBLISHING OFFICE

30–527 WASHINGTON : 2017

COMMITTEE ON THE BUDGET

DIANE BLACK, Tennessee, *Chairman*

TODD ROKITA, Indiana, *Vice Chairman*
MARIO DIAZ-BALART, Florida
TOM COLE, Oklahoma
TOM McCLINTOCK, California
ROB WOODALL, Georgia
MARK SANFORD, South Carolina
STEVE WOMACK, Arkansas
DAVE BRAT, Virginia
GLENN GROTHMAN, Wisconsin
GARY J. PALMER, Alabama
BRUCE WESTERMAN, Arkansas
JAMES B. RENACCI, Ohio
BILL JOHNSON, Ohio
JASON SMITH, Missouri
JASON LEWIS, Minnesota
JACK BERGMAN, Michigan
JOHN J. FASO, New York
LLOYD SMUCKER, Pennsylvania
MATT GAETZ, Florida
JODEY C. ARRINGTON, Texas
A. DREW FERGUSON IV, Georgia

JOHN A. YARMUTH, Kentucky,
Ranking Minority Member
BARBARA LEE, California
MICHELLE LUJAN GRISHAM, New Mexico
SETH MOULTON, Massachusetts
HAKEEM S. JEFFRIES, New York
BRIAN HIGGINS, New York
SUZAN K. DELBENE, Washington
DEBBIE WASSERMAN SCHULTZ, Florida
BRENDAN F. BOYLE, Pennsylvania
RO KHANNA, California
PRAMILA JAYAPAL, Washington,
Vice Ranking Minority Member
SALUD O. CARBAJAL, California
SHEILA JACKSON LEE, Texas
JANICE D. SCHAKOWSKY, Illinois

PROFESSIONAL STAFF

RICHARD E. MAY, *Staff Director*
ELLEN BALIS, *Minority Staff Director*

CONTENTS

FAILURES OF FISCAL MANAGEMENT: A VIEW FROM THE COMPTROLLER GENERAL

WEDNESDAY, MAY 3, 2017

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, D.C.

The Committee met, pursuant to call, at 10:00 a.m., in 1334 Longworth House Office Building, Hon. Diane Black, [chairman of the committee] presiding.

Present: Representatives Black, McClintock, Grothman, Lewis, Bergman, Faso, Smucker, Ferguson, Arrington, Woodall, Johnson, Westerman, Smith, Sanford, Renacci, Palmer, Brat, DelBene, Jayapal, Carbajal, Schakowsky, Higgins, Jackson Lee, and Lujan Grisham.

Chairman BLACK. The hearing will come to order. I want to welcome the Committee on the Budget to the hearing of failures of fiscal management. Today, we will hear testimony from the Comptroller General of the United States, the Honorable Gene Dodaro. I want to welcome everybody back today.

As I am sure everyone is aware, we will be introducing the fiscal year 2018 budget later this spring, and the challenges we face are enormous. Deficits are set to start rising again. Many government programs are in dire need of reform. And our economy is being held back by the policies of the previous administration.

And while these problems are daunting, we are elected by our constituents to make the hard decisions and confront the challenges head on. And that is exactly what we plan to do in this year's House Budget Committee. That is also why we are having this hearing today on the failures of fiscal management, and it is so important and so timely to what we are called to do. We need to do better to understand how the government, Federal Government, is failing to effectively manage taxpayer dollars and how that is affecting our long-term fiscal solvency.

I am happy to welcome our witness today, the Honorable Gene L. Dodaro. He is the Comptroller General of the United States and the director of the Government Accountability Office.

The GAO possesses a wealth of information about the government's fiscal condition and the operation of its programs. Three areas we plan to examine today are the disturbing rise of improper payments by the government agencies; the programs GAO considers as high risk for waste, fraud, and abuse and mismanagement; and the government's long-term fiscal outlook, which, as all of you are aware, is not good.

Mr. Dodaro, thank you for taking time out of your busy schedule to be here with us today. The Committee is looking forward to your testimony.

But before we build solutions, we need to understand the core of the problem, and Mr. Dodaro's testimony will be vital to that. First, are the improper payments made by the Federal Government. Improper payments are defined as any government payment that was made in an incorrect amount to the wrong individual or entity or for the wrong person. For example, an improper payment would be an unemployment check going to a person who has already returned to work. According to the GAO, improper payments surged to $144 billion in just 2016. That is a 35 percent increase from the $107 billion in 2012.

This is a problem that is government wide, including 112 programs across 22 agencies. Even worse, those numbers probably underestimate the extent of the problem since 18 government programs deemed susceptible to improper payments did not even submit error estimates last year. $144 billion is the minimum of the problem, not the maximum.

Second, we want to examine the government's high-risk programs. Every 2 years, GAO publishes an updated list of programs that it covers especially vulnerable to waste, fraud, abuse, and mismanagement. This year, GAO identified 34 programs that matched this description. The programs that demand further review are Medicare, Medicaid, Federal disability programs, Pension Benefit Guaranty Corporation, insurance programs, and the National Flood Insurance Program and veterans' health care.

Third, we want to focus on our long-term fiscal outlook. In January, GAO released a report examining government spending, revenues, deficits, and debt. The conclusion was all too familiar. Our fiscal path is unsustainable, and if we fail to get control of debt and deficits, we are putting our country at risk of a fiscal and economic crisis. GAO's simulation shows our debt-to-GDP ratio would pass its all-time historical high of 106 percent in the next 15–20 years and that Social Security disability insurance, the Medicare Hospital Insurance Trust Fund, and the Social Security Old-Age and Survivors Trust Funds will be depleted, and, therefore, forced to pay reduced benefits.

A failure to solve these problems means seniors, who have worked their whole lives, and those truly in need of help, can no longer count on these vital safety net programs. Improper payments, high-risk programs, and our growing debt all pose an enormous challenge, and we need to take real, tangible steps to reduce the amount of money that is being wasted to help keep our fiscal house in order.

Mr. Dodaro, once again, thank you for being here. I know you and your staff have worked very hard to prepare for this hearing today. And thank you for taking your job as a government watchdog so seriously. I look forward to hearing your testimony and your recommendations on how we can all be better stewards of the taxpayer dollars. And thank you for that, and I now yield to the ranking member, Mr.Yarmuth.

[The prepared statement of Chairman Diane Black follows:]

BLACK OPENING STATEMENT:
GAO Hearing on the Failures of Fiscal Management

Washington, D.C., May 3, 2017

***As Prepared for delivery—House Budget Committee Chairman Diane Black*:**

Good morning, and thank you everyone for being here.

As I'm sure everyone is aware, we will be introducing the Fiscal Year 2018 budget later this spring and the challenges we face are enormous.

Deficits are set to start rising again, many government programs are in dire need of reform, and our economy is being held back by the policies of the previous administration. While these problems are daunting, we were elected by our constituents to make the hard decisions and confront these challenges head on. And that's exactly what we plan to do at the House Budget Committee.

That is also why today's hearing – Failures of Fiscal Management – is so important and so timely. We need to better understand how the federal government is failing to effectively manage taxpayer dollars and how that's affecting our long-term fiscal solvency.

I am happy to welcome our witness today, The Honorable Gene L. Dodaro. He's the Comptroller General of the United States and the director of the Government Accountability Office. The GAO possesses a wealth of information about the government's fiscal condition and the operation of its programs.

Three areas we plan to examine today are: the disturbing rise in improper payments by government agencies; the programs GAO considers as "high risk" for waste, fraud, abuse, and mismanagement; and the government's long-term fiscal outlook, which – as all of you are aware – is not good.

Mr. Dodaro, thank you for taking time out of your busy schedule to be here today. The committee is looking forward to hearing your testimony.

But before we build solutions, we need to understand the core of the problem, and Mr. Dodaro's testimony will be vital.

First are the improper payments made by the federal government.

Improper payments are defined as any government payment that was made in an incorrect amount, to the wrong individual or entity, or for the wrong reason. For example, an improper payment would be an unemployment check going to a person who has already returned to work.

According to GAO, improper payments surged to $144 billion in 2016 – that's a 35 percent increase from the $107 billion in 2012. This is a problem that's government-wide, including 112 programs across 22 agencies.

Even worse, those numbers probably underestimate the extent of the problem since 18 government programs deemed susceptible to improper payments did not even submit error estimates last year. $144 billion is the minimum of the problem, not the max.

Second, we want to examine the government's 'High-Risk' programs. Every two years, GAO publishes an updated list of programs that it considers especially vulnerable to waste, fraud, abuse, and mismanagement.

This year, GAO identified 34 programs that matched this description. The programs that demand further review are Medicare, Medicaid, federal disability programs, Pension Benefit Guaranty Corporation insurance programs, the National Flood Insurance Program, and veterans' health care.

Third, we want to focus on our long-term fiscal outlook. In January, GAO released a report examining government spending, revenues, deficits and debt. The conclusions are all-too-familiar: our fiscal path is unsustainable and if we fail to get control of debt and deficits, we're putting our country at risk of a fiscal and economic crisis.

GAO's simulation shows our debt-to-GDP ratio would pass its all-time historical high of 106 percent in the next 15-25 years and that Social Security Disability Insurance, the Medicare Hospital Insurance trust fund, and the Social Security Old-Age and Survivors trust funds will be depleted and therefore forced to pay out reduced benefits. A failure to solve these problems means seniors who have worked their whole lives and those truly in need of help can no longer count on these vital safety nets.

Improper payments, high-risk programs, and our growing debt all pose enormous challenges and we need to take real, tangible steps to reduce the amount of money that's being wasted to help get our fiscal house in order.

Mr. Dodaro, thank you again for being here. I know you and your staff have worked very hard to prepare for this hearing and thank you for taking your job as a government watchdog seriously. I look forward to hearing your testimony and your recommendations of how we can all be better stewards of taxpayer dollars.

Thank you, and with that, I yield to the Ranking Member, Mr. Yarmuth.

Mr. YARMUTH. Thank you, Madam Chairman, and thank you, Mr. Dodaro, for being here today to give us your views on the country's fiscal challenges and on the important work the GAO performs to ensure that the Federal Government is held accountable and continues to improve its performance. We all agree that we should look for ways to make government agencies and programs more efficient. And I look forward to hearing your views on these issues. This hearing is titled Failures of Fiscal Management.

I certainly agree with the chairman that we need to be doing all we can to root out improper payments and ineffective programs. In fact, I would argue that this should be a greater priority for Democrats because of the important value we believe government plays in the lives of the American people. This is certainly a reasonable hearing to have. It is a reasonable topic. But we are in a situation that is anything but reasonable.

Yesterday, President Trump called for a shutdown of the Federal Government. The President of the United States stated that, "Our country needs a good shutdown." No, our country needs a responsible President, one who understands you do not begin the 2018 budget negotiations by threatening the economic security of our Nation. This administration is already off to a rocky start. Their initial budget failed to include any information on revenues and well more than half of Federal spending. The only detail provided called for severe cuts to discretionary investments that the American people need and deserve. That was followed by a plan to enact deficit-busting tax cuts for the rich that the American people overwhelmingly oppose. And then there is a plan to repeal the Affordable Care Act that has failed three times and counting.

After a 4-month delay requested by the Trump administration, which put important new programs on hold, postponed contracts, and impeded the work of our Federal agencies, we are just now passing a fiscal year 2017 omnibus appropriations bill. That is for the fiscal year that started seven months ago. We can now move to the fiscal year 2018 budget, which brings me back to President Trump and his comments yesterday. I come back to that because it is so important to the credibility of every member of this Committee, as well as our colleagues on the Appropriations Committee. Calling for a shutdown of the Federal Government is irresponsible and reckless. The last shutdown took billions of dollars out of the economy and was entirely avoidable.

As members of the House Budget Committee, it is our job to craft a congressional budget, a budget for our Nation. It is our responsibility to treat this process seriously in a way that respects the gravity of the decisions made by this Committee, regardless of whether we agree or disagree on priorities or policy. We have a responsibility to protect the seriousness of the work we are charged with and this must include condemning reckless calls for shutting down the Federal Government. On this, we need to speak as a unified voice.

So, I ask my colleagues on the other side of the aisle, when are you going to say something? When are you going to push back against these statements about President Trump that threaten our economic and national security, that erodes even further the American people's confidence in our government? Please find that courage. We cannot let these statements go unchecked any longer. As members of the Budget Committee, we must be a stabilizing force in these debates. With that, I once again welcome you, Mr. Dodaro, I look forward to your testimony, and I yield back.

[The prepared statement of John Yarmuth follows:]

YARMUTH OPENING STATEMENT:

GAO Hearing on the Failures of Fiscal Management

Washington, D.C., May 3, 2017

As Prepared for delivery—House Budget Committee Ranking Member John Yarmuth

Thank you, Madam Chairman. And thank you, Mr. Dodaro, for being here today to give us your views on the country's fiscal challenges and on the important work that GAO performs to ensure that the federal government is held accountable and continues to improve its performance. We all agree that we should look for ways to make government agencies and programs more efficient and I look forward to hearing your views on these issues.

This hearing is titled, "Failures of Fiscal Management." I certainly agree with the Chairman that we need to be doing all we can to root out improper payments and ineffective programs. In fact, I would argue that this should be a greater priority for Democrats because of the important role we believe government plays in the lives of the American people.

This is certainly a reasonable hearing to have, it's a reasonable topic – but we are in a situation that is anything but reasonable. Yesterday, President Trump called for a shutdown of the federal government. The President of the United States stated that "our country needs a good shutdown." No, our country needs a responsible President – one who understands you don't begin the 2018 budget negotiations by threatening the economic security of our nation.

This Administration is already off to a rocky start . . . their initial budget failed to include any information on revenues and well more than half of federal spending. The only detail provided called for severe cuts to discretionary investments that the American people need and deserve. That was followed by a plan to enact deficit-busting tax cuts for the rich that the American people overwhelmingly oppose. And then there's a plan to repeal the Affordable Care Act that has failed three times and counting.

After a four month delay requested by the Trump Administration, which put important new programs on hold, postponed contracts, and impeded the work of our federal agencies, we are just now passing an FY 2017 omnibus appropriations bill . . . that's for the fiscal year that started seven months ago.

We can now move to the FY18 budget – which brings me back to President Trump and his comments yesterday. I come back to this because it's so important to the credibility of every member of this Committee, as well as our colleagues on the Appropriations Committee. Calling for a shut-down of the federal government is irresponsible and reckless. The last shutdown took billions of dollars out of the economy – and was entirely avoidable.

As Members of the House Budget Committee, it is our job to craft a Congressional budget for our nation. It is our responsibility to treat this process seriously, in a way that respects the gravity of the decisions made by this Committee, regardless of whether we agree or disagree on priorities or policy. We have a responsibility to protect the seriousness of the work we are charged with – and this must include condemning reckless calls for shutting down the federal government. On this, we need to speak as a unified voice. So I ask my colleagues on the other side of the aisle – when are you going to say something? When are you going to push back against these statements by President Trump that threaten our economic and national security . . . that erode, even further, the American people's confidence in our government?

Please find that courage. We can't let these statements go unchecked any longer. As Members of the Budget Committee, we must be a stabilizing force in these debates.

Chairman BLACK. Thank you, Mr. Yarmuth. And in the interest of time, if any other members have opening statements, I ask that you submit them for the record.

Chairman BLACK. I would now like to recognize the Comptroller General of the United States, the Honorable Gene Dodaro. Mr. Dodaro, thank you, again, for your time today. The Committee has received your written statement and it will be made part of the formal hearing. You have 5 minutes to deliver your oral remarks and you may begin when you are ready.

STATEMENT OF GENE L. DODARO, COMPTROLLER GENERAL OF THE UNITED STATES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. DODARO. Thank you very much, Madam Chairman, Ranking Member Yarmuth, members of the Committee. I am very pleased to be here today to discuss GAO's work related to the fiscal health of the Federal Government.

In January, we issued a report outlining our views on the current fiscal condition of the Federal Government and its outlook for the future. In that report, we recognized that the Congress and the country face a number of serious economic, security, and social issues and need to make short-term investment decisions and difficult policy options to be considered. But we also underscore the fact that the Congress and the administration face a situation where the government is heavily leveraged in debt by historic norms and, in our view, on an unsustainable fiscal path.

The deficit for 2016 rose to $580 billion. It was the first time in the last 6 years the annual deficit rose. That took the cumulative debt held by the public as a percent of gross domestic product from 74 percent to 77 percent. Now, that compares to an average since 1946 of 44 percent. So, we are, you know, much more indebted than by the historical averages as a percent of gross domestic product. If you look into the future, our projections, the projections of Treasury and OMB and CBO all show that the Federal Government, absent a fiscal change in policies, would exceed the historic average of debt-to-GDP ratio of over 106 percent that accrued during World War II. And it would keep rising in the out years to 200 percent and beyond.

So, something has to change. The key drivers here are health care costs, the rapid growth of Medicare and Medicaid programs. Health care costs are still growing faster than the economy, and demographic changes are adding additional people to the rolls as our population ages and as people's life spans extend. Also, interest on the debt is another long-term driver. In 2016, we paid over $250 billion in just the interest to service the debt. The interest rate costs are going to rise, and if we continue to add to the debt combined with interest rates accruing, that is going to be a key driver in driving this deficit up much further. You know, compound interest is great when you are saving, but it is not so good when you are borrowing. And that is the position, unfortunately, that we are in.

Now, in order to resolve these problems, I believe the Congress needs to pass a plan to deal with these long-term situations. The sooner we take action, the better, so people can adjust because you are going to have to grapple with the entitlement programs, discretionary spending, and the revenue side of the government. So, it would introduce a number of changes, and the sooner action is taken, the easier it will be to introduce these changes and give people time to adjust. Now, while solving this problem requires these difficult fiscal policy decisions, there are other things that could be done to help make the government more efficient and effective.

You mentioned, Madam Chairman, in your opening statements, improper payments. Since the Congress required improper payments to be estimated by Federal departments and agencies and reported to the Congress in 2003, the estimated number of improper payments reported has exceeded $1.2 trillion. In the last few years, as you mentioned, the last 3 years, it has gone from $125 billion, to $137, to now $144 billion. And so, this situation requires attention and focus. We have many recommendations for how it could be handled. The figure is an underestimated figure because, as you mentioned, 18 major federal programs did not report improper payment estimates in 2016, including the Temporary Assistance for Needy Families Program and the Supplemental Nutrition Assistance Program, both large programs. So, the number is much larger, and a number of things could be done.

We also have recommendations, about almost 400 recommendations, where tens of billions of dollars could be saved by eliminating overlap duplication and fragmentation, taking other cost-saving options to deal with these issues, so I look forward to working with this Committee.

I appreciate this hearing today so that we could discuss GAO's work. I believe it can help the Congress deal and grapple with these very important issues to the future of our country. Thank you very much for the opportunity. I look forward to answering questions.

[The prepared statement of Gene L. Dodaro follows:]

United States Government Accountability Office

Testimony

Before the Committee on the Budget, U.S. House of Representatives

For Release on Delivery
Expected at 10:00 a.m. EDT
Wednesday, May 3, 2017

THE NATION'S FISCAL HEALTH

Action is Needed to Address the Federal Government's Fiscal Future

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

GAO-17-579T

May 2017

GAO Highlights

Highlights of GAO-17-579T

A Testimony before the Committee on the Budget, U.S. House of Representatives

The Nation's Fiscal Health

Action is Needed to Address the Federal Government's Fiscal Future

The Congress and administration face serious economic, security, and social challenges that will require difficult policy choices in the short term about the level of federal spending and investments as well as ways to obtain needed resources. At the same time, the federal government is highly leveraged in debt by historical norms.

In addition to near term financing decisions, a broader fiscal plan is needed to put the government on a more sustainable long-term path. In January 2017, GAO reported on the need for such a plan by outlining the fiscal condition of the U.S. government and its future path based on current fiscal policies. This statement summarizes GAO's work on this issue and also discusses how Congress and executive branch agencies can help in the near term by taking actions to address improper payments; duplication, overlap, or fragmentation; high-risk areas; and the tax gap.

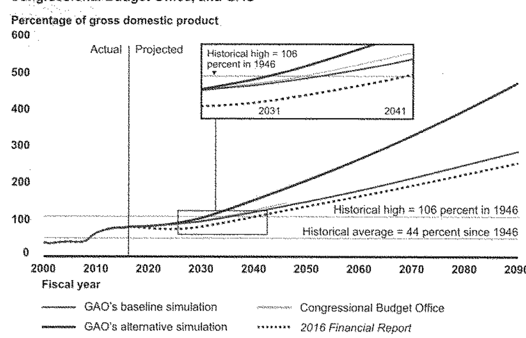
The Federal Government Is on an Unsustainable Fiscal Path

The *2016 Financial Report*, CBO, and GAO all show that the key drivers of growing federal spending in the long term are federal spending on health care programs and net interest.

According to the *2016 Financial Report*, the federal deficit in fiscal year 2016 increased to $587 billion—up from $439 billion in fiscal year 2015. Federal receipts grew a modest $18.0 billion due primarily to extensions of tax preferences, but that was outweighed by a $166.5 billion increase in spending, driven by Social Security, Medicare, Medicaid, and interest on debt held by the public (net interest). Debt held by the public rose as a share of gross domestic product (GDP), from 74 percent at the end of fiscal year 2015 to 77 percent at the end of fiscal year 2016. This compares to an average of 44 percent of GDP since 1946.

The *2016 Financial Report*, the Congressional Budget Office (CBO), and GAO projections all show that, absent policy changes, the federal government's fiscal path is unsustainable and that the debt-to-GDP ratio would surpass its historical high of 106 percent within 15 to 25 years (see figure below).

Debt Held by the Public Under Projections from the *2016 Financial Report*, the Congressional Budget Office, and GAO



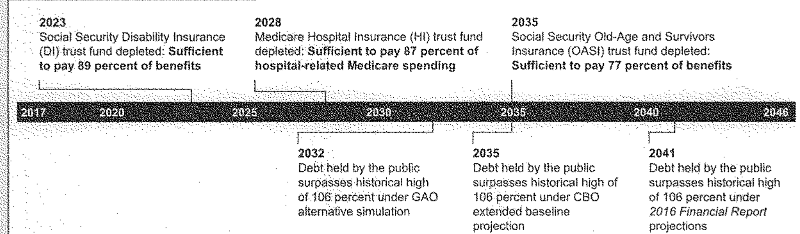
Sources: GAO, Congressional Budget Office, and *2016 Financial Report*. | GAO-17-579T

View GAO-17-579T.
For more information, contact Susan J. Irving, (202) 512-6806, irvings@gao.gov, or J. Christopher Mihm at (202) 512-6806, mihmj@gao.gov.

The Federal Government Is on an Unsustainable Fiscal Path
(continued)

Of further concern is the fact that none of the long-term projections include certain fiscal risks that create fiscal exposures that could affect the government's financial condition in the future. Some examples of such fiscal risks are the Pension Benefit Guaranty Corporation's funding and governance structure, U.S. Postal Service's retiree health and pension funds, government insurance programs such as the National Flood Insurance Program, and military, economic, financial, or weather-related crises.

Importance of Early Action: The *2016 Financial Report*, CBO, and GAO all make the point that the longer action is delayed, the greater and more drastic the changes will have to be. As shown in the timeline, Medicare's Hospital Insurance trust fund, and Social Security's Disability Insurance trust fund and Old-Age and Survivors Insurance trust fund face financial challenges that add to the importance of beginning action. It is important to develop and begin to implement a long-term fiscal plan for returning to a sustainable path.



Sources: Trustees for Social Security and Medicare, Congressional Budget Office, GAO, and *2016 Financial Report*. | GAO-17-570T

Debt Limit Is Not a Control on Debt: The current debt limit is not a control on debt, but rather an after-the-fact measure that restricts the Department of the Treasury's authority to borrow to finance the decisions already enacted by Congress and the President. GAO has suggested Congress consider alternative approaches that would better link decisions about borrowing to finance the debt with decisions about spending and revenue at the time those decisions are made.

Opportunities to Begin to Address the Government's Fiscal Health

In prior work, GAO has identified numerous actions Congress and agencies can take now to help improve the fiscal situation. As examples, GAO highlighted five agencies—the Departments of Defense, Health and Human Services, and Veterans Affairs; the Social Security Administration; and the Office of Management and Budget. These agencies made up 69 percent —$3.0 trillion—of federal outlays in fiscal year 2016. Although these actions alone cannot put the federal government on a sustainable fiscal path, they would improve both the fiscal situation and the federal government's operations.

Actions Needed to Address Improper Payments	Reducing payments that should not have been made or that were made in an incorrect amount could yield significant savings. The improper payments estimate in fiscal year 2016 was over $144 billion. Since fiscal year 2003, cumulative estimates have totaled over $1.2 trillion.
Opportunities Exist to Improve the Efficiency and Effectiveness of Government Operations	GAO has identified government operations that are at high risk of fraud, waste, abuse, and mismanagement and has presented numerous areas to reduce, eliminate, or better manage fragmentation, overlap, or duplication; achieve cost savings; or enhance revenue. Fully addressing the issues raised could yield increased savings, better services to the public, and improved federal programs.
Multiple Strategies Needed to Address the Persistent Tax Gap	Reducing the gap between taxes owed and those paid on time could increase tax collections by billions. Most recently, the annual gross tax gap was estimated to be $458 billion.
Action Needed to Improve Information on Programs and Fiscal Operations	Decision making could be improved by ensuring the government's financial statements are fully auditable, increasing attention to tax expenditures, and effectively implementing the Digital Accountability and Transparency Act of 2014.

Chairman Black, Ranking Member Yarmuth, and Members of the Committee:

Thank you for the opportunity to be here today to discuss our nation's fiscal health and opportunities to address long-term fiscal issues. The Congress and administration face serious economic, security, and social challenges that will require difficult policy choices in the short term about the level of federal spending and investments as well as ways to obtain needed resources. At the same time, the federal government is highly leveraged in debt by historical norms and on an unsustainable long-term fiscal path caused by a structural imbalance between revenue and spending absent a change in fiscal policy. At the end of fiscal year 2016, the debt held by the public as a share of gross domestic product (GDP) was at 77 percent; the highest it has been since 1950.[1] Since 1946 the debt-to-GDP ratio has averaged 44 percent. A sustainable policy is one where the debt-to-GDP ratio is stable or declining over the long term.

Decisions over the near term to enhance economic growth and address national policies need to be accompanied by a broader fiscal plan to put the government on a more sustainable long-term path. This is essential to ensure that the United States remains in a strong economic position to meet its security and social needs as well as to preserve flexibility in addressing unforeseen events.

In January 2017, we issued our first report on the nation's fiscal health.[2] The report illuminated the need for such a long-term fiscal plan by outlining the fiscal condition of the U.S. government and its future path based on current fiscal policies. Policymakers will need to have a plan that considers reductions in programmatic (non-interest) spending, increases in revenue, or more likely, a combination of the two in order to change the long-term fiscal path.

Today, I will discuss not only the federal government's unsustainable long-term outlook, the drivers of that outlook, and the need for a long-term plan to address the underlying and growing imbalance between spending and revenues but also opportunities Congress and executive branch

[1]Debt held by the public is federal debt held by all investors outside the government, including international investors, domestic private investors, the Federal Reserve, and state and local governments.

[2]GAO, *The Nation's Fiscal Health: Action is Needed to Address the Federal Government's Fiscal Future*, GAO-17-237SP (Washington, D.C.: Jan. 17, 2017).

agencies have to take actions in the short term that will assist in addressing the government's fiscal condition. While addressing the long-term structural imbalance will require fiscal policy changes, in the near term opportunities exist in a number of areas to improve this situation, including addressing improper payments and the tax gap and where federal programs or activities are at high risk[3] or fragmented, overlapping, or duplicative. As you know, last week we released our 2017 annual report identifying actions and areas for Congress or executive branch agencies to reduce, eliminate, or better manage fragmentation, overlap, and duplication and achieve other financial benefits.[4]

My statement is based upon on our report on the nation's fiscal health; our work on improper payments; the 2017 duplication, overlap, and fragmentation annual report; the 2017 High-Risk List; and other related work. These efforts are based upon work conducted in in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions in this product. More details on the scope and methodology for our reports can be found in the full reports.[5]

[3]GAO, *High Risk Series: Progress on Many High-Risk Areas, While Substantial Efforts Needed on Others*, GAO-17-317 (Washington, D.C.: Feb. 15, 2017).

[4]GAO, *2017 Annual Report: Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits*, GAO-17-491SP (Washington, D.C.: Apr. 26, 2017).

[5]See appendix I for related work in the areas discussed in this statement.

The Federal Government Is on an Unsustainable Fiscal Path

Growing Debt-to-GDP Ratio

Over the long term, the imbalance between spending and revenue that is built into current law and policy is projected to lead to continued growth of the deficit and debt held by the public as a share of GDP. This situation—in which debt grows faster than GDP—means the current federal fiscal path is unsustainable. Projections from the *2016 Financial Report of the United States* and the Congressional Budget Office (CBO), and simulations from GAO all show that, absent policy changes, the federal government's fiscal path is unsustainable.[6]

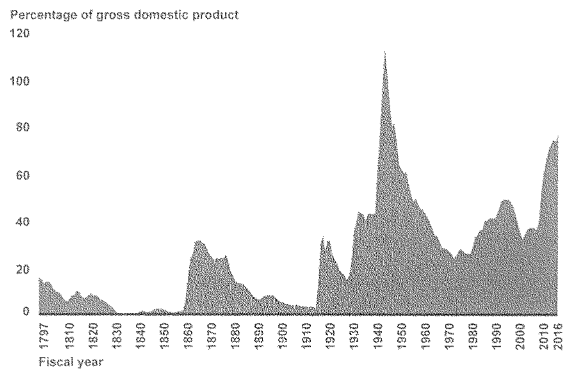
According to the *2016 Financial Report,* the federal deficit in fiscal year 2016 increased to $587 billion—up from $439 billion in fiscal year 2015. This marked a change from 6 years of declining deficits. The federal government's receipts (taxes and other collections) increased by $18.0 billion (0.6 percent), from $3,248.7 billion to $3,266.7 billion[7], but that was outweighed by a $166.5 billion increase in spending from $3,687.6 billion to $3,854.1 billion. Spending increases in 2016 were driven by Social Security (the Old-Age and Survivors Insurance and Disability Insurance programs), Medicare, Medicaid, and interest on debt held by the public (net interest).

[6]The *2016 Financial Report* includes sustainability financial statements—long-term fiscal projections for the government as a whole and for social insurance programs (e.g., Social Security and Medicare). See GAO, *Financial Audit: Fiscal Years 2016 and 2015 Consolidated Financial Statements of the U.S. Government*, GAO-17-283R (Washington, D.C.: Jan. 12, 2017) for our audit report on the government's consolidated financial statements for fiscal years 2016 and 2015.

[7]The *2016 Financial Report* attributes the modest increase in receipts to the January 2015 expiration of numerous individual and corporation income tax preferences followed by their retroactive extension in the Consolidated Appropriations Act, 2016. The expiration boosted fiscal year 2015 collections, and the retroactive extension reduced fiscal year 2016 collections; absent these extensions, receipts would have grown more in fiscal year 2016.

Debt held by the public was 77 percent of GDP at the end of fiscal year 2016—an increase from 74 percent at the end of fiscal year 2015. Although the federal government has carried debt throughout virtually all of U.S. history, the *2016 Financial Report* shows that the current fiscal position is unusual in the nation's history and that debt as a share of the economy is the highest it has been since 1950. As shown in figure 1, debt as a share of GDP peaked as 106 percent just after World War II, but then fell rapidly. Since 1946 the debt-to-GDP ratio has averaged 44 percent.

Figure 1: Federal Debt Held by the Public as a Share of Gross Domestic Product, 1797-2016



Source: GAO analysis of *2016 Financial Report* and Congressional Budget Office data. | GAO-17-579T

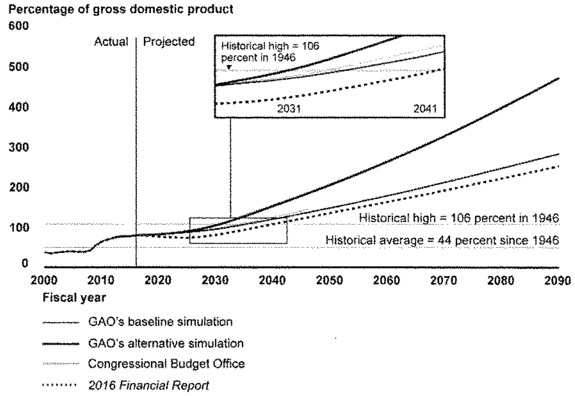
Note: For years 1797-1939, year refers to calendar year. For years 1940-2016, year refers to fiscal year. The Congressional Budget Office notes it estimated gross domestic product (GDP) from several sources. Data from 1929 onward reflect revisions to the estimates of GDP that the Bureau of Economic Analysis released in July 2013.

The long-term fiscal projections in the federal government's *2016 Financial Report* and those prepared annually by CBO and GAO each use somewhat different assumptions, but their results are the same: absent policy changes, the federal government's fiscal path is unsustainable with debt held by the public as a share of GDP projected to grow continuously.

Projections show that under current law it will grow to exceed the historical high of 106 percent in 15 to 25 years. (See figure 2.) Both the timing and pace of this growth depend on underlying assumptions made, especially about health care costs. Under GAO's alternative simulation debt held by the public as a share of GDP would surpass its historical high of 106 percent by 2032.[8] CBO's extended baseline shows debt held by the public surpassing that level by 2035 and the *2016 Financial Report* projections show debt held by the public surpassing 106 percent by 2041.

[8]GAO prepares both a baseline extended and an alternative simulation. Our two simulations are the baseline extended and the alternative. The baseline extended begins with a baseline using CBO estimates and generally assumes current law continues into the future; for example, tax provisions expire as scheduled. The alternative generally reflects historical trends; for example, tax expenditures scheduled to expire are extended. For a description of the methodologies of these simulations, see http://www.gao.gov/fiscal_outlook/federal_fiscal_outlook/overview#t=2. CBO discusses the impact of different assumptions on its extended baseline projection and shows the impact of different deficits over the next 10 years. CBO's long-term outlook goes out 30 years, while the *2016 Financial Report's* projections and GAO's simulations go out 75 years. GAO, *Fiscal Outlook: Federal Fiscal Outlook*, accessed April 27, 2017, http: www.gao.gov/fiscal_outlook/federal_fiscal_outlook/overview. CBO, The 2017 Long-Term Budget Outlook (Washington, D.C.: Mar. 30, 2017).

Figure 2: Debt Held by the Public Under Projections from the *2016 Financial Report*, the Congressional Budget Office, and GAO



Sources: GAO, Congressional Budget Office, and *2016 Financial Report*. | GAO-17-579T

Note: GAO's baseline extended simulation and the Congressional Budget Office's (CBO) long-term projection begin with a baseline using CBO estimates and generally assume current law continues into the future, such as the expiration of tax provisions as scheduled. One key difference between the results of the *2016 Financial Report* projections and GAO's baseline extended simulation is that the *2016 Financial Report* projections assume that individual income taxes increase gradually as real taxable incomes rise over time and an increasing share of total income is taxed at higher tax brackets, while GAO's baseline extended simulation assumes that revenue remains a constant share of gross domestic product. GAO's alternative simulation generally reflects historical trends, such as the extension of tax expenditures scheduled to expire, and incorporates the CMS Office of the Actuary's 2016 illustrative alternative assumptions for health care cost growth, which assume cost controls under the Patient Protection and Affordable Care Act and the Medicare Access and CHIP Reauthorization Act of 2015 are not maintained over the long term. As noted above, using the alternative assumptions, which are not included in the *2016 Financial Report* projections and GAO's baseline extended simulation, projected health care costs substantially increase.

Of further concern is the fact that none of these long-term projections include certain fiscal risks that create fiscal exposures that could affect the government's financial condition in the future.[9] Fiscal exposures are

[9]See GAO, *Fiscal Outlook: Federal Fiscal Outlook*, accessed on April 26, 2017, http://www.gao.gov/fiscal_outlook/federal_fiscal_outlook/overview#t=3. The *2016 Financial Report* discusses various contingencies where the government may face the need for additional spending.

responsibilities, programs, and activities that may legally commit or create expectations for future federal spending based on current policy, past practices, or other factors. Some examples of such fiscal risks include:

- The Pension Benefit Guaranty Corporation's (PBGC) financial future is uncertain because of long-term challenges related to PBGC's governance and funding structure. PBGC's liabilities exceeded its assets by over $79 billion as of the end of fiscal year 2016—an increase of over $3 billion from the end of fiscal year 2015 and of about $44 billion since 2013.[10] PBGC reported that it is subject to potential further losses of $243 billion if plan terminations occur that are considered reasonably possible.

- The U.S. Postal Service (USPS) continues to be in a serious financial crisis as it has reached its borrowing limit of $15 billion and finished fiscal year 2016 with a reported net loss of $5.6 billion. USPS's business model is not viable and cannot fund its current level of services, operations, and obligations. USPS's liabilities exceeded its assets by $56 billion as of the end of fiscal year 2016 and USPS reported an additional $39.5 billion in unfunded liabilities at that time for its retiree health and pension funds. USPS reported a total unfunded liability for its retiree health and pension funds of $73.4 billion, $33.9 billion of which relates to required prefunding payments for postal retirees' health benefits that have not been made and is included in the liabilities reported on its balance sheet.

- Some government insurance programs such as the National Flood Insurance Program do not have sufficient dedicated resources to cover expected costs.[11] The Federal Emergency Management Agency (FEMA), which administers the National Flood Insurance Program, owed $24.6 billion as of March 2017 to the Department of the Treasury (Treasury) for money borrowed to pay claims and other expenses, including $1.6 billion borrowed following a series of floods

[10]GAO-17-317.

[11]We have suggested an alternative way to record insurance commitments in the budget such that the federal government's commitment would be more fully recognized. See GAO, *Fiscal Exposures: Improving Cost Recognition in the Federal Budget*,GAO-14-28 (Washington, D.C.: Oct. 29, 2013).

in 2016. FEMA is unlikely to collect enough in premiums to repay this debt.[12]

Citizens also look to the federal government for assistance when crises happen and immediate federal action is expected. This can take the form of expectations for additional and large amounts of federal spending. These crises often cannot be predicted and are very difficult to budget for. According to the Congressional Research Service, the federal budget does contain some funds for disaster response through the Disaster Relief Fund; however, this fund often is insufficient to respond to the number and scope of natural disasters, and it is not typically used as a funding source for other types of unforeseen events such as wars, financial crises, cyberattacks, or health pandemics.

Key Drivers of Long-Term Outlook

The growing gap between revenues and spending reflects three main trends: significant growth in spending for retirement and healthcare programs, rising interest payments on the government's debt, and modest growth in revenues. The size of the gap is such that both the spending and revenue side of the budget must be examined.

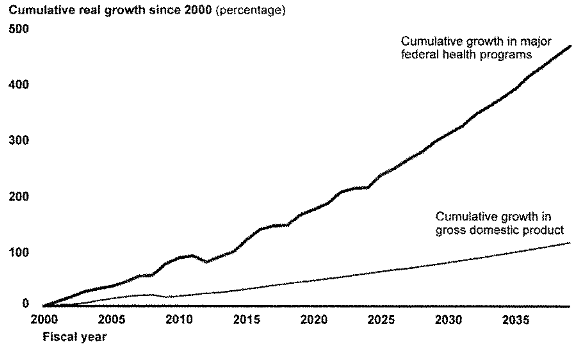
The *2016 Financial Report's* long-term fiscal projections, CBO's long-term projection, and GAO's long-term simulations all show that the key drivers on the spending side are health care programs and interest on debt held by the public (net interest). Social security also poses significant financial challenges.

Health Care Spending

Total health care spending (public and private) in the United States continues to grow faster than the economy. As figure 3 shows, growth in federal spending for health care programs has exceeded the growth of GDP historically and is projected to grow faster than the economy. These health care programs include Medicare, Medicaid, and the Children's Health Insurance Program, along with federal subsidies for health insurance purchased through the marketplaces established by the Patient Protection and Affordable Care Act (ACA) and related spending.

[12] GAO, *Flood Insurance: Comprehensive Reform Could Improve Solvency and Enhance Resilience*, GAO-17-425 (Washington, D.C.: Apr. 27, 2017).

Figure 3: Federal Spending on Major Health Care Programs Grows Faster than Gross Domestic Product

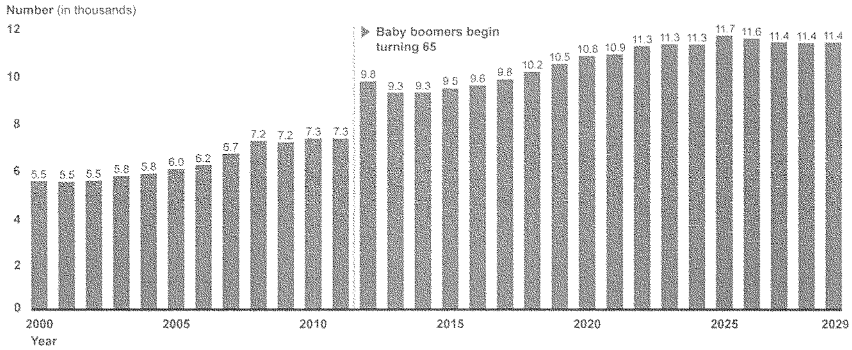


Source: GAO analysis of Congressional Budget Office data. | GAO-17-579T

Note: Cumulative growth in both gross domestic product (GDP) and federal spending on major health care programs has been adjusted for inflation. GDP is the value of all goods and services produced in a country in a given year. Major federal health programs include Medicare, Medicaid, the Children's Health Insurance Program, and federal subsidies for health insurance purchased through the marketplaces established by the Patient Protection and Affordable Care Act and related spending.

According to GAO's alternative simulation, federal spending on major health care programs is projected to increase from $993 billion in fiscal year 2016 to $2 trillion in fiscal year 2045 in 2016 dollars. Growth in federal spending on health care is driven, in part, by increasing enrollment in federal health care programs, stemming from both the aging of the population and the expansion of federal programs. As many members of the baby-boom generation age and as life expectancy continues to generally increase, the number of people 65 or older is expected to rise by more than one-third, thereby increasing the number of Medicare beneficiaries. (See figure 4.)

Figure 4: Daily Average Number of People Turning 65



Source: GAO analysis of U.S. Census Bureau information. | GAO-17-579T

Note: Census data estimates of population are as of July 1 in each year.

According to CBO, outlays for Medicaid in fiscal year 2016 rose by $18 billion (or 5.3 percent) compared with outlays in fiscal year 2015. The decision of more than half the states to expand eligibility for their Medicaid programs as provided by the ACA was the primary reasons for this growth. The growth in federal spending on health care can also be attributed to increases in health care spending per enrollee. Per beneficiary health care spending has historically risen faster than per capita economic output and is projected to do so in the future.

Net Interest

While health care spending is a key programmatic and policy driver of the long-term outlook on the spending side of the budget, eventually, spending on net interest becomes the largest category of spending in both the *2016 Financial Report's* long-term fiscal projections and GAO's simulations. Specifically, in GAO's alternative simulation, net interest increases from $248 billion in fiscal year 2016 to $1.4 trillion in fiscal year 2045 in 2016 dollars.

Growth in interest payments occurs for two main reasons:

- **Growing debt:** Even without any increase in interest rates, the cost of financing the debt grows as debt held by the public grows, resulting in greater interest payments than would otherwise exist with less debt. Spending on interest can absorb resources that could be used instead for other priorities.
- **Growth in interest rates:** In recent years interest rates on Treasury securities have remained low, lowering interest costs. However, CBO and others project those interest rates will rise in the long term, increasing the net interest costs on the debt. Marketable U.S. Treasury securities consist of bills, notes, and bonds. Treasury seeks to accomplish "lowest cost financing over time" in the way it manages debt issuance.[13]

Net interest costs will depend in part on the outstanding mix of Treasury securities. Treasury issues securities in a wide range of maturities to appeal to the broadest range of investors. Longer-term securities typically carry higher interest rates but offer the government the ability to "lock in" fixed interest payments over a longer period and reduce the amount of debt that Treasury needs to refinance in the short term. In contrast, shorter-term securities generally carry lower interest rates. They also play an important role in financial markets. For example, investors use Treasury bills to meet requirements to buy financial assets maturing in a year or less. However, shorter-term securities add uncertainty to the government's interest costs and require Treasury to conduct more frequent auctions to refinance maturing debt.

As of September 30, 2016, 58 percent of marketable Treasury securities held by the public were scheduled to mature and need to be refinanced in the next 4 years—potentially at higher interest rates.[14] As the *2016 Financial Report* notes, each year trillions of dollars of debt mature and new debt is issued in its place. In fiscal year 2016, new borrowings were $8.4 trillion, and repayments of maturing debt held by the public were $7.3 trillion.

[13]GAO, *Debt Management: Floating Rate Notes Can Help Treasury Meet Borrowing Goals, but Additional Actions Are Needed to Help Manage Risk*, GAO-14-535 (Washington, D.C.: June 16, 2014).

[14]GAO, *Financial Audit: Bureau of the Fiscal Service's Fiscal Years 2016 and 2015 Schedules of Federal Debt*, GAO-17-104 (Washington, D.C.: Nov. 10, 2016).

Social Security

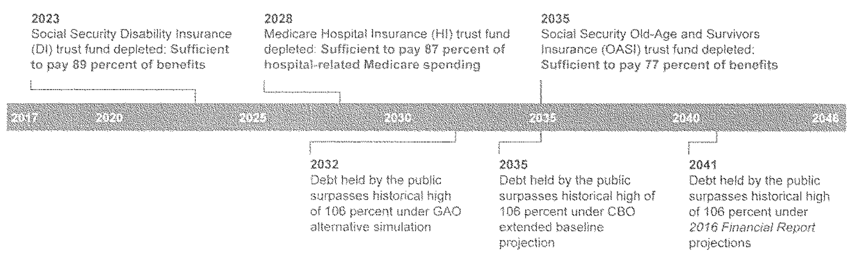
Social Security also poses significant financial challenges. It provides individuals with benefits that can help offset the loss of income due to retirement, death, or disability, and paid more than $905 billion in Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) program benefits in fiscal year 2016. However, demographic factors, such as an aging population and slower labor force growth, are straining Social Security programs and contributing to a gap between program costs and revenues. Absent any changes, it is projected that the Social Security trust funds will deplete their assets and that incoming revenues will not be sufficient to pay benefits in full on a timely basis.

Fiscal Pressures Growing

To change the long-term fiscal path, policymakers will need to consider policy changes to the entire range of federal activities: entitlement programs, other mandatory spending, discretionary spending, and revenue. The *2016 Financial Report,* CBO, and GAO all make the point that the longer action is delayed, the greater and more drastic the changes will have to be.

Medicare's Hospital Insurance trust fund, and Social Security's OASI and DI trust funds face financial challenges that add to the importance of beginning action soon. (See figure 5.) It is important to develop and begin to implement a long-term fiscal plan for returning to a sustainable path.

Figure 5: Key Dates for Trust Funds and Future Debt



Sources: Trustees for Social Security and Medicare, Congressional Budget Office, GAO, and *2016 Financial Report*. | GAO-17-579T

Debt Limit Is Not a Control on Debt

As currently structured, the debt limit—a legal limit on the amount of federal debt that can be outstanding at one time—does not restrict Congress and the President's ability to enact spending and revenue legislation that affects the level of debt; nor does it otherwise constrain fiscal policy. The debt limit is an after-the-fact measure: the spending and tax laws that result in debt have already been enacted. In other words, the debt limit restricts Treasury's authority to borrow to finance the decisions already enacted by Congress and the President.[15]

I cannot overstate the importance of preserving confidence in "the full faith and credit" of the United States. Failure to increase (or suspend) the debt limit in a timely manner could have serious negative consequences for the Treasury market and increase borrowing costs. For those Treasury securities issued during the 2013 debt limit impasse, we estimated that the additional borrowing costs incurred through fiscal year 2014 were between $38 and $70 million depending on the assumptions used.

When delays in raising the debt limit occur, Treasury often must deviate from its normal debt management operations and take a number of extraordinary actions to avoid exceeding the debt limit.[16] The Bipartisan Budget Act of 2015 temporarily suspended the debt limit from November 2, 2015, through March 15, 2017.[17] Following the expiration of the debt limit suspension period, on March 16, 2017, Treasury began taking extraordinary actions to avoid exceeding the debt limit. These extraordinary actions included suspending investments to certain federal government accounts.

During the 2013 impasse, investors reported taking the unprecedented action of systematically avoiding certain Treasury securities—(i.e., those that would mature around the dates when Treasury projected it would exhaust the extraordinary actions it used to manage debt as it approached the debt limit). For these securities, the actions resulted in

[15]For more discussion of the federal debt and debt limit, see GAO, *Fiscal Outlook: Understanding the Federal Debt,* accessed April 29, 2017, http://www.gao.gov/fiscal_outlook/understanding_federal_debt/overview, and *Debt Limit: Analysis of 2011-2012 Actions Taken and Effect of Delayed Increase on Borrowing Costs,* GAO-12-701 (Washington, D.C.: July 23, 2012).

[16]Actions that are not part of Treasury's normal cash and debt management operations are considered "extraordinary actions" by Treasury.

[17]Pub. L. No. 114-74, § 901, 129 Stat. 584, 620 (Nov. 2, 2015).

both a dramatic increase in interest rates and a decline in liquidity in the secondary market where securities are traded among investors.

To minimize disruptions to the Treasury market and to help inform fiscal policy debate in a timely way, we recommended that decisions about giving Treasury the authority to borrow be made when decisions about spending and revenues are made. In 2015, we conducted a forum with experts in the field to help identify options for Congress to delegate its borrowing authority and better align decisions about the level of debt with decisions on spending and revenue. All maintain Congressional control and oversight over federal borrowing.[18] Our report described the benefits and challenges presented by each of the options described below:

- **Option 1: Link Action on the Debt Limit to the Budget Resolution.** This is a variation of a previously used approach under which legislation raising the debt limit to the level envisioned in the Congressional Budget Resolution would be spun off and either be deemed to have passed or be voted on immediately thereafter.
- **Option 2: Provide the Administration with the Authority to Increase the Debt Limit, Subject to a Congressional Motion of Disapproval.** This is a variation of an approach contained in the Budget Control Act of 2011. Congress would give the administration the authority to propose a change in the debt limit, which would take effect absent enactment of a joint resolution of disapproval within a specified time frame.
- **Option 3: Delegating Broad Authority to the Administration to Borrow as Necessary to Fund Enacted Laws.** This is an approach used in some other countries: delegate to the administration the authority to borrow such sums as necessary to fund implementation of the laws duly enacted by Congress and the President. Since the laws that affect federal spending and revenue and so create the need for debt already require adoption by the Congress, Congress would still maintain control over the amount of federal borrowing.

We did not endorse a specific option but we did recommend that Congress consider alternative approaches that better link decisions about

[18]GAO, *Debt Limit: Market Response to Recent Impasses Underscores Need to Consider Alternative Approaches*, GAO-15-476 (Washington, D.C.: July 9, 2015).

the debt limit with decisions about spending and revenue at the time those decisions are made.

Some of the experts also supported replacing the debt limit with a fiscal rule imposed on spending and revenue decisions. The federal government has enacted such fiscal rules in the past. For example, the Budget Control Act of 2011 enacted limits on discretionary spending, which are enforced by additional spending cuts if those limits are breached (known as a sequester). Congress could consider additional fiscal rules to frame and control the overall results of spending and revenue decisions. Such rules could limit spending or affect other areas of the budget such as overall debt or annual deficits. Other countries have also operated under such fiscal rules.

For example, the European Union's (EU) stability and growth pact allows for sanctions against member states that exceed certain target levels of debt or deficits defined as "excessive" by the EU. The pact is a set of rules designed to ensure that countries in the EU pursue sound public finances and coordinate their fiscal policies. The EU defines an excessive budget deficit as one greater than 3 percent of GDP. Public debt is considered excessive if it exceeds 60 percent of GDP without diminishing at an adequate rate (defined as a decrease of the excess debt by 5 percent per year on average for more than 3 years). That said, several nations have struggled to meet these targets in recent years. In general, budget experts and other observers have noted that the success of fiscal rules depends on effective enforcement and a sustained commitment by policymakers and the public.

Congress and Agencies Have Opportunities to Take Actions that Will Assist in Addressing the Government's Fiscal Condition

Achieving long-term fiscal sustainability will require examining revenues and the drivers of spending and enacting legislation to narrow the growing gap between spending and revenues. However, in our prior work we have also identified numerous actions Congress and agencies can take now to help improve the fiscal situation. It is important for agencies to act as stewards of federal resources. Although these actions alone cannot put the U.S. government on a sustainable fiscal path, they would improve both the fiscal situation and the federal government's operations.

Actions Needed to Address Improper Payments

Improper Payments Remain a Significant, Pervasive Government-Wide Issue

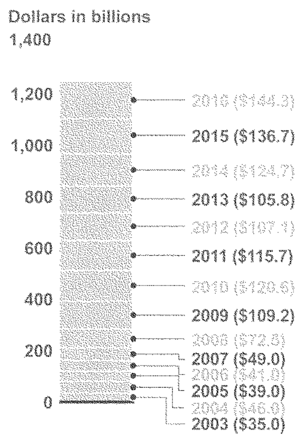
Improper payments remain a significant and pervasive government-wide issue.[19] For several years, we have reported improper payments as a material weakness in our audit reports on the consolidated financial statements of the U.S. government.[20] Since fiscal year 2003—when certain agencies began reporting improper payments as required by the Improper Payments Information Act of 2002 (IPIA)—cumulative reported improper payment estimates have totaled over $1.2 trillion, as shown in figure 6.[21]

[19]Under the Improper Payments Information Act of 2002, as amended, an improper payment is statutorily defined as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts. Office of Management and Budget guidance also instructs agencies to report as improper payments any payments for which insufficient or no documentation was found.

[20]GAO-17-283R.

[21]IPIA—as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA)—requires executive branch agencies to (1) review all programs and activities, (2) identify those that may be susceptible to significant improper payments, (3) estimate the annual amount of improper payments for those programs and activities, (4) implement actions to reduce improper payments and set reduction targets, and (5) report on the results of addressing the foregoing requirements. IPIA, Pub. L. No. 107-300, 116 Stat. 2350 (Nov. 26, 2002), *as amended by* IPERA, Pub. L. No. 111-204, 124 Stat. 2224 (July 22, 2010), *and* IPERIA, Pub. L. No. 112-248, 126 Stat. 2390 (Jan. 10, 2013), and *codified as amended at* 31 U.S.C. § 3321 note. IPIA, as amended, defines "significant improper payments" as gross annual improper payments in a program exceeding (1) both 1.5 percent of program outlays and $10 million of all program or activity payments during the fiscal year reported or (2) $100 million (regardless of the improper payment error rate).

Figure 6: Cumulative Reported Improper Payment Estimates for Fiscal Years 2003 through 2016



Source: GAO. | GAO-17-579T

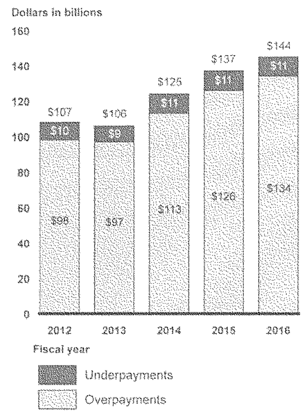
Note: Generally, the specific programs and total number of programs that constitute the government-wide improper payment estimate vary from year to year. In earlier years, the number of programs included in the government-wide estimate generally increased as programs reported improper payment estimates for the first time.

For fiscal year 2016, agencies reported improper payment estimates totaling $144.3 billion, an increase of over $7 billion from the prior year's estimate of $136.7 billion. The reported estimated government-wide improper payment error rate was 5.1 percent of related program outlays.[22] These figures do not include the Department of Defense's (DOD) Defense Finance and Accounting Service (DFAS) Commercial Pay program because of concerns regarding the reliability of the program's estimate, which I will discuss later in this statement. As shown in figures 7 and 8, the reported improper payment estimates—both dollar estimates

[22]Reported error rates reflect the estimated improper payments as a percentage of total program outlays.

and error rates—have been increasing over the past 3 years, largely because of increases in Medicaid's reported improper payment estimates.

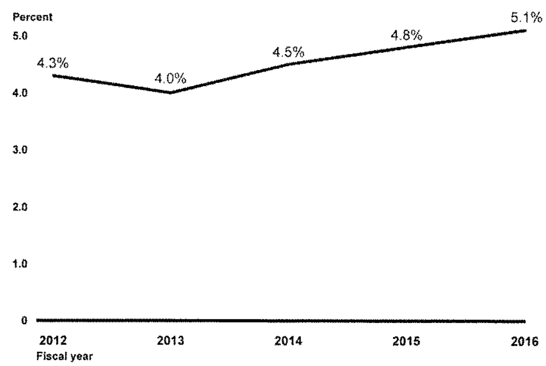
Figure 7: Reported Improper Payment Estimates for Fiscal Years 2012 through 2016



Source: GAO analysis of Office of Management and Budget data and *The Financial Report of the United States Government* for fiscal years 2013 through 2016. | GAO-17-579T

Note: Improper payment estimate amounts do not include the Department of Defense's Defense Finance and Accounting Service Commercial pay program because of issues related to the reliability of the program's estimate. Figures may not add up to totals due to rounding.

Figure 8: Reported Improper Payment Error Rates for Fiscal Years 2012 through 2016



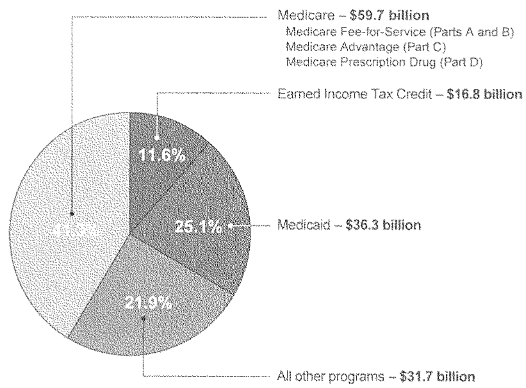
Source: *Financial Report of the United States Government* for fiscal years 2013 through 2016. | GAO-17-579T

Note: Improper payment estimate amounts do not include the Department of Defense's Defense Finance and Accounting Service Commercial pay program because of issues related to the reliability of the program's estimate.

For fiscal year 2016, overpayments accounted for approximately 93 percent of the improper payment estimate, according to www.paymentaccuracy.gov, with underpayments accounting for the remaining 7 percent.

Although primarily concentrated in three areas (Medicare, Medicaid, and the Earned Income Tax Credit), the reported estimated improper payments for fiscal year 2016 were attributable to 112 programs spread among 22 agencies. (See figure 9.)

Figure 9: Reported Improper Payment Estimates Were Primarily Concentrated in Three Areas for Fiscal Year 2016



Source: GAO analysis of agencies' fiscal year 2016 data. | GAO-17-579T

Note: Improper payment estimate amounts do not include the Department of Defense's Defense Finance and Accounting Service Commercial Pay program because of issues related to the reliability of the program's estimate. Due to rounding, numbers may not add up to 100 percent or match the government-wide improper payment estimate ($144.3 billion).

Agencies reported improper payment estimates exceeding $1 billion for 14 programs, as shown in table 1, and error rates exceeding 10 percent for 11 programs. (See table 2.)

Table 1: Programs with Reported Improper Payment Estimates over $1 Billion for Fiscal Year 2016

Program	Agency	Fiscal year 2016 reported improper payment estimates: Dollars (in billions)	Error rate (percentage of outlays)
Medicare	Department of Health and Human Services (HHS)	59.7	--
Medicare Fee-for-Service	*HHS*	*41.1*	*11.0*
Medicare Advantage (Part C)	*HHS*	*16.2*	*10.0*
Medicare Prescription Drug Benefit (Part D)	*HHS*	*2.4*	*3.4*
Medicaid	HHS	36.3	10.5
Earned Income Tax Credit	Department of the Treasury	16.8	24.0
Supplemental Security Income	Social Security Administration (SSA)	4.2	7.4
Direct Loan	Department of Education (Education)	3.9	4.0
Unemployment Insurance	Department of Labor	3.9	11.7
Old Age, Survivors, and Disability Insurance	SSA	3.7	0.4
VA Community Care	Department of Veterans Affairs (VA)	3.6	75.9
Pell Grant	Education	2.2	7.9
National School Lunch Program	Department of Agriculture	1.8	15.2
Rental Housing Assistance Programs	Department of Housing and Urban Development	1.7	5.2
Purchased Long-Term Services and Support	VA	1.2	69.2

Source: GAO summary of agencies' data. | GAO-17-579T

Table 2: Programs with Reported Improper Payment Error Rates over 10 Percent for Fiscal Year 2016

Program	Agency	Reported error rate (percentage of outlays)
VA Community Care	Department of Veterans Affairs (VA)	75.9
Purchased Long-Term Services and Support	VA	69.2
Earned Income Tax Credit	Department of the Treasury	24.0
School Breakfast Program	Department of Agriculture (USDA)	22.5
National School Lunch Program	USDA	15.2
Livestock Indemnity Program	USDA	12.9
Unemployment Insurance	Department of Labor	11.7
Supplemental Revenue Assistance Payments	USDA	11.4
Medicare Fee-for-Service	Department of Health and Human Services (HHS)	11.0
Medicaid	HHS	10.5
Disbursements for Goods and Services	Small Business Administration	10.4

Source: GAO summary of agencies' data. | GAO-17-579T

Multiple Factors Hinder Efforts to Determine the Full Extent of and Reduce Improper Payments

In our audit report on the fiscal year 2016 consolidated financial statements of the U.S. government, we continued to report a material weakness in internal control related to improper payments because the federal government is unable to determine the full extent to which improper payments occur and reasonably assure that appropriate actions are taken to reduce them.[23] Challenges include potentially inaccurate risk assessments, programs that do not report any improper payment estimates or report unreliable or understated estimates, and noncompliance issues.

Potentially Inaccurate Risk Assessments

Agencies conduct risk assessments to determine which programs need to develop improper payment estimates. However, in Improper Payments Elimination and Recovery Act (IPERA) compliance reports for fiscal year 2015—the most current reports available—various inspectors general (IG) reported issues related to agencies' improper payment risk assessments. For example:

[23]GAO-17-283R.

- The IG for the General Services Administration reported that the agency's risk assessment was flawed because, among other things, the questionnaires in the assessment did not ask if programs actually experience improper payments and were distributed to individuals who did not have direct or specific knowledge of improper payments.[24] Further, the IG found that the agency did not evaluate relevant reports—such as IG or GAO reports—to identify relevant findings, and two of the six questionnaires that the IG reviewed included incomplete information.
- The IG for the Department of Housing and Urban Development found that the agency did not assess all of its programs on a 3-year cycle and did not consider all nine of the required risk factors in conducting its risk assessment.[25] The IG also noted instances in which the agency did not rate risk factors in accordance with the agency's own policy.

It is also important to note that nine of the Chief Financial Officer (CFO) Act agencies either reported no improper payment estimates or reported estimates for only disaster relief programs funded through the Disaster Relief Appropriations Act, 2013 for fiscal year 2016.[26] The nine agencies were:

- U.S. Agency for International Development
- Department of Energy
- Department of State
- National Science Foundation
- Nuclear Regulatory Commission
- Department of Commerce (disaster relief only)
- Department of the Interior (disaster relief only)
- Department of Justice (disaster relief only)

[24] General Services Administration Office of Inspector General, *GSA Did Not Fully Comply with the Improper Payments Acts in FY 2015*, A160018/B/5/F16002 (Washington, D.C.: May 11, 2016).

[25] Department of Housing and Urban Development Office of Inspector General, *Compliance with the Improper Payments Elimination and Recovery Act*, 2016-FO-0005 (Washington, D.C.: May 13, 2016).

[26] The Disaster Relief Appropriations Act, 2013, requires agencies to estimate improper payments for funds received under the act.

- National Aeronautics and Space Administration (disaster relief only).

Programs That Do Not Report Improper Payment Estimates

We found that not all agencies had developed improper payment estimates for all of the programs and activities they identified as susceptible to significant improper payments. Eight agencies did not report improper payment estimates for 18 risk-susceptible programs. (See table 3.)

Table 3: Agencies Did Not Report Improper Payment Estimates for Fiscal Year 2016 for 18 Risk-Susceptible Programs

Program	Agency
Supplemental Nutrition Assistance Program	Department of Agriculture (USDA)
Child and Adult Food Care Program	USDA
Temporary Assistance for Needy Families	Department of Health and Human Services (HHS)
Advance Premium Tax Credit	HHS
Cost-Sharing Reduction	HHS
Navy Commercial Bill Pay – Singapore	Department of Defense
Single Family Insurance Claims	Department of Housing and Urban Development (HUD)
Community Planning and Development Entitlement Grants	HUD
HOME Investments Program	HUD
Additional Child Tax Credit	Department of the Treasury (Treasury)
American Opportunity Tax Credit	Treasury
Premium Tax Credit	Treasury
Communications, Utilities, and Other Rent	Department of Veterans Affairs (VA)
Medical Care Contracts and Agreements	VA
Prosthetics	VA
VA Community Care Choice payments made from the Veterans Choice Fund	VA
Grants	Environmental Protection Agency
AmeriCorps	Corporation for National and Community Service

Source: GAO summary of agencies' fiscal year 2016 agency financial reports. | GAO-17-579T

Because agencies did not report improper payment estimates for these risk-susceptible programs, the government-wide improper payment estimate is understated and agencies are hindered in their efforts to reduce improper payments in these programs. For example, the Department of Health and Human Services (HHS) did not report an improper payment estimate for Temporary Assistance for Needy Families, a program with outlays of over $15 billion for fiscal year 2016. HHS cited statutory limitations prohibiting the agency from requiring states to participate in an improper payment measurement for the program. Another example is U.S. Department of Agriculture's (USDA) Supplemental Nutrition Assistance Program. Although USDA has reported improper payment estimates for this program in prior years, the agency did not report an estimate for fiscal year 2016.[27] In its fiscal year 2016 agency financial report, USDA stated that it was unable to validate data provided by 42 of the 53 state agencies that administer the program. USDA stated that it could not adjust for this unreliability and calculate a national error rate.

Potentially Unreliable or Understated Estimates

Improper payment estimates for certain programs may be unreliable or understated. For example, in May 2013 we reported that DOD had major deficiencies in its process for estimating fiscal year 2012 improper payments in the Defense Finance and Accounting Service (DFAS) Commercial Pay program, including deficiencies in identifying a complete and accurate population of payments.[28] The foundation of reliable statistical sampling estimates is a complete, accurate, and valid population from which to sample. As of October 2016, DOD was still developing key quality assurance procedures to ensure the completeness and accuracy of sampled populations. Therefore, DOD's fiscal year 2016 improper payment estimates, including its estimate for the DFAS Commercial Pay program, may not be reliable. DFAS Commercial Pay's reported program outlays are significant—approximately $249 billion for fiscal year 2016. Consequently, a small change in the program's estimated error rate could result in a significant change in the dollar value of its improper payment estimate.

Further, flexibility in how agencies are permitted to implement improper payment estimation requirements can contribute to inconsistent or understated estimates. For example, in February 2015, we reported that DOD uses a methodology for estimating TRICARE improper payments that is less comprehensive than the methodology the Centers for

[27]For fiscal year 2015, USDA reported an estimated $2.6 billion—or 3.7 percent of the $70.0 billion in related program outlays—in improper payments for SNAP.

[28]GAO, *DOD Financial Management: Significant Improvements Needed in Efforts to Address Improper Payment Requirements*, GAO-13-227 (Washington, D.C.: May 13, 2013).

Medicare & Medicaid Services (CMS) used for Medicare.[29] Though the programs are similar in that they pay providers on a fee-for-service basis and depend on contractors to process and pay claims, TRICARE's methodology does not examine the underlying medical record documentation to discern whether each sampled payment was supported or whether the services provided were medically necessary. On the other hand, Medicare's methodology more completely identifies improper payments beyond those resulting from claim processing errors, such as those related to provider noncompliance with coding, billing, and payment rules.

As a result, the estimated improper payment error rates for TRICARE and Medicare are not comparable, and TRICARE's error rate is likely understated. In addition, corrective actions for TRICARE improper payments do not address issues related to medical necessity errors—a significant contributor to Medicare improper payments. We recommended that DOD implement a more comprehensive TRICARE improper payment methodology and develop more robust corrective action plans that address the underlying causes of improper payments. In October 2016, DOD requested proposals for claim record reviews—including medical record reviews—to begin the process of incorporating medical record reviews in its methodology for calculating improper payment rates.

Increasing Reported Agency Noncompliance

Since fiscal year 2011, IPERA has required agencies' IGs to annually report on the respective agencies' compliance under the act.[30] IGs at 15 of the 24 CFO Act agencies found their respective agencies to be

[29]GAO, *Improper Payments: TRICARE Measurement and Reduction Efforts Could Benefit from Adopting Medical Record Reviews*, GAO-15-269 (Washington, D.C.: Feb. 18, 2015).

[30]IPERA established a requirement for entity inspectors general to report annually on entities' compliance with criteria listed in section 3 of IPERA. The six criteria are that the entity has (1) published an annual financial statement and accompanying materials in the form and content required by OMB for the most recent fiscal year and posted that report on the entity website; (2) conducted a risk assessment for each specific program or activity that conforms with IPIA, as amended; (3) published estimates of improper payments for all programs and activities identified as susceptible to significant improper payments under the entity's risk assessment; (4) published corrective action plans for programs and activities assessed to be at risk for significant improper payments; (5) published and met annual reduction targets for all programs and activities assessed to be at risk for significant improper payments; and (6) reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published.

noncompliant under IPERA for fiscal years 2014 and 2015, the highest total since IGs began their annual compliance reviews. Although noncompliance has occurred across all six of the criteria listed in IPERA, the most common issues are noncompliance related to reporting and meeting improper payment reduction targets or reporting an error rate below 10 percent. Continued noncompliance further highlights the need for additional efforts to reduce improper payments.

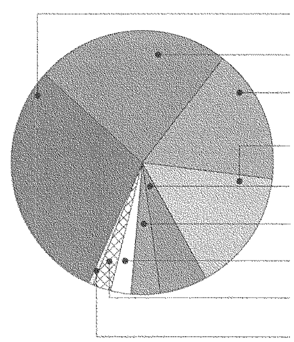
Strategies for Reducing Improper Payments

Agencies can use detailed root cause analysis and related corrective actions to implement preventive and detective controls to reduce improper payments. Collaboration with other relevant entities can also assist federal agencies in reducing improper payments.

Root Cause Analysis

Root cause analysis is key to understanding why improper payments occur and developing effective corrective actions to prevent them. In 2014, the Office of Management and Budget (OMB) established new guidance to assist agencies in better identifying the root causes of improper payments and assessing their relevant internal controls. Agencies across the federal government began reporting improper payments using these more detailed root cause categories for the first time in their fiscal year 2015 financial reports. Further identification of the true root causes of improper payments can help to determine the potential for fraud. Figure 10 shows the root causes of government-wide improper payments for fiscal year 2016, as reported by OMB. We will continue to focus on agencies' efforts to both identify the root causes and take appropriate actions to reduce improper payments.

Figure 10: Reported Root Causes of Improper Payments for Fiscal Year 2016



Source: *Fiscal Year 2016 Financial Report of the U.S. Government.* | GAO-17-579T

Preventive Controls

Implementing strong preventive controls can serve as the frontline defense against improper payments. When agencies proactively prevent improper payments, they increase public confidence in program administration and they avoid the difficulties associated with the "pay and chase" aspects of recovering overpayments.[31] Examples of preventive controls include up-front eligibility validation through data sharing, predictive analytic technologies, and program design review and refinement. For example, we have made the following recommendations and matters for congressional consideration to improve preventive controls in various programs.

- **Use of the Do Not Pay (DNP) working system.** Established by OMB and hosted by Treasury, the DNP working system is a web-based, centralized data-matching service that allows agencies to review multiple databases—such as data on deceased individuals and

[31] "Pay and chase" refers to the labor-intensive and time-consuming practice of trying to recover overpayments once they have already been made rather than preventing improper payments in the first place.

entities barred from receiving federal awards—before making payments. In October 2016, we found that the 10 agencies we reviewed used the DNP working system in limited ways, in part because OMB had not provided a clear strategy and guidance.[32] Only 2 of these 10 agencies used the DNP working system on a preaward or prepayment basis for certain types of payments. Because the DNP working system offers a single point of access to multiple databases, agencies may be able to streamline their existing data matching processes. Among other things, we recommended that OMB develop a strategy—and communicate it through guidance—for whether and how agencies should use the DNP working system to complement or streamline existing data matching processes. OMB generally agreed with the concept of developing a strategy and said it would explore the concept further.

Further, we found that the death records offered through the DNP working system do not include state-reported death data. The Social Security Administration (SSA) officials stated that sharing its full death file—which includes state-reported death data—would require an amendment to the Social Security Act. We suggested that Congress amend the Social Security Act to explicitly allow SSA to share its full death file with Treasury for use through the DNP working system. Sharing the full death file through the DNP working system would enhance efforts to identify and prevent improper payments.

- **Expanded error correction authority.** IRS has the authority to correct some calculation errors and check for other obvious noncompliance such as claims for a deduction or credit that exceed statutory limits. We have suggested to Congress that such authority be authorized on a broader basis rather than on a piecemeal basis and that controls may be needed to help ensure that this authority is used properly.[33] Also, Treasury has proposed expanding IRS's "math error" authority to "correctible error" authority to permit it to correct errors in cases where information provided by the taxpayer does not match information in government databases, among other things. Providing these authorities could help IRS correct additional errors—including some errors with Earned Income Tax Credit claims—and avoid burdensome audits and taxpayer penalties.

[32]GAO, *Improper Payments: Strategy and Additional Actions Needed to Help Ensure Agencies Use the Do Not Pay Working System as Intended*, GAO-17-15 (Washington, D.C.: Oct. 14, 2016).

[33]GAO, *Recovery Act: IRS Quickly Implemented Tax Provisions, but Reporting and Enforcement Improvements Are Needed*, GAO-10-349 (Washington, D.C.: Feb. 10, 2010).

- **Additional prepayment reviews in Medicare fee-for-service.** In April 2016, we found that CMS could improve its claim review programs by conducting additional prepayment reviews.[34] Using prepayment reviews to deny improper claims and prevent overpayments is consistent with CMS's goal to pay claims correctly the first time. It can also better protect Medicare funds because not all overpayments can be collected. A recovery auditor (RA) is one type of claim review contractor that CMS uses, and in 2013 and 2014, 85 percent of RA claim reviews were postpayment. Because CMS is required by law to pay RAs contingency fees from recovered overpayments, the RAs can only conduct prepayment reviews under a demonstration.[35] From 2012 through 2014, CMS conducted a demonstration in which the RAs conducted prepayment reviews and were paid contingency fees based on claim denial amounts. CMS officials considered the demonstration a success. However, CMS has not requested legislation that would allow for RA prepayment reviews by amending existing payment requirements and thus may be missing an opportunity to better protect Medicare funds.

  We recommended that CMS seek legislative authority to allow RAs to conduct prepayment claim reviews. HHS did not concur with this recommendation, stating that CMS has implemented other programs as part of its efforts to move away from the "pay and chase" process of recovering overpayments. We continue to believe that seeking authority to allow RAs to conduct prepayment reviews is consistent with CMS's strategy to pay claims properly the first time.

Detective Controls

Although preventive controls remain the frontline defense against improper payments, effective detection techniques can help to quickly identify and recover those overpayments that do occur. Detective controls play a significant role not only in identifying improper payments but also in providing information on why these improper payments were made, highlighting areas that need stronger preventive controls. Examples of detective controls include data mining and recovery auditing. The

[34]GAO, *Medicare: Claim Review Programs Could Be Improved with Additional Prepayment Reviews and Better Data*, GAO-16-394 (Washington, D.C.: Apr. 13, 2016).

[35]CMS uses demonstrations to study the likely impact of new methods of service delivery, coverage of new types of service, and new payment approaches on beneficiaries, providers, health plans, states, and the Medicare Trust Funds.

following are examples of recommendations we have made to improve detective controls in various programs.

- **Improvements to recovery efforts in Medicare Advantage.** In April 2016, we reported that CMS needs to fundamentally improve its efforts to recover substantial amounts of improper payments in the Medicare Advantage program.[36] CMS conducts two types of risk adjustment data validation (RADV) audits to identify and correct Medicare Advantage improper payments: national RADV activities and contract-level RADV audits. Both types of audits determine whether the diagnosis codes submitted by Medicare Advantage organizations are supported by a beneficiary's medical record documentation. Contract-level RADV audits seek to identify and recover improper payments from Medicare Advantage organizations and thus to deter them from submitting inaccurate beneficiary diagnoses. However, we found that CMS does not focus its RADV audits on the contracts with the highest potential for improper payments and has not developed specific plans or a timetable for including recovery auditor contractors in the contract-level RADV audit process.

  We made several recommendations, including that CMS modify the selection of contracts for contract-level RADV audits to focus on those most likely to have high rates of improper payments and that CMS develop specific plans and a timetable for incorporating a recovery audit contractor in the Medicare Advantage program. In response to our report, HHS concurred with the recommendations and reaffirmed its commitment to identifying and correcting Medicare Advantage improper payments. By implementing our recommendations, CMS could recover hundreds of millions of dollars in improper payments by improving its processes for auditing payments to Medicare Advantage organizations.

- **Review of federal determinations of Medicaid eligibility.** In October 2015, we reported that additional efforts were needed to ensure that state spending is appropriately matched with federal funds in Medicaid.[37] States and the federal government share in the

[36]GAO, *Medicare Advantage: Fundamental Improvements Needed in CMS's Effort to Recover Substantial Amounts of Improper Payments*, GAO-16-76 (Washington, D.C.: Apr. 8, 2016).

[37]GAO, *Medicaid: Additional Efforts Needed to Ensure that State Spending is Appropriately Matches with Federal Funds*, GAO-16-53 (Washington, D.C.: Oct. 16, 2015).

financing of the Medicaid program, with the federal government matching most state expenditures for Medicaid services on the basis of a statutory formula. CMS has implemented interim measures to review the accuracy of state eligibility determinations and examine states' expenditures for different eligibility groups, for which states may receive multiple federal matching rates.

However, some states have delegated authority to the federal government to make Medicaid eligibility determinations through the federally facilitated exchange. CMS has excluded these states from the reviews. This creates a gap in efforts to ensure that only eligible individuals are enrolled into Medicaid and that state expenditures are correctly matched by the federal government. We recommended that CMS conduct reviews of federal Medicaid eligibility determinations to ascertain the accuracy of these determinations and institute corrective action plans where necessary.

HHS has taken some steps to improve the accuracy of Medicaid eligibility determinations, as we recommended, but has not conducted a systematic review of federal eligibility determinations. For example, in March 2017, HHS reported that it is reviewing federal determinations of Medicaid eligibility in two of the nine states that have delegated eligibility determination authority to the federal marketplace. Although the actions HHS has taken have value, they are not sufficient to identify erroneous eligibility determinations. Specifically, without a systematic review of federal eligibility determinations, the department lacks a mechanism to identify and correct errors and associated payments.

Collaboration with Other Entities

While federal agencies are responsible for reducing improper payments, agencies may consider collaboration with relevant entities—such as OMB, states, state auditors, and the IG community—to expand efforts to reduce improper payments. In November 2016, we held a discussion with various state auditors and federal agencies to identify potential opportunities to strengthen collaboration, focusing on federal and state initiatives related to improper payments. Further, in September 2015, we reported on the Recovery Operations Center's (ROC) significant analytical services, provided primarily to IGs to support antifraud and other activities.[38] While funding for the ROC ended in September 2015,

[38]GAO, *Federal Spending Accountability: Preserving Capabilities of the Recovery Operations Center Could Help Sustain Oversight of Federal Expenditures*, GAO-15-814 (Washington, D.C.: Sept. 14, 2015).

officials from some small- and medium-sized IGs stated that they do not have the capabilities to develop independent data analytics or pay for a similar service, thus foregoing the ROC's capabilities. We suggested that Congress may wish to consider directing the Council of the Inspectors General on Integrity and Efficiency to develop a legislative proposal to reconstitute the essential capabilities of the ROC to help ensure federal spending accountability.

Finally, I recently met with the Director of OMB to discuss improper payments, among other issues. This spring we are providing OMB a letter highlighting open priority recommendations related to important issues, including improper payments. Strengthened efforts and collaboration among relevant entities is important to reducing improper payments across the federal government.

Opportunities Exist to Improve Efficiency and Effectiveness of Government Programs

For the last 7 years, we have annually presented actions Congress or executive branch agencies could take to reduce, eliminate, or better manage fragmentation, overlap, or duplication; achieve cost savings; or enhance revenue.[39] We also maintain our High-Risk List to bring attention to government operations that are at high risk of fraud, waste, abuse, and mismanagement, or that need broad-based transformation to address economy, efficiency, or effectiveness challenges of government operations.[40] Combined, these efforts have led to hundreds of billions of dollars in financial benefits over the last decade. Fully addressing the issues we raise in those reports could yield additional benefits, such as increased savings, better services to the public, and improved federal programs. For example, we estimate tens of billions more dollars could be saved by fully implementing our remaining open recommendations to address fragmentation, overlap, and duplication. While these issues span the government, a substantial number of them involve five agencies that made up 69 percent—$3.0 trillion—of federal outlays in fiscal year 2016: the Departments of Defense, Health and Human Services, and Veterans Affairs; the Social Security Administration; and the Office of Management Budget.

[39]GAO-17-491SP. In addition, our online *Action Tracker* allows Congress, executive branch agencies, and the public to track the progress the government is making in addressing the issues we have identified since 2011. To improve search functions, we have a downloadable spreadsheet of all actions listed in the *Action Tracker*. (See http://www.gao.gov/duplication/action_tracker/all_areas.)

[40]GAO-17-317.

Department of Defense

DOD represented about 15 percent of federal spending in fiscal year 2016, with outlays totaling about $637.6 billion. In our 2011 to 2017 annual duplication reports, we directed 168 actions to DOD in areas that contribute to DOD's effectiveness. As of March 2017, 95 of these 168 actions remained open. DOD also bears responsibility, in whole or part, for half (17 of 34) of the areas we have designated as high risk. Our work suggests that effectively taking actions to address these issues would yield significant financial benefits, as discussed below.

- **DOD weapon systems acquisition.** DOD's portfolio of 78 major acquisition programs has a total estimated cost of $1.46 trillion. Over the past 4 fiscal years, our analyses of DOD's weapon system acquisitions have resulted in nearly $30 billion in savings. We have six open priority recommendations to improve DOD's management of three of DOD's most expensive programs, each of which is facing significant cost, schedule, and performance challenges—the F-35 Joint Strike Fighter, Littoral Combat Ship, and Ford Class Aircraft Carrier. We continue to encourage DOD and Congress to hold programs accountable by ensuring that they attain the required knowledge at key decision points—such as conducting systems engineering reviews and making sure technologies are fully mature before product development begins, and successfully completing testing—before committing resources to production. By acting on our open recommendations for F-35, LCS, and Ford Class, and applying the same knowledge-based approach across its portfolio, DOD could potentially achieve tens of billions of dollars more in cost savings or cost avoidance over the life of these programs.
- **DOD contract management.** DOD obligated $273.5 billion in fiscal year 2015 on contracts for goods and services, including major weapon systems, support for military bases, information technology, consulting services, and commercial items. As the federal government's largest procurement agency, DOD has opportunities to leverage its buying power to reduce prices, improve quality, and otherwise enhance supplier management and performance. We have found that leading commercial companies often manage 90 percent of their spending using strategic sourcing and generate 10 to 20 percent savings in doing so.

  In contrast, we have reported that DOD components (Navy, Air Force, and Army) managed between 10 and 27 percent of their $8.1 billion in spending on information technology services through their preferred strategic sourcing contracts in fiscal year 2013. By awarding hundreds of potentially duplicative contracts, these components diminished the department's buying power.[41] Further, the low utilization rate of federal strategic sourcing initiatives contracts by DOD and other federal agencies resulted in missed opportunities to leverage buying power. In this case, the Federal Strategic Sourcing Initiatives reported an estimated savings of $470 million between fiscal years 2011 and 2015, an overall savings rate of about 25 percent. In fiscal year 2015, however, the seven large agencies that comprised the Leadership Council—a cohort of large federal agencies responsible for federal strategic sourcing initiatives—directed less than 10 percent of their spending on the types of goods and services offered under federal strategic sourcing initiatives in fiscal year 2015, resulting in a missed opportunity to potentially have saved over $1 billion.[42]

- **DOD headquarters reductions.** Since 2014, and in part to respond to congressional direction, DOD has undertaken initiatives intended to improve the efficiency of headquarters organizations and identify related cost savings, but it is unclear to what extent these initiatives will help the department achieve the potential savings it has identified. DOD has many organizations with multiple layers of headquarters management, and at times these organizations possess complex and overlapping relationships. To improve the management of DOD's headquarters-reduction efforts, we recommended that the Secretary of Defense
    - conduct systematic determinations of personnel requirements for the Office of the Secretary of Defense, Joint Staff, and military service secretariats and staffs;[43]
    - set a clearly defined and consistently applied starting point as a baseline for headquarters-reduction efforts and track reductions

[41]GAO, *Strategic Sourcing: Opportunities Exist to Better Manage Information Technology Services Spending,* GAO-15-549 (Washington, D.C.: Sept. 22, 2015).

[42]GAO, *Federal Procurement: Smarter Buying Initiatives Can Achieve Additional Savings, but Improved Oversight and Accountability Needed,* GAO-17-164 (Washington, D.C. Oct. 26, 2016).

[43]GAO, *Defense Headquarters: DOD Needs to Reassess Personnel Requirements for the Office of Secretary of Defense, Joint Staff, and Military Service Secretariats*, GAO-15-10 (Washington, D.C.: Jan. 21, 2015).

against the baselines to provide reliable accounting of savings and reporting to Congress;[44] and

- conduct comprehensive, periodic evaluations of whether the combatant commands are sized and structured to efficiently meet assigned missions.[45]

By implementing these recommendations, DOD could yield billions in savings.

- **DOD commissaries.** DOD operates 238 commissaries worldwide to provide groceries and household goods at reduced prices as a benefit to military personnel, retirees, and their dependents. In our November 2016 and March 2017 reports, we found that DOD can more efficiently manage its commissaries and potentially achieve cost savings.[46] DOD could better position itself to meet its $2 billion target from fiscal years 2017 through 2021 by implementing our recommendation to develop a plan with assumptions, a methodology, cost estimates, and specific time frames for achieving alternative reductions to appropriations, to support DOD's efforts to ensure that DOD's cost savings target is feasible and accurate. DOD generally agreed with our recommendations.
- **DOD leases and use of underutilized spaces at military installations.** Overreliance on costly leasing is one of the major reasons that federal real property management remains on our high-risk list. Our prior work has shown that owning buildings often costs less than operating leases, especially where there are long-term needs for space. We analyzed all 5,566 lease records in DOD's real property database for fiscal year 2013 (the most recent year for which data were available) and found that there were 407 records for general administrative space. The total annual rent plus other costs for these leases was approximately $326 million for about 17.6 million square feet of leased space.

[44]GAO, *Defense Headquarters: DOD Needs to Reevaluate Its Approach for Managing Resources Devoted to the Functional Combatant Commands*, GAO-14-439 (Washington, D.C.: Jun. 26, 2014).

[45]GAO, *Defense Headquarters: DOD Needs to Periodically Review and Improve Visibility Of Combatant Commands' Resources*, GAO-13-293 (Washington, D.C.: May, 15, 2013).

[46]GAO, *DOD Commissaries and Exchanges: Plan and Additional Information Needed on Cost Savings and Metrics for DOD Efforts to Achieve Budget Neutrality*, GAO-17-38 (Washington, D.C.: Nov. 10, 2016), and *Defense Commissaries: DOD Needs to Improve Business Processes to Ensure Patron Benefits and Achieve Operational Efficiencies*, GAO-17-80 (Washington, D.C.: Mar 23, 2017).

We recommended that DOD look for opportunities to relocate DOD organizations in leased space to installations that may have underutilized space because of force structure reductions or other indicators of potentially available space, where such relocation is cost-effective and does not interfere with the installation's ongoing military mission.[47] DOD did not agree with the recommendation and had not taken action, as of October 2016. These actions could potentially save millions of dollars each year in reduced or avoided rental costs.

Department of Health and Human Services

We have identified numerous opportunities within the Department of Health and Human Services (HHS) to achieve cost savings. HHS represented about 28 percent of the fiscal year 2016 federal budget, with outlays totaling about $1.2 trillion. HHS's largest mandatory programs are Medicare, which in fiscal year 2016 financed health services for over 57 million beneficiaries at an estimated cost of $696 billion, and Medicaid, which covered an estimated 72.2 million people in fiscal year 2016 at a cost of $575.9 billion.[48] Our work suggests that effectively implementing these actions, could yield substantial financial benefits.

Our work has identified opportunities for billions of dollars of savings and the need for improved federal oversight in multiple areas of traditional Medicare—also known as Medicare fee-for service (FFS)—and Medicare Advantage (MA), which provides health care coverage to Medicaid beneficiaries through private health plans.

- **Payments and provider incentives in traditional Medicare.** Medicare spending on hospital outpatient department services has grown rapidly in recent years—nearly $58 billion spent in 2015. In December 2015, we reported that some of this growth is because services that were typically performed in physician offices have shifted to hospital outpatient departments, resulting in higher reimbursement rates.[49] We recommended that Congress consider directing HHS to equalize payment rates between settings for certain services and

[47] GAO, *Defense Infrastructure: More Accurate Data Would Allow DOD to Improve the Tracking, Management, and Security of Its Leased Facilities*, GAO-16-101 (Washington, D.C.: Mar. 15, 2016).

[48] Medicare is the federal health-coverage program for the elderly and certain disabled individuals. Medicaid is the joint federal–state program for low-income and medically needy individuals. Of the $575.9 billion in Medicaid spending, $363.4 billion was financed by the federal government and the remainder by states.

[49] GAO, *Medicare: Increasing Hospital-Physician Consolidation Highlights Need for Payment Reform*, GAO-16-189 (Washington, D.C.: Dec. 18, 2015).

return the associated savings to the Medicare program. Congress passed legislation to exclude services furnished by off-campus hospital outpatient departments from higher payment beginning in 2017; however, this exclusion does not apply to services furnished by providers billing as hospital outpatient departments or those meeting certain mid-build requirements prior to November 2, 2015. We maintain that Medicare could save billions of dollars annually if Congress were to equalize the rates for certain health care services, which often vary depending on where the service is performed.

The federal government spends about $50 billion annually to help hospitals with billions of dollars in costs incurred for uncompensated care—services hospitals provide to uninsured and low-income patients for which they are not fully compensated. Both Medicare and Medicaid make multiple types of payments that help offset hospital uncompensated care costs. In June 2016, we reported that Medicare Uncompensated Care payments are not well aligned with hospital uncompensated care costs, potentially resulting in relatively large amounts of available funding being distributed to hospitals where uncompensated care costs are likely declining.[50]

We recommended that the Centers for Medicare & Medicaid Services (CMS) instead base those payments on actual hospital uncompensated care costs and account for Medicaid payments made when making Medicare Uncompensated Care payments to individual hospitals. HHS concurred with the recommendations and indicated that the agency planned to implement them beginning in fiscal year 2021 to allow time for hospitals to collect and report reliable data. Implementing our recommendations could prevent more than $1 billion annually from going to hospitals that may not have any uncompensated care.

The Medicare prospective payment system (PPS) introduced better control over program spending and provided hospitals with an incentive for efficient resource use. Yet for decades, as required by law, Medicare has paid 11 cancer hospitals differently than PPS hospitals—specifically, these cancer hospitals are reimbursed largely based on their reported costs and as such have little incentive for containing costs. To help HHS better control Medicare spending and encourage efficient delivery of care, and to generate cost savings from any reductions in payments to cancer hospitals that are

[50]GAO, *Hospital Uncompensated Care: Federal Action Needed to Better Align Payments with Costs*, GAO-16-568 (Washington, D.C.: Jun. 30, 2016).

exempted from the PPS, we recommended that Congress consider requiring Medicare to pay these PPS-exempt cancer hospitals as it pays PPS teaching hospitals, or provide the Secretary of HHS with the authority to otherwise modify how Medicare pays PPS-exempt cancer hospitals, and provide that all forgone outpatient payment adjustment amounts be returned to the Supplementary Medical Insurance Trust Fund. The 21st Century Cures Act, enacted in December 2016, slightly reduces the additional payments cancer hospitals receive for outpatient services. However, the law keeps in place the payment system for outpatient services that differs from how Medicare pays PPS teaching hospitals. Moreover, the law does not change how PPS-exempt cancer hospitals are paid for inpatient services. Until Medicare pays PPS-exempt cancer hospitals in a way that encourages efficiency, rather than largely on the basis of reported costs, Medicare remains at risk for overspending almost $500 million per year.

- **Medicare Advantage and other Medicare health plans.** The number and percentage of Medicare beneficiaries enrolled in MA has grown steadily over the past several years, increasing from 8.1 million (20 percent of all Medicare beneficiaries) in 2007 to 17.5 million (32 percent of all Medicare beneficiaries) in 2015. We have identified opportunities for CMS to improve the accuracy of MA payments, to account for diagnostic coding differences between MA and FFS. We previously reported that shortcomings in CMS's adjustment resulted in excess payments to MA plans totaling an estimated $3.2 billion to $5.1 billion over a 3-year period from 2010 through 2012. In January 2012, we recommended that CMS take steps to improve the accuracy of the adjustment made for differences in diagnostic coding practices by, for example, accounting for additional beneficiary characteristics such as sex, health status, and Medicaid enrollment status, as well as including the most recent data available.[51]

  Although CMS has taken steps to improve the accuracy of the risk adjustment model and Congress has taken steps to increase the adjustment, CMS has not improved its methodology for calculating the diagnostic coding adjustment. Until CMS shows the sufficiency of the diagnostic coding adjustment or implements an adjustment based on analysis using an updated methodology, payments to MA plans may not accurately account for differences in diagnostic coding between

[51]GAO, *Medicare Advantage: CMS Should Improve the Accuracy of Risk Score Adjustments for Diagnostic Coding Practices*, GAO-12-51 (Washington, D.C.: Jan. 12, 2012).

these plans and traditional Medicare providers. CMS could achieve billions of dollars in additional savings by better adjusting for differences between MA plans and traditional Medicare providers in the reporting of beneficiary diagnoses.

We have also found that improved federal oversight is needed in multiple areas of Medicaid, including in the area of financing transparency and oversight and oversight of Medicaid demonstrations.

- **Growing expenditures for and oversight of large Medicaid demonstrations.** Medicaid demonstrations have become a significant proportion of Medicaid expenditures, growing steadily from about $50 billion, or about 14 percent of total Medicaid expenditures in fiscal year 2005, to $165 billion, or close to one-third of total Medicaid expenditures in fiscal year 2015.[52] Between 2002 and 2014, we reviewed several states' approved comprehensive demonstrations and found that HHS had not ensured that all of the demonstrations would be budget neutral to the federal government. We recommended that HHS improve the process for reviewing and approving Medicaid demonstrations and, in January 2008, we elevated this matter for consideration by Congress.[53] Legislation was introduced in the 114th Congress but not enacted to require HHS to improve the Medicaid demonstration review process consistent with our recommendations.

  In October 2016, CMS officials told us that they had established new budget neutrality policies to reduce demonstration spending limits and they are implementing the policies over time. However, these new policies do not address all of the problematic budget neutrality methodologies that we identified. We maintain that improving the process for reviewing, approving, and making transparent the basis for spending limits approved for Medicaid demonstrations could potentially save billions of dollars.

- **Financing and provider payment transparency and oversight.** To effectively oversee state Medicaid programs, CMS needs complete and accurate information on payments to individual providers. We have raised concerns about states making large Medicaid supplemental payments—payments in addition to the regular, claims-based payments made to providers for services they provided—to

[52]Expenditures include the federal and state share and are adjusted for inflation to 2015 dollars using the gross domestic product price index and exclude administrative costs.

[53]GAO, *Medicaid Demonstration Waivers: Recent HHS Approvals Continue to Raise Cost and Oversight Concerns, GAO-08-87* (Washington, D.C.: Jan. 31, 2008).

institutional providers, such as hospitals and nursing facilities. In fiscal year 2015, these payments totaled about $55 billion. In April 2015, we concluded that federal oversight of Medicaid payments is limited in part by insufficient federal information on payments.[54] Oversight is also limited because CMS does not have a policy and process for determining that payments are economical and efficient. As a result, CMS may not identify or examine excessive payments states make to individual providers.

We recommended that CMS ensure that states report accurate provider-specific payment data for all payments, develop a policy establishing criteria to determine when provider-specific payments are economical and efficient, and develop a process for identifying and reviewing payments to individual providers to determine if they meet the established criteria. CMS planned to publish a proposed rule for public comment in fall 2016 to improve the oversight of supplemental payments made to individual providers, but as of March 2017, the proposed rule had not been published. CMS could save hundreds of millions of dollars by taking steps to implement our recommendations.

Department of Veterans Affairs

We have identified numerous opportunities for the Department of Veterans Affairs (VA) to more effectively and efficiently achieve its mission to promote the health, welfare, and dignity of all veterans by ensuring that they receive medical care, benefits, and social services. In fiscal year 2016, VA spent about $179.6 billion—about 4 percent of federal outlays—for veterans' benefits and services. Our work suggests that effectively implementing these actions could yield cost savings and efficiencies that would improve the delivery of services.

- **VA health care.** Since designating VA health care as a high-risk area in 2015, we continue to be concerned about VA's ability to ensure its resources are being used cost-effectively and efficiently to improve veterans' timely access to health care, and to ensure the quality and safety of that care. VA operates one of the largest health care delivery systems in the nation, with 168 medical centers and more than 1,000 outpatient facilities organized into regional networks. VA has faced a growing demand by veterans for its health care services. To help address veterans' health care needs, VA's budgetary resources have more than doubled since 2006 to $91.2 billion in fiscal year 2016.

[54]GAO, *Medicaid: CMS Oversight of Provider Payments Is Hampered by Limited Data and Unclear Policy*, GAO-15-322 (Washington, D.C.: Apr. 10, 2015).

Despite these increased resources, there have been numerous reports in this same period—by us, VA's Office of the Inspector General, and others—of VA facilities failing to provide timely health care. In some cases, veterans have reportedly been harmed by the delays in care or VA's failure to provide care at all.

Among the concerns we have raised in these reports is the lack of reliability, transparency and consistency of VA's budget estimates and tracking obligations. These concerns were evident in June 2015, when VA requested additional funds from Congress because agency officials projected a funding gap in fiscal year 2015 of about $3 billion in its medical services appropriation account. The projected funding gap was largely due to administrative weaknesses, which slowed the utilization of the Veterans Choice Program in fiscal year 2015 and resulted in higher-than-expected demand for VA's previously established VA community care programs. To better align cost estimates for community care services with associated obligations, in June 2016, we reported that VA was examining options for replacing its outdated financial information technology systems and VA has since established a projected completion date of fiscal year 2020 for that effort.[55] However, VA continues to underestimate the resources it needs to provide health care services efficiently and effectively. For example, in February 2017, a VA official told us that VA would need to request additional funding for fiscal year 2018 above already appropriated funding for that year.

- **VA benefits.** VA provides billions of dollars in monthly disability compensation to veterans with disabling conditions caused or aggravated by their military service. In recognition of cases where the benefit does not adequately compensate veterans who are unable to maintain substantially gainful employment, VA may provide supplemental compensation through its Total Disability Individual Unemployability (TDIU) benefit. We found that 54 percent of disabled veterans receiving TDIU benefits in fiscal year 2013 were 65 years or older. By comparison, other benefit programs, such as Social Security Disability Insurance, consider retirement age a cause for ineligibility and convert benefits for those reaching their full retirement age to a Social Security retirement benefit. We recommended that VA develop a plan to study whether age should be considered when deciding if veterans are unemployable. VA concurred with our recommendation

[55]GAO, *VA's Health Care Budget: In Response to a Projected Funding Gap in Fiscal Year 2015, VA Has Made Efforts to Better Manage Future Budgets,* GAO-16-584 (Washington, D.C.: Jun. 3, 2016).

and began reviewing disability eligibility policies and procedures in April 2015, including consideration of age in claim decisions. The review was on going as of February 2017. If it were determined that TDIU benefits should only be provided to those veterans younger than their full Social Security retirement age, VA could achieve significant cost savings—$15 billion from 2015 through 2023, according to a CBO estimate.

Social Security Administration

In fiscal year 2016, the Social Security Administration (SSA) spent about $979.7 billion, roughly 23 percent of federal outlays. We have identified a number of opportunities for SSA to improve the integrity of its programs and achieve cost savings. Its two largest programs—Old-Age and Survivors Insurance (OASI), which provides retirement benefits, and Disability Insurance (DI), which provides benefits to individuals who cannot work because of a disability—together paid out more than $905 billion in fiscal year 2016.

Benefits provided under these programs are subject to several provisions that offset benefits for individuals who receive both Social Security benefits and similar benefits under another program, such as state and local pensions or workers' compensation. In some of these cases, SSA is required to offset or reduce the amount it pays to account for these other benefits. We have reported that SSA could take additional steps to better enforce these rules and avoid paying duplicative benefits.

- **Social Security offsets.** SSA needs accurate information from state and local governments on retirees who receive pensions from employment not covered under Social Security. SSA needs this information to fairly and accurately apply the Government Pension Offset (GPO), which generally applies to spouse and survivor benefits, and the Windfall Elimination Provision (WEP), which applies to retirement and disability benefits. Congress could consider giving IRS the authority to collect the information that SSA needs on government pension income to administer the GPO and the WEP accurately and fairly. Implementing this action could save $2.4 billion to $7.9 billion over 10 years, if enforced both retrospectively and prospectively, based on estimates from CBO and SSA. The estimated savings would be less if SSA only enforced the offsets prospectively as it would not reduce benefits already received.
- **Disability and unemployment benefits.** Current law does not preclude the receipt of overlapping DI and Unemployment Insurance (UI) benefits. We previously found that 117,000 individuals received concurrent cash benefit payments, in fiscal year 2010, from these

programs totaling more than $850 million. In 2014, we reported that Congress should consider passing legislation to require SSA to offset DI benefits for any UI benefits received in the same period. As of March 2017, legislation had not been enacted. Several bills, including the Social Security Disability Insurance and Unemployment Benefits Double Dip Elimination Act, were introduced in the 114th Congress that would have prevented concurrent receipt of SSA DI and UI benefits, as we suggested in our 2014 report. If new legislation is introduced in the 115th Congress and enacted, the change could save $1.9 billion over 10 years in the DI program, according to CBO.

SSA's DI program requires beneficiaries to meet certain medical and financial requirements in order to maintain eligibility for benefits. We have identified a number of opportunities for SSA to save money by improving its ability to determine whether beneficiaries have regained the ability to work, and if working, gather information on wages to avoid improper payments to beneficiaries earning above program limits.

- **Disability Insurance overpayments.** DI overpayments often result when a beneficiary returns to work and starts earning income above a certain level, but the earnings activity is not properly reported to or processed by SSA. We estimated that SSA overpaid individuals $11.5 billion during fiscal years 2005 through 2014 because their work activity resulted in earnings that exceeded program limits. SSA may waive overpayments under some circumstances, in which case collection of the debt is terminated, and allows flexibility to administratively waive low dollar amounts.[56]

  In October 2015, we identified several weaknesses in SSA's process for handling work reports and waivers, and we made several recommendations—including that SSA study the costs and benefits of automated reporting options to enhance the ease and integrity of the work reporting process and take additional steps to ensure compliance with waiver policies, including updating its Debt Management System to ensure waivers over $1,000 are not improperly waived. SSA agreed with this recommendation. Regarding

[56]A beneficiary may request a waiver of an overpayment that is not in dispute, and SSA may grant that waiver request if two conditions are met: (1) the agency finds that the beneficiary was not at fault, and (2) recovery of adjustment would either defeat the purpose of the program or be against equity and good conscience, as determined by SSA. For overpayment amounts under $1,000, administrative waivers may be granted on the sole basis that the beneficiary was not at fault, with minimal documentation requirements. Waivers of debts under $2,000 do not require supervisory review.

work reporting, SSA was drafting business processes as of March 2017 to (1) build an Internet and telephone wage reporting system for DI beneficiaries and (2) contract with third-party payroll providers to receive monthly earnings data that will allow SSA to automatically make benefit adjustments. Until these new processes are implemented, the incidence of overpayments will likely remain high due to the lack of convenient reporting options for beneficiaries, failure of beneficiaries to self-report, and SSA processing errors. Regarding waivers, SSA had not updated its Debt Management System as of March 2017, and commented that it lacks the funds to do so. Fully implementing these recommendations would help prevent the loss of billions of dollars, by preventing overpayments in the first place, as well as improper waivers of overpayments, once they occur.

- **Disability reviews.** SSA is generally required to conduct continuing disability reviews (CDR) to determine whether DI and Supplemental Security Income recipients remain eligible for benefits based on their medical condition and ability to work. In February 2016, we reported that SSA's process for targeting CDRs does not maximize potential savings for the government. We recommended that SSA further consider cost savings when prioritizing reviews. SSA partially agreed with our recommendation, stating that, although it could do more to increase the return on its CDRs, the agency's statistical models and prioritization process already do much of what was recommended. However, we believe that SSA could refine its prioritization process by factoring in actuarial considerations in addition to its existing statistical models. SSA had not taken action as of February 2017. If SSA further incorporates cost savings into its process for prioritizing CDRs to conduct, the agency could realize greater savings by targeting cases with the highest average potential savings among those with the highest likelihood of benefit cessation.

Office of Management and Budget

Many of the results the federal government seeks to achieve require the coordinated effort of more than one federal agency, level of government, or sector. OMB manages and coordinates many government-wide efforts and its involvement is critical in continuing to make progress in improving efficiency and effectiveness of government programs. OMB also plays a critical role in the management of improper payments, tax expenditures, and the Digital Accountability and Transparency Act of 2014 (DATA Act).

- **Reducing acquisition costs.** Between fiscal years 2011 through 2015, federal agencies spent almost $2 billion through OMB's federal strategic sourcing initiatives and achieved an estimated $470 million in savings. Implementing our recommendations related to federal acquisitions would help agencies achieve significant savings. In 2016, we found that OMB and the General Services Administration needed to take actions to hold federal agencies more accountable for the results of federal strategic sourcing initiatives.[57] For example, the seven largest federal agencies that comprised the Leadership Council—a cohort of large federal agencies responsible for federal strategic sourcing initiatives governance—directed less than 10 percent of their spending on the types of goods and services offered under the federal strategic sourcing initiatives in fiscal year 2015. As a result, they missed the opportunity to potentially have saved $1 billion. OMB generally agreed with these recommendations. It is important that OMB continue to expand this approach to other high-spend categories in a timely fashion to help agencies reap billions of dollars in potential savings.

- **Information technology investment portfolio management.** Federal agencies spend billions of dollars each year to meet their increasing demand for information technology (IT). In March 2012, OMB launched an initiative, referred to as PortfolioStat, to maximize the return on IT investments across the government's portfolio. PortfolioStat is designed to assist agencies in assessing the current maturity of their IT investment management process, making decisions on eliminating duplicative investments, and moving to shared solutions (such as cloud computing) within and across agencies.

  In 2013, we made several recommendations to OMB regarding the PortfolioStat initiative. For example, we recommended that OMB direct the Federal Chief Information Officer to improve transparency of and accountability for PortfolioStat by publicly disclosing planned and actual data consolidation efforts and related cost savings by agency.[58] While OMB disagreed with the recommendation, as of March 2017, OMB had taken steps to improve transparency of and accountability for PortfolioStat by displaying actual data consolidation savings data on the federal information technology dashboard. However, OMB stated that it does not track planned cost savings and cost avoidance figures and did not provide any plans to do so. OMB's continued attention in addressing this recommendation and our government-wide high-risk area *Improving the Management of IT Acquisitions and Operations* is essential to enabling agencies to demonstrate progress

[57]GAO-17-164.

[58]GAO, *Information Technology: Additional OMB and Agency Actions Are Needed to Achieve Portfolio Savings*, GAO-14-65 (Washington, D.C.: Nov. 6, 2013).

in improving their portfolios of IT investments. Improving the transparency and accountability for PortfolioStat by publicly disclosing both planned and actual data consolidation efforts and related cost savings by agency would provide stakeholders, including Congress and the public, a means to monitor agencies' progress and hold them accountable for reducing duplication and achieving cost savings. Fully implementing the actions in this area could result in billions of dollars in additional savings.

- **Federal data center consolidation.** Over time, the federal government's increasing demand for IT has led to a dramatic rise in the number of federal data centers (defined as data processing and storage facilities over 500 square feet with strict availability requirements) and a corresponding increase in operational costs. In 2011, we identified the need for OMB to work with agencies to establish goals and targets for consolidation (both in terms of cost savings and reduced data centers), maintain strong oversight of the agencies' efforts, and look for consolidation opportunities across agencies. Since 2011, OMB has taken steps to look for data center consolidation opportunities across agencies; however, continued evidence of agencies not fully reporting their savings demonstrates the importance of OMB's continued oversight.

  As of March 2017, agencies collectively reported having 10,058 data centers, of which 4,679 were reported closed. Agencies also reported that they planned to close another 1,358 data centers—for a total of 6,037 closed—by the end of fiscal year 2019. The agencies reported achieving approximately $2.8 billion in cost savings or avoidances from their data center consolidation and optimization efforts from fiscal year 2012 through 2016. Further, as of December 2016, agencies were planning a total of approximately $378 million in cost savings between fiscal years 2016 and 2018—significantly less than OMB's $2.7 billion cost savings goal for agencies to achieve by the end of fiscal year 2018. Of the recommendations that we made to 10 agencies in March 2016 to complete their planned data center cost savings targets for fiscal years 2016 through 2018, all remain open.[59] Going forward, it will be important for OMB to continue to implement its oversight of agencies' data center consolidation efforts to better ensure that the consolidation and optimization efforts are meeting their established objectives.

[59]GAO, *Data Center Consolidation: Agencies Making Progress, but Planned Savings Goals Need to Be Established*, GAO-16-323 (Washington, D.C.: Mar. 3, 2016).

- **Geospatial investments.** The federal government collects, maintains, and uses geospatial information linked to specific geographic locations to help in decision making and to support many functions, including national security, law enforcement, health care, and environmental protection. Many activities, such as maintaining roads and responding to natural disasters can depend on critical analysis of geospatial information. Further, multiple federal agencies may provide services at the same geographic locations and may independently collect similar geospatial information about those locations.

  In 2012, we recommended that OMB develop a mechanism, or modify existing mechanisms, to identify and report annually on all geospatial-related investments, including dollars invested and the nature of the investment.[60] In responding to the recommendation at the time of the report, OMB noted that it developed new analysis tools and updated its models to improve its ability to identify and report on geospatial-related investments. As of March 2017, OMB has made progress in developing a way to identify and report annually on all geospatial-related investments, but has not completed its efforts. Better coordination by agencies and better oversight by OMB could help to reduce duplication of geospatial investments, providing the opportunity for potential savings of millions of dollars on the estimated billions of dollars spent annually on geospatial information technology.

- **Ensuring the security of federal information systems and cyber critical infrastructure and protecting the security of personally identifiable information.** Federal agencies and our nation's critical infrastructures—such as energy, transportation systems, communications, and financial services—are dependent on computerized (cyber) information systems and electronic data to carry out operations and to process, maintain, and report essential information.[61] The security of these systems and data is vital to public confidence and the nation's safety, prosperity, and well-being.

[60]GAO, *Geospatial Information: OMB and Agencies Need to Make Coordination a Priority to Reduce Duplication*, GAO-13-94 (Washington, D.C.: Nov. 26, 2012).

[61]Critical infrastructure includes systems and assets so vital to the United States that incapacitating or destroying them would have a debilitating effect on national security. These critical infrastructures are grouped by the following industries or "sectors": chemical; commercial facilities; communications; critical manufacturing; dams; defense industrial base; emergency services; energy; financial services; food and agriculture; government facilities; health care and public health; information technology (IT); nuclear reactors, materials, and waste; transportation systems; and water and wastewater systems.

Protecting the privacy of personally identifiable information (PII) that is collected, maintained, and shared by both federal and nonfederal entities is also critical. Regarding PII, advancements in technology, such as new search technology and data analytics software for searching and collecting information, lower data storage costs, and ubiquitous Internet and cellular connectivity have made it easier for individuals and organizations to correlate data and track it across large and numerous databases. These advances—combined with the increasing sophistication of hackers and others with malicious intent, and the extent to which both federal agencies and private companies collect sensitive information about individuals—have increased the risk of PII being exposed and compromised.

Actions initiated by OMB and the Federal Chief Information Officer, such as the 30-Day Cybersecurity Sprint and the October 30, 2015, cybersecurity strategy and implementation plan, reflect an increased level of attention by OMB to the security of federal networks, systems, and data at civilian agencies. Consistent with our 2015 recommendations for developing a federal cybersecurity strategy, OMB's strategy identifies key actions, responsibilities, and timeframes for implementation as well as mechanisms for tracking progress and holding individuals accountable.[62] These actions should help federal agencies stem the rising tide of information security incidents. In addition, OMB should continue to focus its attention on implementing our recommendations to (1) address agency cyber incident response practices in its oversight of agency information security programs and (2) collaborate with stakeholders to enhance reporting guidance for the inspector general community. Doing so will enable federal agencies to better respond to cyber attacks and will provide for more consistent and useful reporting to the Congress.

- **Better coordination among programs that support employment for people with disabilities.** In 2010, an estimated one in six working-age Americans reported having a disability, and the federal government obligated more than $4 billion in fiscal year 2010 for employment-related supports for people with disabilities. Lack of coordination is, in part, why federal disability programs have remained on our high-risk list since 2003. Meanwhile, SSA paid out almost $196 billion in fiscal year 2015 in income supports for people with disabilities who cannot work, and historically, people with disabilities

[62]GAO, *Federal Information Security: Agencies Need to Correct Weaknesses and Fully Implement Security Programs*, GAO-15-714 (Washington, D.C.: Sept. 29, 2015).

have experienced higher unemployment and poverty rates than those without disabilities.[63]

In 2012, we found overlap and limited coordination among 45 programs in nine federal agencies that support employment for people with disabilities—programs that have been created or have evolved over time to address barriers in employment for people with disabilities, resulting in a fragmented system of supports. To improve coordination and spur more efficient and economical service delivery in overlapping program areas, OMB should consider establishing measurable, governmentwide goals for employment of people with disabilities, and agencies should establish related measures and indicators and collect additional data to ensure goals are being met. Establishing such goals and related measures could further enhance coordination and help improve employment outcomes for people with disabilities, including finding or maintaining employment outside of the federal government.

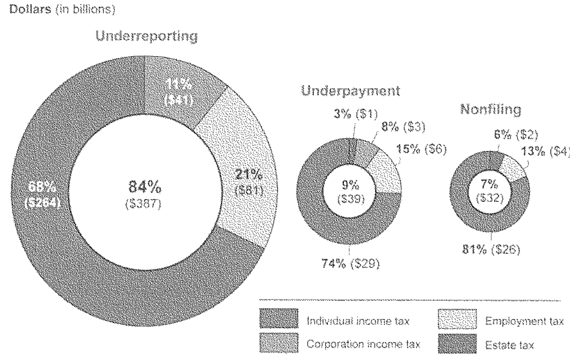
Multiple Strategies Needed to Address the Persistent Tax Gap

The tax gap—the difference between taxes owed to the government and total taxes paid on time—has been a persistent problem for decades despite the Internal Revenue Service's (IRS) efforts to improve voluntary compliance. In 2016, IRS estimated that for tax years 2008 to 2010, the voluntary compliance rate averaged 81.7 percent of taxes owed, resulting in an average annual gross tax gap of $458 billion. After accounting for an estimated $52 billion in late payments and payments resulting from IRS enforcement actions, the net compliance rate averaged 83.7 percent of taxes owed, resulting in an annual average net tax gap of $406 billion for those years.

The largest part of the tax gap is from underreporting, when taxpayers inaccurately report tax liabilities on tax returns. (See figure 11.) Other forms of noncompliance are underpayment, when taxpayers fail to pay taxes due from filed returns, or nonfiling, when they fail to file a required tax return altogether or on time.

[63]In particular, SSA's Disability Insurance and Supplemental Security Income programs dispensed $143.4 and $52.3 billion respectively in cash benefits in fiscal year 2015, while grappling with large workloads and struggling to make timely decisions on who is eligible for cash benefits.

Figure 11: Underreporting of Individual Income Tax Accounts for the Largest Share of the Average Annual Gross Tax Gap, Tax Years 2008-2010



Source: GAO analysis of Internal Revenue Service information. | GAO-17-579T

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 the Internal Revenue Service (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 a corporation income tax estimate for nonfiling noncompliance.

We have identified actions IRS and Congress can take to reduce the tax gap.[64] For example, we recommended that IRS collect more data on noncompliance and determine resource allocation strategies for its enforcement efforts, such as for partnerships; strengthen referral programs so whistleblowers can more easily submit information to IRS about tax noncompliance; and enhance taxpayer services, such as by developing a long-term strategy for providing web-based services to taxpayers.

Likewise, Congress could help address the tax gap by expanding third-party information reporting requirements, requiring additional taxpayers to file tax and information returns electronically, regulating paid tax return

[64]GAO-17-317.

preparers, and, as previously discussed, providing IRS with broad authority to correct errors where there are inconsistencies within a taxpayer's tax return.

Action Needed to Improve Information on Programs and Fiscal Operations

In many cases, agencies also need to take action to provide decision makers with additional or improved information on the performance and costs of policies or programs. In particular, decision making could be improved by strengthening internal controls over financial reporting to ensure the statements are fully auditable, increasing attention to tax expenditures, and effectively implementing the DATA Act.

- **Ensuring the federal government's financial statements are fully auditable.** Eliminating these weaknesses would improve the reliability of financial information and improve financial decision making.[65] The U.S. government's consolidated financial statements are intended to present the results of operations and the financial position of the federal government as if the government were a single enterprise. Since the federal government began preparing consolidated financial statements 20 years ago, three major impediments have continued to prevent us from rendering an opinion on the federal government's accrual-based consolidated financial statements over this period: (1) serious financial management problems at DOD that have prevented its financial statements from being auditable, (2) the federal government's inability to adequately account for and reconcile intragovernmental activity and balances between federal entities, and (3) the federal government's ineffective process for preparing the consolidated financial statements.[66]

  Over the years, we have made a number of recommendations to OMB, Treasury, and DOD to address these issues. Generally, these entities have taken or plan to take actions to address these recommendations. The material weaknesses in internal control underlying these three major impediments continued to (1) hamper

[65] A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

[66] GAO-17-283R.

the federal government's ability to reliably report a significant portion of its assets, liabilities, costs, and other related information; (2) affect the federal government's ability to reliably measure the full cost, as well as the financial and nonfinancial performance of certain programs and activities; (3) impair the federal government's ability to adequately safeguard significant assets and properly record various transactions; and (4) hinder the federal government from having reliable financial information to operate in an efficient and effective manner.

- **Increased attention to tax expenditures.** Tax expenditures are sometimes used to provide economic relief to selected groups of taxpayers or to encourage certain behavior or to accomplish other goals. The goals they seek to advance may be similar to the goals of mandatory or discretionary spending programs. According to Treasury, in fiscal year 2016 there were 167 tax expenditures. These tax expenditures represented an estimated total of $1.4 trillion in forgone tax revenue.[67]

  However, despite their use as a policy tool, tax expenditures are not regularly reviewed, and their outcomes are not measured as closely as those from spending programs. We recommended that OMB take actions to develop a framework for evaluating tax expenditure performance and to regularly review tax expenditures in executive branch budget and performance review processes. However, OMB has not developed a systematic approach for conducting such reviews and has not reported progress on addressing data availability and analytical challenges in evaluating tax expenditures since the President's fiscal year 2012 budget.

  In July 2016 we recommended that OMB work with agencies to identify which tax expenditures contribute to agency goals, and OMB generally agreed with the recommendation.[68] Absent such analysis, policymakers have little way of knowing whether these tax provisions support achieving the intended federal outcomes and lack information to compare their cost and efficacy with other policy tools.

- **Effective implementation of the DATA Act.** We have reported that the DATA Act holds great promise for improving the transparency and

[67]Summing tax expenditure estimates provides a sense of size but does not take into account possible interactions among individual tax expenditures and within the tax code. Total change in tax revenues from repealing all tax expenditures could differ from the sum of the estimates.

[68]GAO, *Tax Expenditures: Opportunities Exist to Use Budgeting and Agency Performance Processes to Increase Oversight*, GAO-16-622 (Washington, D.C.: July 7, 2016).

accountability of federal spending data. Full and effective implementation of the act would enable—for the first time—the federal government as a whole to report on funds at multiple points in the federal spending lifecycle and significantly increase the types and transparency of data available to Congress, agencies, and the general public. OMB and Treasury have taken significant steps toward implementing the DATA Act's various requirements, but agencies have reported that they continue to face challenges, including issues involving systems integration, lack of resources, evolving and complex reporting requirements, and inadequate guidance.[69]

As agencies begin to report data required by the act in May 2017, attention will increasingly focus on the quality of the data being produced. Prior agency financial audits and inspectors general reviews have identified material weaknesses and significant deficiencies that present risks to agencies' ability to submit quality data.[70] We also identified challenges with guidance that will impact data quality and limitations with the processes to provide and communicate needed quality assurances to users. Moving forward, OMB and Treasury need to continue to address issues that we identified in our previous work as well as our open recommendations related to implementation of the act and data transparency.[71]

The government must act soon to change the long-term fiscal path or risk significant disruption to individuals and the economy. Congress will need to discuss the entire range of federal activities and spending—entitlement programs, other mandatory spending, discretionary spending, and revenue. Moving forward, the federal government will need to make tough choices in setting priorities and ensuring that spending leads to positive results. Having a broader fiscal plan to put the federal government on a more sustainable long-term path would help with these tough decisions.

[69]GAO, DATA Act: *OMB and Treasury Have Issued Additional Guidance and Have Improved Pilot Design but Implementation Challenges Remain*, GAO-17-156 (Washington, D.C.: Dec. 8, 2016) and *DATA Act: Implementation Progresses but Challenges Remain,* GAO-17-282T (Washington, D.C.: Dec. 8, 2016).

[70]A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. For more information, see GAO, *DATA Act: As Reporting Deadline Nears, Challenges Remain that Will Affect Data Quality,* GAO-17-496 (Washington, D.C.: Apr. 28, 2017).

[71]See GAO-17-496, appendix II for a list of our previous recommendations relating to the DATA Act and their implementation status.

Thank you, Chairman Black, Ranking Member Yarmuth, and Members of the Committee, this concludes my prepared statement. I would be pleased to answer questions.

GAO Contacts

For further information on this testimony, please contact Susan J. Irving, Director of Federal Budget Analysis, Strategic Issues, who may be reached at (202) 512-6806 or irvings@gao.gov, and J. Christopher Mihm, Managing Director, Strategic Issues, who may be reached at (202) 512-6806 or mihmj@gao.gov. Contact points for the individual areas listed in our 2017 Fragmentation, Overlap, and Duplication annual report can be found on the first page of each area in GAO-17-491SP. Contact points for the individual high-risk areas are listed in GAO-17-317 and on our high-risk website. Contact points for our Congressional Relations and Public Affairs offices may be found on the last page of this statement.

Appendix I: Related GAO Work

Long-Term Fiscal Outlook

- *The Nation's Fiscal Health: Action is Needed to Address the Federal Government's Fiscal Future*. GAO-17-237SP. Washington, D.C.: January 17, 2017.
- GAO, *Fiscal Outlook & The Debt* Key Issues Page, accessed April 28, 2017, http://www.gao.gov/fiscal_outlook/overview.
- *Fiscal Outlook: Addressing Improper Payments and the Tax Gap Would Improve the Government's Fiscal Position.* GAO-16-92T. Washington, D.C.: October 1, 2015.
- *Social Security's Future: Answers to Key Questions.* GAO-16-75SP. Washington, D.C.: October 27, 2015.

Improper Payments

- *Improper Payments: CFO Act Agencies Need to Improve Efforts to Address Compliance Issues*. GAO-16-55. Washington, D.C.: June 30, 2016.
- *Improper Payments: Government-Wide Estimates and Use of Death Data to Help Prevent Payments to Deceased Individuals.* GAO-15-482T. Washington, D.C.: March 16, 2015.
- *Disaster Relief: Agencies Need to Improve Policies and Procedures for Estimating Improper Payments.* GAO-15-209. Washington, D.C.: February 27, 2015.
- *Improper Payments: TRICARE Measurement and Reduction Efforts Could Benefit from Adopting Medical Record Reviews.* GAO-15-269. Washington, D.C.: February 18, 2015.
- *Improper Payments: DOE's Risk Assessments Should Be Strengthened.* GAO-15-36. Washington, D.C.: December 23, 2017.
- *Improper Payments: Inspector General Reporting of Agency Compliance under the Improper Payments Elimination and Recovery Act.* GAO-15-87R. Washington, D.C.: December 9, 2014.
- *Improper Payments: Government-Wide Estimates and Reduction Strategies.* GAO-14-737T. Washington, D.C.: July 9, 2014.

Tax Gap

- *Partnerships and S Corporations: IRS Needs to Improve Information to Address Tax Noncompliance.* GAO-14-453. Washington, D.C.: May 14, 2014.
- *Paid Tax Return Preparers: In a Limited Study, Preparers Made Significant Errors.* GAO-14-467T. Washington, D.C.: April 8, 2014.

	- *Tax Gap: IRS Could Significantly Increase Revenues by Better Targeting Enforcement Resources.* GAO-13-151. Washington, D.C.: December 5, 2012. - *Tax Gap: Sources of Noncompliance and Strategies to Reduce It.* GAO-12-651T. Washington, D.C.: April 19, 2012.
Debt Limit	- *Debt Limit: Market Response to Recent Impasses Underscores Need to Consider Alternative Approaches.* GAO-15-476. Washington, D.C.: July 9, 2015. - *Debt Limit: Analysis of 2011-2012 Actions Taken and Effect of Delayed Increase on Borrowing Costs.* GAO-12-701. Washington, D.C.: July 23, 2012. - *The Effects of Delays in Increasing the Debt Limit* Podcast, accessed April 28, 2017, http://www.gao.gov/multimedia/podcasts/592827. - *Debt Limit Alternative Approaches* Podcast, accessed April 28, 2017, http://www.gao.gov/multimedia/podcasts/670669.
Consolidated Financial Statement	- *Financial Audit: Fiscal Years 2016 and 2015 Consolidated Financial Statements of the U.S. Government.* GAO-17-283R. Washington, D.C.: January 12, 2017. - *Understanding the Primary Components of the Annual Financial Report of the United States Government.* GAO-09-946SP. Washington, D.C.: September 25, 2009.

(101977)

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's website (http://www.gao.gov). Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to http://www.gao.gov and select "E-mail Updates."

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, http://www.gao.gov/ordering.htm.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

Connect with GAO

Connect with GAO on Facebook, Flickr, LinkedIn, Twitter, and YouTube. Subscribe to our RSS Feeds or E-mail Updates. Listen to our Podcasts. Visit GAO on the web at www.gao.gov and read The Watchblog.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Website: http://www.gao.gov/fraudnet/fraudnet.htm
E-mail: fraudnet@gao.gov
Automated answering system: (800) 424-5454 or (202) 512-7470

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

Strategic Planning and External Liaison

James-Christian Blockwood, Managing Director, spel@gao.gov, (202) 512-4707
U.S. Government Accountability Office, 441 G Street NW, Room 7814,
Washington, DC 20548

Chairman BLACK. Wow, you were right on the dot there. I would expect nothing less from the Comptroller General to be right on the dot when it comes to numbers. Again, we so much appreciate you being here and the work that you and all of the folks in your office have done. I do not disagree at all that we have to have a better plan, and we have not done as good a job as we need to do with controlling many of those costs, including the growing interest, which you have already indicated is a big part of our expenses and will only grow if we do not get cost control on the other side.

But let me go to the government wide improper payments. As has already been said in my comments and again with you that it totaled $144 billion. And I do not know, when we talk about millions and billions and trillions of dollars around here, it is almost like a Monopoly game. But this is real money: $144 billion dollars. I think about what could be done with that money instead of being an improper payment that goes out the door, and we do not really have a good way of retrieving that.

But you also said this may be an understated problem, so some of 18 government programs did not even report the estimate for their improper payments last year. Does this suggest that the problem of improper payments is even larger than what you are reporting? In other words, $144 billion really might just be a floor, rather than a ceiling, and if you could give us some kind of, even, just ballpark? I know that is difficult to be done, but just kind of a ballpark of where that difference may be?

Mr. DODARO. First, it is definitely an underestimate, what the total scope of the problem is. Every year, when we issue our statement on our audit of the Federal Government's financial statements, we list this material weakness that the Federal Government is unable to report for staff an improper payment problem and, thus, is not in the position to effectively manage the results of those programs. When we first started doing our audits of the Federal Government financial statements, and those audits were not required by the Congress until 1996. So, we went for 200 years in this country without the discipline of annual financial statement preparation and audit, like it occurs in the private sector and, of course, at the state and local levels. The auditors estimated the improper payment estimates and then, finally, Congress passed a law requiring the management of the departments and agencies to do this.

You know, unfortunately, I cannot find you a figure on what I think the total would be, but I think it to be materially understated at this point, which would lead to an additional billions of dollars. I know for a fact, when the Supplemental Nutrition Assistance Program did report improper payments, their improper payments were over $3 billion. So, when they start resuming making their estimates, I expect it to be, you know, billions of dollars understated.

The problem is pervasive, as you mentioned, so 112 programs in 22 different agencies. The biggest three, though, are Medicare, which is about $60 billion; Medicaid, $36 billion, and I believe Medicaid to be understated because it does not specifically focus on the managed care portion of Medicaid yet; and the earned income tax credit, which is close to $17 billion for 2016.

Chairman BLACK. Could I ask to have figure 1, slide 1 put up on the charts? And if we could just refer to this. Over the past 5 years, the GAO has made nearly 130 program specific recommendations to various agencies to reduce these improper payments that have not been adopted or implemented. And so, we see the dollars go out the door. You make recommendations; they are not adopted; they are not implemented. Can you give us some kind of an idea about why that is? Is this the case of the agency just not wanting to do it? Are there other barriers at play that prevent the agencies from acting on the GAO recommendations?

Mr. DODARO. Yeah, there are a couple factors. One, I feel this is a cultural shift. Most of the programs in the agencies believe their job is to make sure they do not miss anybody that should be paid. And so, as a result, the tendency is to, when in doubt, pay, and then worry about it later. And we are trying to shift that culture to making sure there are not payments made inappropriately in the first situation. Ninety percent, over 90 percent of these figures are overpayments. Now, some of them are underpayments, which is a problem, too, because that means somebody who should be getting the money is not. But the big problem is overpayments. There is not enough checking before the payments that are made up front in the first place.

We have a recommendation to the Congress, for example, to match against the complete Social Security Death Master File to make sure people are not taking advantage of people who died in filing false claims. This has been a problem. We have identified this, the IGs and others in the past. But it will take a requirement change, amendment to the Social Security Act, in order to allow Social Security to share that full Death Master File with the agencies.

I have also been working with the State auditors, particularly as it relates to Medicaid, because, in some States, Medicaid is ⅓ or more of the entire State budget to get the State auditors involved. This may require help from the Congress in order to provide some funding, which I think would have a good return on investment there as well.

The other thing is I think there needs to be greater congressional oversight. There are at least 7 agencies that are out of compliance with the law. The law says you have to keep your improper payment rates below 10 percent. There are 14 agencies, I believe, or maybe 11 that are above 10 percent. And some are extraordinarily high. And if you are out of compliance with that for 3 straight years, you are out of compliance with the law. And they are required, the agencies are required, to submit to Congress proposed legislative changes to bring them into compliance with the law.

But there needs to be more oversight by the Congress and attention made to these areas. And we have a number of other open recommendations I list in my written testimony for specific areas and programs and other areas. And Medicare, for example, we have recommended that the CMS seek the authority to allow recovery auditors to do audit before the payments are made in the first place. They did a pilot. It was demonstrated successful. But they have not submitted that legislative proposal to the Congress. So, there is much that can be done.

Chairman BLACK. Well, and I appreciate that because, once the dollars are out the door, they are very hard to get back. But as you have indicated, there has to be some kind of consequence, rather than just a good-faith effort to fix or because we see how this has continued to grow, and if there were an effort to be done where there were actually teeth behind it, consequence, some sort of a tangible penalty to sanction, that seems to be what would be a whole lot more effective than just good-faith effort because, if we continue to see this grow, that is ultimately affecting the taxpayer.

I know we talk about these dollars as though they somehow belong to the Federal Government, and they do not. These are taxpayer dollars. I only have a brief period of time left, but I am looking at the long-term fiscal outlook, and GAO has been doing its long-term simulations since 1992 about a quarter of the century. How much worse is the outlook now compared to what it was then, and is it worse now than GAO projected in 1992? So, in other words, what you project in 1992, is that true, or is it worse than what you had projected?

Mr. DODARO. Yeah. Yeah. I would have to go back and check the 1992 projections, but I would believe they would show the situation now is worse because I do not think, at that time, we anticipated the Great Recession that occurred during the global financial crisis. And that worsened the situation considerably. We were on an unsustainable path before the global financial crisis. But after that, when we borrowed money to help stabilize the financial institutions and resume credit lending, we had the American Recovery and Reinvestment Act to provide stimulus funding; all that added additional money. And there are a number of things that have been added over time: part D, paying for prescription drugs without funding it. And so, all those things have added to the debt. So, I will double check compared exactly to our 1992 estimates and submit that for the record, but my overall feeling is it is worse.

Chairman BLACK. Thank you. Well, I sure do appreciate that. And again, I appreciate you being here. I do want to highlight one of our colleagues who brought this to our attention, so that we could have this most interesting and important conversation, and that is Mr. Palmer. And I know he will be here in just a bit to ask some questions. But I do not know that there is much else that is more important than our fiscal sustainability and the fact that we can say to the American people, when you send your taxpayer dollars, they are being used for the best use and that there is not a waste in that.

So, such an important conversation, one that I do not believe many of my other colleagues outside of this Committee have any idea. And so, we hope to highlight it through this hearing and other measures that we do going forward. So, thank you again. Now, we can begin our question and answer period, and I will turn to the ranking member, Mr. Yarmuth, for your questions.

Mr. YARMUTH. Thank you, Madam Chairman. Once again, Mr. Dodaro, thank you for your testimony, and you and I had a very good conversation in my office several months ago, and I appreciate the work that you do and that your organization does. As I said in my opening statement, I truly believe that this is something that we Democrats should be even more vigilant on than Republicans because I accept the moniker that we are the party of government and ought to make sure that we do what we can to create the most efficient government possible and that, certainly, when you have abuse of programs that we believe in, we would be much more credible if we worked to make sure that those programs were as efficient and effective as possible.

So, I look forward to working with you as we move forward. Chairman Black asked the question about what is responsible, and you gave some answers, but I am wondering whether it is a larger problem with personnel or in the agencies, or whether it is with structural problems. Is there any way to characterize that?

Mr. DODARO. I think it is a multifaceted problem, and quite frankly, the agencies have not really identified all the root causes necessary to identify what the specific problem is. I think it is part people; it is part technology. You know, technology is really one of the ways to be able to do this. Part of it is legal barriers and that there is not enough sharing of information between the departments and agencies that could check.

You know, a lot of these programs are based on income requirements. And there could be more checking. Right now, it is mostly self-reporting by people about what their income levels are. So, there could be more checking up front before payments are made. So, it is people, it is technology, it is incentives and it is culture.

Mr. YARMUTH. I appreciate that. And I know the lawyers say never ask a question you do not know the answer to. I am not a lawyer and I am not that disciplined so I tend to ask questions that I could be surprised about, but I am curious as to whether you have done any analysis as to whether a lot of this ends up being a cost-shifting situation in which if you were to actually stringently enforce all of the guidelines of these programs whether you would not shift costs onto either State and Local governments or some other area of the Federal Government?

Mr. DODARO. Yeah. The only cost shifting that we have reported on I am aware of is actually the reverse. And it is in the Medicaid program where the States are shifting more of the cost to the Federal Government. They have to provide a non-Federal Government share of their Medicaid spending, and a lot of them are taxing and using other means for local providers and then they are compensating, making payments back to those local providers that are high, which, in effect, shifts the cost because it increases the Federal matching requirement there. In most of the programs, the Federal Government bears most of the fiscal responsibility in the outcome through the program, so the responsibility really lies at the federal level.

There could be incentive issues at the state and local level, particularly in the Medicaid program, you know, where the Federal Government does so much matching. In the Food Stamp Program or the Supplemental Nutrition Assistance Program, it is all federal money that is administered at the State level. So, the only shifting I am aware of is within the Medicaid program. And we have made recommendations to CMS to collect better information to prevent that cost shifting from inappropriately effecting the Federal Government's share.

Mr. YARMUTH. How much of the inappropriate payments that you have analyzed are the result of criminal behavior?

Mr. DODARO. It is hard to determine, you know. Not all improper payments are fraud by a long shot, but all fraud is improper payments. And just to give you some examples, in the health care area alone, you know, the Justice Department has a special task force; they had almost 900 cases that they have opened up, and the HHS inspector general has completed over 700 criminal cases just in 2016 alone and almost 700 civil cases as well.

So, it is clear there is fraud in the health care area in particular. The other area is in the earned income tax credit area, and we have made a number of recommendations to the Congress. In that area, you have a very complex program with a lot of complex rules that are difficult to follow about residency and dependency of the children movements between families. But we found, you know, most of the earned income tax credit people go to have their returns prepared by unenrolled tax preparers at IRS, and about /1/3/ of the overpayments are due to errors by these unenrolled tax preparers. And, actually, for refundable tax credits, people who do their own taxes have a much higher accuracy rate than if they go and they use an unenrolled tax preparer.

So, we have recommended that the IRS provide some certification requirements and training requirements in this area, which we think would really help reduce the error rates in earned income tax credit. They are close to 25 percent of the program. And they also take up a lot of IRS's time in doing the audits. They do more audits in that than almost any other area.

And, also, I have been talking with several members, Congressman Renacci and others. There is a way to give IRS more authority to correct errors when the returns are there. Congress could act to do that. That would solve part of this problem too rather than happen to have a full-blown audit to address the issues.

So, there are a lot of things that we have made recommendations to the Congress. One area that Congress already acted on, and I am very pleased, is they are now requiring the W–2 information by employers to be sent to IRS by the end of January, previously had been March and April. So, IRS did not have that information to match against returns that were filed.

Mr. YARMUTH. Right. While we are on the subject of tax exempt, when you throw out the figure of $450 billion a year in uncollected, but due, tax revenue, that is a pretty frightening figure because you are talking about, in some years, the entire federal deficit, essentially and a good share, even, of it today. What are the key factors that we need to consider in Congress to reduce that number significantly?

Mr. DODARO. Yeah. The number is an annual number. So, you know, like improper payments, we have money going out the door that probably should not in some cases and a lot of revenue that should be coming in, and it is not. We are about 84 percent compliance, voluntary compliance rate. We have encouraged the IRS to do more third-party reporting. If you look at where the tax gap is, about 84 percent of it is people who un-report their income, about 10 percent; 10 percent is people who have reported properly, but just do not pay the tax. And then you have about 6 percent of people who do not file at all.

And so, in targeting, you look at where the gaps are, where there is withholding at the source, like, for most people, their taxes get withheld by their employer and remitted to the IRS; there is very high compliance rates. But when you get to small businesses, partnerships, and corporations and others, there is less compliance rate at these areas.

So, if IRS has better third party reporting information that they compare to the tax returns that are submitted, the compliance rates go up. So, we think there is more third party reporting that can be done. We believe this correctable error authority at IRS would help a lot, not only in earned income tax credits, but in other tax returns. And also, we believe that their giving IRS the authority to ensure that anybody who is a tax preparer is credible, well-educated, and is going to make good-faith efforts to comply.

Mr. YARMUTH. Okay, one obvious question I have and then probably is a very simple answer, but if a lot of this is income that we do not know about, the government does not know about it, how do you know about it?

Mr. DODARO. Yeah, well, IRS does studies. The estimates are all based upon, actually, it was a GAO recommendation years ago, and nobody knew what the size of the tax gap was. So, IRS has a research effort there they use all their tools and results of all their audits where they found these things. They have whistleblower programs that we have recommended be streamlined, so people call them with tips all the time. So, you know, while, you know, we do not know or IRS does not know, somebody knows. And they inform the IRS, and there are other ways for them to find out these measures, but these are well-informed estimates by IRS.

Mr. YARMUTH. Great, I appreciate that. Thank you for your responses, and I yield back.

Chairman BLACK. Thank you, Mr. Yarmuth. I now recognize the gentleman from California, Mr. McClintock, for 5 minutes.

Mr. MCCLINTOCK. Thank you, Madam Chairman. First, of all, I would like to correct the misrepresentation that we heard from the ranking member that the President was calling for a government shutdown. And, in fact, he has been bending over backwards to avoid a government shutdown. There are some on our side of the aisle who think that maybe he has gone too far in bending over backwards to avoid a government shutdown.

What he called for was for the Senate to reform its closure rule on fiscal bills that has completely gridlocked Congress' ability to control spending and exert its power of the purse. He suggested it might end up taking a shutdown before the Senate finally realizes how serious the problem is and decides to fix it. So, I want to make that clear. Mr. Dodaro, does the omnibus spending bill that is now pending before the Congress improve or degrade our government solvency?

Mr. DODARO. Well, I believe the current estimate for this year by CBO, the deficit, is over $500 billion, so it is still not, you know, or we are still spending more than we are——

Mr. MCCLINTOCK. Well, does the current spending bill make it better, worse, or keep us on the current trajectory?

Mr. DODARO. I think the deficit would go up a tad. I would have to check and go back to see——

Mr. MCCLINTOCK. So, it would increase our debt picture even further?

Mr. DODARO. Yes, yes.

Mr. MCCLINTOCK. So, you would put the revenue gross up $18 billion. Our spending is up $166/1/2/ billion, you know, that is certainly a prescription for disaster. It seems to me, from your report, that the increase in spending is all being driven by mandatory spending?

Mr. DODARO. Mandatory spending, including interest on the debt. But what you are seeing now is a harbinger of what is going to happen with the demographic changes in the country and the baby boomer retirement. Between now and 2029, every day in the United States on average, 10,000 turn 65, so we are almost going to double the number of people enrolled in Medicare and Social Security.

Mr. MCCLINTOCK. Well, let's go to that question for a second because you said the debt held by the public is going to exceed our previous high of 106 percent of GDP in the next 15–20 years. But is not our total debt intergovernmental and debt held by the public already approaching or exceeding that all-time record high?

Mr. DODARO. Yeah, that is correct.

Mr. MCCLINTOCK. And that record high occurred at the very end of World War II when we completely exhausted our Nation's resources fighting against the two most powerful military forces on the planet. And there was serious concern whether we could even continue the war into fiscal 1946 because we were out of money.

Mr. DODARO. Right.

Mr. MCCLINTOCK. And we are actually there right now in terms of the total amount of debt being held by the Federal Government, both by the public and intergovernmental debt. And is not the distinction between debt held by the public and intergovernmental debt largely due to the government repaying loans it has taken out from the Social Security Trust Fund?

Mr. DODARO. Yes.

Mr. MCCLINTOCK. So, as it does so, it converts intergovernmental debt into public debt; is not that right?

Mr. DODARO. That is right; that is right.

Mr. MCCLINTOCK. So, is not this a distinction without a difference? Intergovernmental debt will automatically convert into public debt over the next few years, so really, are not we already at that all-time limit?

Mr. DODARO. Well, it is a timing issue. It is a timing issue. In fairness, we are using the debt held by the public to compare to the current GDP ratio. And as this intergovernmental debt plays out over the coming years, there will be different GDP estimates. So, it is the classic way to compare this——

Mr. MCCLINTOCK. Going to the issue of revenues, where do we stand right now on revenues as a percentage of our GDP as compared to our post-war average?

Mr. DODARO. We are lower.

Mr. MCCLINTOCK. We are lower in——

Mr. DODARO. Yes.

Mr. MCCLINTOCK.——revenues than our post-war average?

Mr. DODARO. Yes.

Mr. MCCLINTOCK. Okay, where are we on our spending?

Mr. DODARO. Higher.

Mr. MCCLINTOCK. And is not spending really the critical issue here? I mean, to me, I think there are really only 2 ways to pay for spending. You either tax it now as revenue, or you tax it in the future as debt. And if you tax it as debt, you end up paying interest on that debt, and you borrow from the same capital market that would otherwise be available for consumer purchases when two-thirds of economic growth is driven by consumer spending. Or loans to businesses seeking to expand jobs.

Mr. DODARO. Yeah. The gap, that structural problem between revenues and expenditures, is so large, if you just keep the debt held by the public at the current average of GDP over the next 75 years, you would have to, on average, cut spending 25 percent from current levels on average, over the 25-year period, if you were to do spending alone. If you were to do revenue alone, it would be 36 percent increase in taxes in order to generate more revenue. The closest gap——

Mr. MCCLINTOCK. Minus the negative impact.

Mr. DODARO.——would just stay even.

Mr. MCCLINTOCK. Minus the negative impact on the economy that would suppress revenues.

Mr. DODARO. Yeah, you would have all sort of attendant, you know, factors that would cascade from those decisions. But I think the problem is so big, eventually, there is going to have to be a combination of spending reductions and attendant to revenues in order to solve this problem in an equitable way.

Mr. MCCLINTOCK. Or revenue growth——

Chairman BLACK. The gentleman——

Mr. MCCLINTOCK.——or economic expansion.

Mr. DODARO. Yes, that always helps.

Chairman BLACK. The gentleman's time has expired. The gentleman's time has expired.

The gentleman from California, Mr. Carbajal, is recognized for 5 minutes.

Mr. CARBAJAL. Thank you very much, Chairman Black and Ranking Member Yarmuth. Thank you, Mr. Dodaro for coming today to provide us your nonpartisan, unbiased opinion and feedback today. The CBO has told us that of the 10 largest tax expenditures, the top 1 income percent of income earners reap 17 percent of the tax benefit. And some are massively favoring the wealthy.

68 percent of the benefit from the preferential rate on capital gains and dividends goes to just the top 1 percent. Others favor well-connected special interests, like the carried interest for hedge fund partners, special depreciation for corporate jets, and subsidies for big oil. Would reexamining and closing some of these loopholes and provisions be a way to improve our fiscal situation?

Mr. DODARO. Yes, we have an outstanding recommendation that the tax expenditures be regularly reviewed just like the agency operations or appropriations decisions are made every year. The amount of tax expenditures in any 1 year of revenue forgoes over a trillion dollars. So, it is almost as much money as discretionary spending in as many years.

And we have recommended that more disclosures be made in the budget process and that, in OMB implementing the program inventories, you look at a set of programs and related tax expenditures together because tax expenditures are another Federal tool for delivering services. Programs are one; tax expenditures are another; loans are another, but a lot of them are in similar areas, where you are trying to achieve multiple objectives. So, regular review of tax expenditures ought to be a normal practice of our government. It has not been.

Mr. CARBAJAL. Thank you. In your report on page 21, it shows that the highest improper payments go to 4 major programs: Medicare Fee-for-Service, Medicare Advantage part C, Medicaid and earned income tax credits. I am wondering if there has been a deeper dive of trying to understand the profile of who the recipients of these improper payments are.

Mr. DODARO. Yes, there has been. For example, in the Medicare Fee-for-Service area, there is higher improper payments rates for home health services and durable medical equipment. And so, there are, you know, some additional information, probably not everything that needs to be done eventually. But there are some indicators of where there are higher improper payment rates in place.

Most of the improper payment rates in Medicaid are in the Fee-for-Service portion. The managed care portion, now, is about 40 percent and that we have recommended that the State start auditing the managed care providers in the Medicaid programs, and CMS has passed the rule to require that, so that will start soon. That will provide additional insights into the Medicare managed care portion.

Mr. CARBAJAL. Thank you. And the last observation that I wanted to share is that, in 2009, the improper payment error noted in the 2016 financial report for the U.S. government noted that, in 2009, the improper error rate was 5.42 percent. When sequestration came into effect, it was 3.53 percent. In 2016, it has come up to 4.67 percent. I only throw that observation out because it seems that there might be a correlation with sequestration; any thoughts?

Mr. DODARO. I find it difficult to draw that correlation myself. I think a lot of this is driven by the growth in the programs. And, you know, Medicaid or Medicare are growing at 6 to 8 percent a year and are projected to grow. And so, some of the increase is just by the fact that programs are growing faster. Most of this needs to be resolved through technology, you know, changes, as well. Maybe there was some effect of the changes, but I do not think, over time, that that is really the driver.

Mr. CARBAJAL. I was referring to the error rate, but I am almost out of time.

Mr. DODARO. Right. Yeah.

Mr. CARBAJAL. But thank you so much.

Mr. DODARO. But my answer applies to that, too.

Mr. CARBAJAL. Okay. Thank you very much.

Mr. DODARO. Sure.

Mr. CARBAJAL. I yield back.

Chairman BLACK. The gentleman yields back. I now recognize the gentleman from Wisconsin, Mr. Grothman, for 5 minutes.

Mr. GROTHMAN. Thank you. I am looking at the table we looked at that you mentioned programs reporting improper payments. I would like to zero-in on a couple of them.

Mr. DODARO. Sure.

Mr. GROTHMAN. One is the earned income tax credit. You show here that, shockingly, 24 percent of the payments are improper. And I wondered what that means, "improper," or whether you are catching everything. How do they determine that 24 percent number?

Mr. DODARO. It is based upon a statistical sample that they take of error rates they take later and a closer examination.

Mr. GROTHMAN. Is it error rates on the return, or is that going into somebody's house and seeing whether the child is really with them, or is it actually, you know, going through and seeing whether they have income that is cash off the books?

Mr. DODARO. Yeah.

Mr. GROTHMAN. I mean, I hear so much evidence, especially from kind of the more liberal people in my district, who, you know, maybe administer the low-income housing, this is a broken program. I just wondered what that 24 percent means. How hard do we look to see——

Mr. DODARO. Yeah. I believe it is mostly through audits that the IRS does through the EITC program. The EITC audits account for 39 percent of all the audits IRS does of individual tax returns. So, this is an area that is heavily audited by the IRS because of the error rate. And I will give you a detailed answer for the record about exactly how they develop the rate, but it is a heavily audited area by IRS.

Mr. GROTHMAN. I realize it is audited, but I wonder, when they audit, what they pick up on, you know? I mean, do they go into somebody's house if somebody puts down, you know, Mary Smith, Social Security number 123–45–6789, do they confirm that Mary Smith is there? Do they go into the house and make sure? Because a lot of people make money off of the books, and there is certainly a lot of evidence that people are using their income tax credit for things other than children's shoes. I mean, would the audit pick up on those things, or would those be additional examples of fraud?

Mr. DODARO. Yeah. Yeah, I do not know off hand. And I will give you an answer for the record on that.

Mr. GROTHMAN. Can you look into that for us?

Mr. DODARO. Sure, sure.

Mr. GROTHMAN. Because I have a feeling it is even higher, and, you know, any program, if 24 percent was going out the window, we would look for a different program.

Mr. DODARO. Right.

Mr. GROTHMAN. Next question I have for you is on Medicare and Medicaid. I recently talked to a guy from my district whose business includes auditing payments for companies that self-insure. And he found shockingly high overpayments. When he went out of network to an emergency room, I am reluctant to even give you the numbers because I am afraid somebody will question them, and they are just so high, it is beyond belief. But when you talk about errors in Medicare Fee-for-Service, again, how deep a dive are you doing? Are you going deep in depth of the individual bills? Like if a Medicare patient goes to an emergency room, are they really going through those bills? Or how do they get at that 11 percent number?

Mr. DODARO. Yeah. Yeah, well, in those cases, I know they take a statistical sample to claims, and they ask for all the medical documentation. So, sometimes they will determine that the medical procedure charge was not really needed. During that period of time, they will find that there is not adequate documentation, that the doctor actually ordered the particular service. There are a lot of different reasons. So, they go through a pretty thorough job. We are going to take a look at that area. I want us to understand a little bit more about exactly what they are doing and how they are making the decisions in these estimates.

Mr. GROTHMAN. Because this guy tells me and it puts you in kind of, you know, in excess of 30 percent, which is kind of scary. I do not know. Obviously, you know, you are talking when you get out of network, but kind of scary stuff.

Let's see. Where is our clock in this room? Oh, there it is. I cannot see, okay. I will come back to the income tax credit one more time. It seems to be the problem there is that it is refundable. Do you have any opinion as to what high an error rate you considered satisfactory?

Mr. DODARO. Well, I think it would vary by individual program, but the Congress has already statutorily determined, if you are below 10 percent, you are in compliance with the law; if you are above, you are not. And I would not have any reason to say that that is not a reasonable basis to start with.

Mr. GROTHMAN. Can you dig in to that number and let us know whether the IRS checks into cash off the books and whether the IRS literally—because I do not even know how they would be able to do it. I mean, you say the kids are at school; what are you going to do? Does the IRS do something to confirm that those children are genuinely with the people who are claiming the credit?

Mr. DODARO. Yeah. Yeah, I think they do some checks, as I am thinking back now in terms of checking school records or have people give them documentation about school records and other things. So, but I will give you a thorough answer to that.

Mr. GROTHMAN. Thank you.

Mr. DODARO. And it is an important area. And I think, you know, our overall conclusion along the line of your questioning is the problem is bigger than what is being stated already.

Chairman BLACK. The gentleman's time is expired. The gentlelady from Illinois, Ms. Schakowsky, is recognized for 5 minutes.

Ms. SCHAKOWSKY. I want to thank you, Comptroller General, for being here today. You talked about the cost of health care, and within health care spending overall, prescription drug costs are really a driver in the growth of costs for both consumers and the Federal Government. Medicare part D prescription drug costs nearly doubled from $61 billion in 2007 to $121 billion in 2014 and more since then. Prescription drug costs and Medicare part B doubled from $11 billion in 2007 to $22 billion in 2015. So, I wanted to know if you thought that, and this is, by the way, an issue that the President has raised, to get a handle on prescription drug costs. So, do you believe that slowing the growth of prescription drug costs could help reduce health care spending and improve our long-term budget outlook?

Mr. DODARO. Yes. Yes, definitely.

Ms. SCHAKOWSKY. So, the President has mentioned reforms like letting Medicare negotiate drug prices like the VA has done. And then, additionally, we could end anti-competitive practices in the pharmaceutical industry, promote greater transparency in drug pricing, so that consumers and taxpayers can get a best deal. Do you agree that those are options?

Mr. DODARO. Yes. Yes, I think now, for example, in Medicaid, there are some rebates negotiated. But this is an area where you do not only have Medicare and Medicaid, but you have two of the largest healthcare systems in the country, and Veterans Administration and DOD also purchase a lot of these drugs. So, I think there are a lot of opportunities for the Federal Government to better leverage its purchasing power. Now, it is a complicated area and requires a lot of study, but I think it is a worthwhile area to pursue.

Ms. SCHAKOWSKY. Thank you. I agree. I wanted to ask you about the Defense Department. Years ago, I was on the government efficiency Subcommittee of Government Reform along with Steve Horn from California.

Mr. DODARO. Steve Horn, yes. Yes, I spent many hours before that Committee.

Ms. SCHAKOWSKY. Yes, exactly. And so, I remember, at that time, we were saying that the Department of Defense could not account for a trillion dollars at the time of expenditures. And that number, I believe, has gone up. Am I right? The Department of Defense has never had an audit or been able to perform an audit?

Mr. DODARO. That is exactly right. They are the only major agency that has never been able to pass the test of an independent audit. Right now, they are trying to audit 1 year's budget expectation numbers, and they have not been able to do that yet satisfactorily. A third of the areas on our high-risk list that the chairwoman mentioned in the beginning are DOD business practices: financial management, contract management, weapons systems, acquisition, information technology, management, and their business modernization efforts. I mean, we have a wonderful military; it is the best in the world, but their business practices need to be reformed.

Ms. SCHAKOWSKY. But it was $600 billion last year, 15 percent of the Federal spending. So, how much should we focus on that? It seems to me that, at the very least, we should ask for the Department of Defense to pass an audit like every other department.

Mr. DODARO. I agree, I agree. I think Congress should focus more on it. The Armed Services Committees have been. They passed laws saying they should be auditable by 2017. So, they are planning a full-blown audit for 2018. But they have already said that they do not believe that they are likely to pass the audit. But I think we need to keep the pressure on to impose the fiscal discipline necessary at the Defense Department.

Ms. SCHAKOWSKY. I have a little time left, but I just want to raise this issue of Social Security. In 1983, ¾ of employee compensation in the country was subject to payroll taxes. In 2015, less than ⅔ of employee compensation was subject to payroll taxes. There has been a lot of concern about the long-term viability of Social Security. Would not it raising or eliminating the cap to capture more income make sense?

Mr. DODARO. The programs are in jeopardy. The disability portion is expected by 2023 to only have enough money to pay 89 cents on the dollar of promised benefits. The Old-Age, Survivors portion of Social Security is expected, by 2035, to only be able to pay 77 cents on the dollar.

One of the options that people have suggested is raising the cap. I think that is a viable option to pursue. It depends on whether, though, if you raise the cap, whether you delink benefits. And so, in other words, if people were paying more, their benefits do not go up above a certain level. If the benefits go up as a percent of what they are contributing, it will not solve as much of a problem.

Ms. SCHAKOWSKY. Thank you, I yield back.

Chairman BLACK. The gentlelady yields back. The gentleman from Michigan, Mr. Bergman, is recognized for 5 minutes.

Mr. BERGMAN. Thank you, Madam Chairman. Comptroller General, first of all, thanks for being here today because you are painting a realistic picture, and that is what this country needs at all levels is a realistic picture. Your written testimony shows how agencies' improper payment estimates have steadily grown every year, almost doubling over the last 8 years, not only the total dollar amounts, but also the rate of improper payments. What factors have driven this growth, and is it a matter of examining more programs, doing the analysis more accurately, more government spending, or all of the above?

Mr. DODARO. It is basically all of the above. The estimates need to be better. Like we found, for example, I will give you one good example. The Tricare program and the DOD area. We were just talking about DOD. Their estimate does not go as deep as the Medicare estimates do in the fact that they do not check whether the payment was made for something that was medically necessary; whereas Medicare does do that check.

So, the error rate in Tricare is way low. And so, we have asked them to change their methodology. A number of programs and departments do not report at all because they have assessed their risk of improper payments as not a high-risk area. And so, that needs to be examined. In other cases, there needs to be more pressure on the agencies to find a root cause of the problem and correct it and bring the error rates down, so they are in compliance with the law.

Mr. BERGMAN. So, it is fair to say, then, that, the more we look for improper payments at this point, the more we are probably going to find?

Mr. DODARO. Definitely, definitely. And that accounts for some of the growth, actually, and the reported amounts and the error rates.

Mr. BERGMAN. Well, there are 18 programs across the Federal Government that agencies have determined are at risk for significant improper payments, yet no estimates were reported. I chair the Veterans' Affairs Committee on Oversight and Investigations Subcommittee and 4 of those programs belong to the VA. VA has pledged to report estimates this year. Have the other agencies who are in control of those programs pledged to do the same?

Mr. DODARO. The prior administration was focused on this area in trying to get the agencies to develop plans. I met recently with the new OMB director, Mick Mulvaney, and expressed my concern about this area and the need to focus on it within the administration. So, I think it is important for this administration to focus on this important area. The agencies, by law, are supposed to make that pledge. They are supposed to set goals and work hard to achieve those goals in good faith, but there needs to be more oversight within the administration, by OMB, and within the Congress.

Mr. BERGMAN. And as you know, the VA Committee, the VA Community Care has the highest improper payment rate in the Federal Government at almost 76 percent. The reason for that technically is because the Community Care spending is not backed up by contracts that comply with the Federal acquisition regulation. There is debate about whether all those arrangements with doctors need to be contracts or something else. Once that technical cause is determined, are VA and GAO looking deeper into how much is actually paid out in the wrong amount or to the wrong person?

Mr. DODARO. Yeah, we will look more carefully at that area once that issue gets resolved. You know, I am very concerned about the Veterans Administration. We placed them on our high-risk list back in 2015, veterans' health care, because a lot of inadequate policies and procedures that were ambiguous, there is not good oversight and accountability; their information technology systems are way outdated.

The scheduling system now that is being used to schedule appointments with doctors is over 30 years old, for example. And there are problems with use of resources to make sure that they are properly—there is a lot of lack of clarity between the requirements and resources that are needed. So, we are very focused. I met with Secretary Shulkin about them coming up with a plan to address the high-risk areas which would include, you know, taking a look at these improper payment issues.

Mr. BERGMAN. Thank you for your very direct candor, and I yield back.

Chairman BLACK. The gentleman yields back. The gentleman from New York, Mr. Higgins, is recognized for 5 minutes.

Mr. HIGGINS. Thank you, Madam Chair. So, you indicate in your report that Federal spending is driven disproportionately by Social Security, Medicare, and Medicaid. The stated objective of health care reform, the Affordable Care Act, Obamacare, call it what you will, was to do two things. One was to increase the number of people who would have health insurance, and I think that objective has been met in the aggregate by some 20 million additional.

The other was to slow the growth of health care spending as it relates to Medicare and Medicaid. Economists would call that bending the cost curve. Your assessment as to the success of that since the enactment of the Affordable Care Act as it relates to annual increases in Medicare spending per beneficiary.

Mr. DODARO. Yeah, I need to give you a technical answer for the record. But what I will say is that the Trustees Report—now this is the secretary of HHS, or Social Security administrator, and a secretary of treasury, and a CMS actuary have real questions about whether or not the reforms put in place by the Affordable Care Act will hold over a period of time and actually reduce costs both in terms of productivity, expenditures, as well as the subsequent legislation that Congress passed changing provider payments to physicians and whether that will hold over time.

So, there are real questions about it. But I will give you a specific answer, you know, for the record. But one of the differences between our report is estimates of whether or not health care costs follow this alternative path that the CMS actuary has put in place. If that happens and these reforms do not hold over a period of time, you have much more escalating costs in the future for Medicare and Medicaid. And you get to a point where our debt grows faster as a result of that.

Mr. HIGGINS. Okay, the Congressional Budget Office report that I read recently indicated that, prior to the Affordable Care Act, Medicare was growing at between 7 and 9½ percent a year. And since the enactment, full enactment, of the Affordable Care Act, it is growing at about 1.4 percent per beneficiary. And when you take into consideration 57 million people getting their health care from Medicare, that seems to be an objective, at least in the short-term, that has been met. Would you disagree with that?

Mr. DODARO. Yeah, well, I will take a look at that issue.

Mr. HIGGINS. Okay.

Mr. DODARO. I have no doubt there might be some short-term effects on those changes.

Mr. HIGGINS. Let me just throw something else out at you. And, as you know, there is a lot of discussion in the air here about health care reform and new iterations of it. And Democrats and Republicans are always going to disagree the extent to which government should be involved. And that is a fair public disagreement and argument.

But the fact of the matter is the United States Government is a massive provider of health coverage for people. Fifty-seven million people under the Medicare Program, 70 million people under the Medicaid Program, 28 million under the Veterans' Program. That is a lot of leverage. That is a lot of leverage to drive down the cost, not only of prescription drugs, because you are buying medical services generally.

So, driving down that cost and driving up the quality of that care. And it seems to me that the Federal Government should be a lot wiser in using the leverage that it has that it seems to just defer to private insurance companies that really screw people. You know their business model is to jack up premiums and to reduce the payouts. So, any thoughts on a bipartisan effort to recognize the strength that we do have in the Federal Government by purchasing, not only prescription drugs, but also medical services, generally, toward the goal of reducing costs, increasing quality, and addressing the fundamental issue that you point to in your assessment?

Mr. DODARO. Yeah, so, I mean, I think that area has a lot of potential merit. There has been a shift recently by the Congress to make a move to not pay for quantity of services, but to pay for quality of services. And CMS is in the early stages of trying to figure out how they could change the payment programs to emphasize quality and, hopefully, reduce costs, but get away from the quantity benefits. And I think that has promise, but it is very early in the implementation of that change.

Chairman BLACK. The gentleman's time has expired. The gentleman from New York, Mr. Faso, is recognized for 5 minutes.

Mr. FASO. Madam Chairman, thank you. And I thank you and Mr. Palmer for the idea of bringing the Comptroller General here before the Committee to discuss this very important topic. Listening to your testimony and reading through a number of the pages of your written testimony questions strikes me. Do our agencies, particularly the IRS and CMS, do they have the technological capacity to truly address the question of improper payments? And have you examined that issue thoroughly?

Mr. DODARO. Yes, and I am very concerned. In fact, in 2015, I labeled information technology and acquisitions across the Federal Government a high-risk area. Most of the $80 billion that the Federal Government spends every year on IT services, almost 75 percent of it goes to support legacy systems that are in place, old systems. And that percent has been growing, which means we are investing less proportionally in new technology and new investments.

I mean, we took a look lately at the oldest systems in the Federal Government. There are a couple of them at the VA over 50 years old. The DOD is still using one system operating off a floppy disc. I mean, so there is need for more technology. And there——

Mr. FASO. Could you——

Mr. DODARO. Yeah.

Mr. FASO. Comptroller General, could you, for the record, supply the Committee with an analysis of this? Your current best thinking of your agency on this topic and something that we could consider? On the topic, you mentioned that EITC has been subject to discussion here. Let me just relate to you a meeting I had with a CPA in my district over the recent break.

And he related that he believes there is massive fraud in the EITC. He related a current situation where a couple came to him, and the gentleman made $60,000 a year; the woman made about $12,000 a year. There were two or three kids in the household. The couple were not married. And EITC, as I understand it, requires a household income as a determination for eligibility.

And they specifically said they want you to put on the IRS return for the man a separate address from where he actually lives. And he said this is rampant. He said he refused to do it. And he said the value of the EITC to this woman would be about $14,000 cash. And he refused to do it. They went to one of the nationally-known income tax preparers. And he said he is certain that they got the EITC payment with an improper address.

Does the IRS have the capacity to truly check the addresses of people? And should an EITC be subject to a pre-audit, which you alluded to also in your testimony?

Mr. DODARO. Yeah. Yes, it definitely should be. The other issue that we have identified, you know, we have sent undercover teams into 19 paid tax preparers with different tax scenarios. Only 2 of the 19 gave us the right answers out of that approach. And, as I mentioned——

Mr. FASO. On EITC? Or on anything?

Mr. DODARO. On not only EITC, on anything.

Mr. FASO. Okay.

Mr. DODARO. All right? On EITC, though, IRS records show that there are more errors made by people who use tax preparers for this refundable tax credit than people who prepare their returns themselves.

Mr. FASO. And who are the unenrolled tax preparers that you mentioned earlier in your testimony?

Mr. DODARO. That would be some of the chains that are in place. The ones that are enrolled are usually with tax practices or public accounting firms.

Mr. FASO. So, would it not be better to restrict the EITC to only those who have the return prepared by an enrolled tax preparer?

Mr. DODARO. I do not know if there is enough capacity to do that. But if not, what we have recommended, and the IRS actually implemented our recommendation, to have certification training requirements of these unenrolled tax preparers, but the courts ruled they did not have the legal authority. So, we recommend that Congress give them legal authority to do it.

Mr. FASO. One last question. You mentioned SNAP, and I am interested in this, as I serve on the Agriculture Committee and the Nutrition Subcommittee, and we have to do the Farm Bill next year. You mentioned improper payments of over $3 billion in SNAP. Could you just briefly describe those?

Mr. DODARO. Yeah, that was what they reported in 2015. They did not report any estimate in 2016 because they became concerned about the quality of the information at some of the state levels. And so, I am trying to delve into it and find out exactly what is wrong, which leads me to believe that maybe some of the prior estimates were not entirely accurate.

Mr. FASO. Thank you so much. And I would like it if you could give us some more information on SNAP. And I yield back. Thank you, Madam Chairman.

Mr. DODARO. Yeah, we will do that.

Chairman BLACK. The gentleman yields back. I now recognize, for 5 minutes, the gentleman from Pennsylvania, Mr. Smucker.

Mr. SMUCKER. Thank you, Madam Chair. Good morning, General.

Mr. DODARO. Good morning.

Mr. SMUCKER. I am having a little trouble wrapping my head around the idea that agencies can identify improper payments after the fact, but not before. So, I guess, could you just explain to me a little more what exactly the improper payments estimate is? Is it based on actual findings of improper payments that have been made? Or is it an estimate based on some other way of achieving that estimate?

Mr. DODARO. Yeah, in most cases, it is an estimate that is made, an after-the-fact estimate, where they draw statistical sample.

Let's say, for example, on Medicare, they will pull a statistical sample of claims. And then they will ask for all the documentation and examine the claim after the fact. A lot of these payments are made without documentation being submitted other than a provider number or whatever because, in Medicare, there are over a billion claims paid every year by over a million different providers. And so, the volume of activity would not—unless you are using technology and you have it, you know, properly, with good screening.

Mr. SMUCKER. Right.

Mr. DODARO. So they are made based on that. And like in the case of Medicare——

Mr. SMUCKER. So in——

Mr. DODARO. Yeah.

Mr. SMUCKER. I am sorry.

Mr. DODARO. Yeah, go ahead please. Yeah.

Mr. SMUCKER. So, in your estimate, how much of the improper payment in Medicare/Medicaid, for instance, which you identified as the two largest——

Mr. DODARO. Right.

Mr. SMUCKER.——sources of improper payment, how much of that could be stopped by stronger controls before the payment is made?

Mr. DODARO. I think a significant amount. I cannot give you a specific number. But I think it would be the only way to prevent these things from happening in the first place. That is where we are trying to move the agencies to is to——

Mr. SMUCKER. Yeah, it seems to be that that would be a place of great opportunity if we can do that.

Mr. DODARO. Yes. And I have joined recently with a group of private sector providers that are working with the government to identify technological ways to address this issue. So, I am hopeful that we will get some good ideas from the private sector to be able to implement in the government programs.

Mr. SMUCKER. I am going to change the subject on you briefly.

Mr. DODARO. Sure.

Mr. SMUCKER. I want to ask you a question on that. I have been asking others and trying to get a good answer to, you mentioned the long-term economic picture, or the fiscal picture, and the deficits and the growing debt, which I share your concern for that. In 2015, the economic growth rate slowed to 1.6 percent. What is the impact of that economic growth rate on our national debt projection?

Mr. DODARO. Well, it has an impact. I am sure CBO, I mean, that is really the area that they focus on, has some way of calculating the impact of it. But the point I would make is that this problem that we have right now is so big, we will never grow our way out of it.

Mr. SMUCKER. Yeah, how much would that impact? So I think CBO right now is forecasting a 1.9 percent growth rate over the next 10 years. If we were able to move that, for instance, through a tax policy or whatever it may be to an average of closer to 3 percent, how would that change over that 10-year period our economic picture?

Mr. DODARO. Yeah, well, it would definitely improve it. I would have to go back and give you, you know, more detail to answer after we, you know, we would do it and whether or not CBO has all the models. We do not duplicate what they do. We use what they do. So, they would have the models to answer that question for you.

Mr. SMUCKER. Yeah, but you believe it would have a significant impact?

Mr. DODARO. I believe it will have an impact, yeah. But it depends on what you do on the spending side. You know, if the spending side is going to keep going up.

Mr. SMUCKER. Yeah, sure.

Mr. DODARO. I mean, that is the issue. And interest on the debt is going to keep going up. So you can have economic growth and get some additional revenues, but you already have a structural imbalance between revenues and spending. So through economic growth, you may catch up a little bit, but it is not going to be enough as long as spending is growing faster than the economy is growing?

Mr. SMUCKER. Yeah.

Mr. DODARO. And right now it is.

Mr. SMUCKER. Yeah. Okay, thank you. I yield back.

Chairman BLACK. The gentleman yields back. I now recognize the gentlelady from Washington, Ms. Jayapal.

Ms. JAYAPAL. Thank you so much, Mrs. Chairwoman. And thank you for your testimony, Mr. Dodaro. I am sorry I missed the last few minutes of this hearing for other votes.

I wanted to go back to something you said at the very beginning when you were talking about a fiscal plan and the recommendation around a fiscal plan. And our distinguished ranking member, Mr. Yarmuth, spoke also about the President's comments on a shutdown. And I wanted to ask you about the necessity of being able to plan and the specific fiscal impacts of not being able to plan, not being able to purchase in bulk, not being able to actually bring about efficiencies that might come about when you can do that kind of planning.

The appropriations work for 2017 was nearly complete last December when then President-elect Trump convinced congressional Republicans to instead pass a long-term continuing resolution through April, 7 months into the fiscal year. Continuing resolutions, in my view, disrupt agency operations. People have told us over and over again they cannot start new projects. They cannot implement any kind of planning that has any sort of certainty. And funding ends up being misallocated based on previous year requirements.

Can you comment on how a breakdown, this kind of breakdown in the appropriations process, has hurt the efficient administration of vital government services? And specifically, on both the lack of an overall plan, but also the lack of ability on a regular basis to approve a budget and to not rely on continuing resolutions?

Mr. DODARO. Continuing resolutions have been a problem for years. Only 3 times in the last 28 years have part of the Federal Government not operated on a continuing resolution, some short-term, some longer-term. They disrupt hiring, contracting, orderly planning practices. And they also compress spending because, when you do receive the final appropriation for the year, as in this particular case this year, there are only a few months left in the end of the fiscal year.

So, it suppresses things earlier and compresses things later. It is a problem. You know, I have told the Appropriation Committees when I testified about GAO's own appropriation, one of the things I never aspire to be in the Federal Government is an expert managing under continuing resolutions. I mean, it is a problem in that area.

Now the fiscal plan, not having a fiscal plan there, you know, Congress, you know, we have this debt ceiling; it was never intended to control the debt, and it does not control the debt. All it does is authorize Treasury to pay the bills that Congress has already authorized. So there is no up-front decision Congress makes about how much do we want to have in national debt as a percent of gross domestic product.

You know, in the European Union, they say 60 percent, you know, and states set different levels of how much debt they want to have. But the Federal Government does not do that. So I recommended that we change the debt ceiling approach because the way we are doing it right now, when there is a debt ceiling impasse, actually, the markets have adjusted to this.

So, they are avoiding Treasury securities that would occur during a dead impasse period. And the Federal Government is paying more money. During the 2013 debt impasse and the government shut down period, we estimate between $38 and $70 billion was paid in additional interest costs just because people were nervous we were not go to pay our debts in time.

I cannot emphasize how important the full faith in credit of the Federal Government is to the effective functioning of our country and our Nation. And I believe we need a better, not only a fiscal plan, but a better way to manage our overall debt to make conscious decisions at the time revenue and spending decisions are made up front. So, we need much more fiscal discipline in our approach, both on the annual basis but also the long term.

Ms. JAYAPAL. Well, you actually went right into my next question, which was about the debt ceiling. And you mentioned specifically that your analysis says that the brinkmanship around that using the debt limit increase on the impasses that we get to actually hurt us substantially, $38 to $70 million. Is there a reason to think that these costs might be higher later this year if we delay action on the debt limit until Treasury approaches the limit of the extraordinary measures? And what would that be?

Mr. DODARO. Yes. Well, it depends on how long it would be. But I think, number one, Congress should pass the debt ceiling limit on time, so there is not concern about whether or not the Federal Government is going to pay its bills on time. I mean, the last time this occurred, Standard & Poor's reduced our sovereign credit rating.

Ms. JAYAPAL. Right.

Mr. DODARO. And it is still lower than the top. Moody's and Fitch have us at still at the top. All three bond raters have expressed concerns about the credit risk that we have from our debt burden. And they are concerned, and they have said, in some cases, if that debt burden continues to increase, that will lower the Federal Government's credit rating, which will raise interest rates and costs and alarm investors.

What we found is that, based on the global financial crisis and lessons learned out of that, but also this debt impasse thing, that investors in Treasury securities already have contingency plans to not buy these investments that might mature around a dead impasse ceiling. And that is depressing the Treasury securities markets. And we are paying additional interest costs, but it is affecting liquidity in the secondary markets because treasuries are used to trade for financial capital. So not only are we paying more, we are distorting the markets by not having a rational process for approach to authorize this debt to be paid in a timely manner. I am very concerned that we never do anything to affect the full faith and credit of the Federal Government.

Ms. JAYAPAL. Excellent advice, thank you. And I yield back.

Chairman BLACK. The gentlelady yields back. The gentleman from Georgia, Mr. Ferguson, is recognized for 5 minutes.

Mr. FERGUSON. Madam Chairwoman, thank you so much, and to the Comptroller General, thank you for being here today. This has been incredibly helpful to listen to not only the questions that have been asked by both sides, but also your answers. And I thank you for your candor in delivering those.

You know, one of the things that I look at, and we have looked at on the Budget Committee, is looking at the growing size of mandatory spending. And I think that we would all agree that as we approach the next 12 to 15 years, and we look at that number moving from somewhere close to 70 percent to over 80 percent. Would you agree that we are going to be very limited in our ability to meet our obligations, the promises that have been made, particularly related to Social Security, Medicare, and Medicaid?

Mr. DODARO. Yeah, definitely. I mean, this situation will limit the flexibility, not only to deal with known problems in mandatory spending. There are some fiscal exposures, the Pension Benefit Guaranty Corporation; $74 billion liabilities exceed their assets. The Multiemployer Pension Fund is expected to go insolvent in 2025.

These things are not even included in the estimates that I have given you about the long-term fiscal exposure. Fannie Mae and Freddie Mac are still under Federal conservatorship. Since the global financial crisis, the Federal Government has been either directly or indirectly insuring about ⅔ of all single-family mortgages. And so, if there is a downturn in the housing economy, the risk will accrue to the Federal Government. That is not considered in these costs.

So, you are absolutely right. They are mandatory programs, but there are other fiscal exposures. And the more we borrow, the less flexibility we will have later on to deal with these situations.

Mr. FERGUSON. Okay. To that point, I think we are fast approaching an environment where we simply cannot cut our way out of a program. We cannot spend our way out of a program. We cannot simply reform our way out of a program. We are going to reach the point where we have to have a very honest conversation with ourselves, but most importantly with the American people, about where these programs are.

One of the reasons that I was so glad to have this particular meeting is that I think, before we go into a discussion about Social Security and Medicare, I think we owe it to the American public to do everything that we can to make sure that we are spending every dime as wisely as we can. Getting rid of the waste, the wrongful payments, the fraud, whether it is intentional or unintentional, we have to be good stewards of the money. And so I thank you for your time here.

I have one final question. And do you believe that the processes that we have followed on budgeting and appropriations, let's say, for the last decade, and even our current omnibus and appropriations bill, does that mechanism address the spending reforms needed to actually get at deficit reduction?

Mr. DODARO. No.

Mr. FERGUSON. Okay, thank you. Madam Chairman, I yield back.

Chairman BLACK. The gentleman yields back. I now recognize Mr. Westerman from Arkansas for 5 minutes.

Mr. WESTERMAN. Thank you, Madam Chairman. And thank you, Mr. Dodaro, for being here today and for your very insightful comments, and for the report that you provided to us. Having served in a state legislature before I came here I first started reading about improper payments through a GAO report that was done around 2010 or 2011 on Medicaid payments, so we did a little audit back in my state to see if we could find any improper payments in the Medicaid System.

And sure enough, our state auditors found that there were improper payments in our Medicaid System, pretty much in line with the numbers that the GAO had projected, but also learned something very interesting about Medicaid. Because it is a Federal match program, that there really is not a lot of incentive in states to stop the improper payments. You could almost, I hate to say this, but look at it where it is viewed as economic development where you put a small percentage of state dollars in, and you get a large percentage of Federal dollars flowing into the state.

So, I am a proponent of block grant-type of funding. But do you see other ways that we could address the Medicaid System to put more incentive in the states to stop these improper payments?

Mr. DODARO. Yes, there are 2 ways. One, we made a number of recommendations for CMS to collect more information from the state. A good example of this is that the Federal Government makes payments to the states for uncompensated care. These are, you know, if somebody goes in and they do not have insurance or whatever.

But they do not base it on the actual uncompensated cost of the hospitals. They base it based on Medicaid workload, which, in this case, more people are being covered by Medicaid, so it is not a good proxy for uncompensated care. And when they go to make uncompensated care payments for Medicare, they do not even consider what they have already paid the state for Medicaid. So, they need more information. This is a big problem.

Number two, I have been working with the state auditors around the country. I have got about 37 state auditors to agree to do more work looking at the Medicaid area. They see, and they are independent. But CMS has not had a relationship with the state auditors. So I brought them together in a meeting, along with OMB, and I have now connected that state audit community to the Federal agency that has responsibility. They are meeting this month in South Carolina to talk more about what could be done by the state auditors. So, those are two, you know, just good examples.

Also, the state auditors need to audit more of the managed care portion of Medicaid, not just the Fee-for-Service portion.

Mr. WESTERMAN. All right, we also set up a State Office of Medicaid Inspector General that was out from under the Department of Human Services in the state, which had the program integrity layered underneath in kind of a middle management role within, and that helped expose more of the waste, fraud, and——

Mr. DODARO. Yeah, you need to have an independent look.

Mr. WESTERMAN. So, moving on to a different topic. Last year, our deficit was $587 billion according to CBO. And the terminology we use around here is if we had zero deficit spending we would have a balanced budget. But if we look at CBO's numbers last year, the debt actually increased over a trillion dollars. So, there is another approximately $500 billion that went towards debt that was not in the deficit.

And it gets complicated, but it comes back to the debt limit and financing. And one of the CBO notes says, "Debt subject to limit differs from growth Federal debt, mainly because most debt issued by agencies other than the Treasury and the Federal Financing Bank is excluded from the debt limit. That limit was most recently set at $18.4 trillion but has been suspended through March 15, 2017. On March 16, 2017, the debt limit will be raised to its previous level, plus the amount of Federal borrowing that occurred while the limit was suspended."

CBO says that the growth of Federal debt is projected to rise $9.7 trillion over the next 10 years or about a trillion dollars per year. And I notice you addressed the debt limit on page 14 of your report. And you said, "We recommend that decisions about giving Treasury the authority to borrow be made when decisions about spending and revenues are made." And you gave us about three.

Can you briefly tell us how that will help lower the debt if we move that decision point to when spending decisions are made?

Mr. DODARO. Well, number one, it will focus the attention of the Congress up front, rather than just on the spending and the appropriations. In a way, you know, you have to remember, almost ⅔ of the Federal Government spending is on autopilot. It does not involve the appropriation process. The appropriation process only covers about ⅓ of the Federal Government's total spending.

So, other than the budget resolution process, there really is not any definitive congressional focus on total Federal Government spending and total revenue that is expended and how much of a deficit are we going to have to finance up front before that decision is made.

So, forcing that decision to be made up front will do it. Now, that alone will not solve the problem. I also think there needs to be a way to have a fiscal rule on how much debt that the Federal Government wants to incur over a period of time. There would have to be exceptions for exigencies and other things that occur. But right now, there is not a conscious decision made about how much debt we want to have as a country. It just sort of happens as it happens and, you know, then there is the result. And I do not think that that is good fiscal discipline.

Mr. WESTERMAN. Thank you.

Chairman BLACK. The gentleman's time has expired. The gentleman from Texas, Mr. Arrington, is now recognized for 5 minutes.

Mr. ARRINGTON. Thank you, Madam Chair and Comptroller General, thank you for your time. And thank you for your clear and extremely sobering insight as we prepare to vote on this omnibus. But more importantly, you know, most of the freshman, we showed up 100 days ago, really did not have a lot of input into that, if any. Let me just say it another way. We had no input into that. And we will have input now going forward on this 2018 budget. And we are having really good discussions along the lines of what you have laid out and some of the things you have mentioned.

And, you know, for me, I think this is the biggest threat to the future of our country. I think it is the biggest threat to my children's future. My acid test is to uphold the Constitution and hand this country, safer, stronger, and freer, to my 6-year-old, 4-year-old, and 2-year-old. This is the one that keeps me up at night.

Mr. DODARO. Yeah.

Mr. ARRINGTON. You know, we cannot have all the discussion that this deserves in the 5 minutes. But quantify for me, if you could, the implications of the interest rate risk. That is, if it moves up a percentage point, what is the impact?

Mr. DODARO. Right. Yeah, CBO estimates that a 1 percent increase in the interest rate over 10 years would add about $1.7 trillion to the debt. And the other point I would make along this line here is we are very exposed because a lot of the borrowing is in short-term borrowing in bills and notes. So, that borrowing has to be refinanced on a fairly regular basis. For example, last year, there was $8 trillion in new financing. And that was to pay $7 trillion of debt that we had to refinance over a period of time, plus financing new debt that occurred during that period of time. So our interest rate exposure is very significant.

Mr. ARRINGTON. You know, when you look at this, and I do not think the American people fully appreciate the extent or the depth of the debt hole that we are in and the spiral, the vicious cycle, and how we get out of it. It almost feels like Mission Impossible at times, but we did not get here overnight; we will not get out of it overnight. What is a meaningful way to get us on a path going forward? And mainly on the mandatory spending side because we know those are the drivers. And we have not——

Mr. DODARO. Right.

Mr. ARRINGTON.——touched it, and nobody wants to talk about it or do anything about it. But I hope our class, especially, we invigorate the body here with the political courage to do something about it. So with that, tell me what is a reasonable and responsible reduction in spending on mandatory to get us to balance.

Mr. DODARO. Right. I think there are two fundamental decisions. What does government want to do? And how do you want to pay for it, other than borrowing? All right? A good place to start, in my opinion, is the Social Security system. I issued a special report, which I am glad to give to this Committee, last year because the disability portion of the Social Security program was projected to go bankrupt last year.

Now, the way that was solved was to just redirect some of the payroll taxes that were going into the Old-Age portion of Social Security to the Disability Fund. But that only props it up for the next 6 years.

By 2023, the Disability Fund will only have enough money to pay 89 cents on the dollar. By 2035, Social Security will only have 77 cents to pay on the dollar. And so there are known options for addressing the Social Security problem. We lay them all out in our report and give the pros and cons of the options. So I think that is there. Health care is a more difficult——

Mr. ARRINGTON. Let me push pause on that if you do not mind.

Mr. DODARO. Yeah, sure.

Mr. ARRINGTON. I have got just a little time. Real quick answer on this. I was not here and I do not know if this was asked. But this omnibus that we were prepared to vote on, is that doing anything to get at the structural reforms and the spending reforms that you are recommending, or that we are talking about here?

Mr. DODARO. No.

Mr. ARRINGTON. Okay. You know, another thing that I hear a lot because, again, I am new, and I had a year and a half to talk to folks in west Texas and listen to them. But this notion of Washington playing by a different set of rules. You said 10 agencies or more are below the 10 percent threshold or above the——

Mr. DODARO. No, above.

Mr. ARRINGTON.——10 percent.

Mr. DODARO. Yeah, right.

Mr. ARRINGTON. Tell me about that a little bit, and what can we do about it as members of Congress and this Committee?

Mr. DODARO. I think there ought to be more oversight hearings. I mean, there ought to be the agencies that are responsible for these overpayments here, either along with me or in lieu of me, to question them about what they are doing and to hold them responsible, not just the lower-level people; I think you have got to hold the heads of the agencies responsible for this problem.

And the tone at the top needs to be set appropriately, and there needs to be focus on this because, if that leadership occurs, I believe you will see a drop in there. And if there is some potential consequences, other than a public hearing and the risk of embarrassment, there needs to be some decisions by the appropriators about, you know, how we are going to allocate money if people are not providing proper financial stewardship.

Mr. ARRINGTON. Thank you very much.

Chairman BLACK. The gentleman's time has expired. The gentleman from Pennsylvania or, excuse me, the gentleman from Ohio, Mr. Renacci, is recognized for 5 minutes.

Mr. RENACCI. Thank you, Madam Chairman, and I thank you for holding this hearing, as well. I know we were looking at improper payments, but I was actually asking the chairman, the previous chairman, to bring Mr. Dodaro before the Budget Committee because I do think your insight is important, especially for people that are designing a budget.

I thank you for being here as a father of three myself. And I know you and I have spoken many times. What I really loved about the first conversation you and I had, you said that you were in this to try and make sure we turn this country in the right fiscal direction. It is one of the reasons why I dropped the bill last cycle to bring you before the complete House and Senate. It was a resolution that got 160 cosponsors because I do believe the starting point should be you coming before the House and Senate and explaining our fiscal situation. So, I am going to continue to push for that resolution this year.

In your testimony you indicate, “We cannot continue to ignore the fiscal constraints facing our country. We have an obligation to our constituents and future generations of Americans to make tough decisions and put our fiscal house in order.” You stated that the current debt, as a share of the economy, is the highest it has been since 1950. And under current law, the debt-to-GDP ratio is projected to exceed its historical high of 106 percent in the next 15–20 years.

I was a businessman and a mayor of a city, which had fiscal issues. And the first thing we did was we drove everything based on our fiscal issues. So from a top line picture, would you agree that the current drivers of our debt are Medicaid, Medicare, Social Security, and interest on our debt?

Mr. DODARO. Yes.

Mr. RENACCI. Okay, would you also agree that these programs are unsustainable based on the current demographics in our country and the current program payouts?

Mr. DODARO. Yes.

Mr. RENACCI. Thank you. And these drivers are growing rapidly each year, correct?

Mr. DODARO. Yes.

Mr. RENACCI. If you were reporting to Congress and the American people your greatest fiscal concern for our Nation, would you report that our spending is unsustainable?

Mr. DODARO. I would say our fiscal condition is unsustainable because we are not generating enough revenue to meet the commitments that we have. And we either have to generate more revenue or cut spending. But that is a policy decision by the Congress. I would never advise Congress on what to do, but it is a spending and a revenue issue, in my opinion.

Mr. RENACCI. Okay, and is our debt growth unsustainable as well?

Mr. DODARO. Yes, definitely.

Mr. RENACCI. Okay, how much of our debt is held by foreign countries?

Mr. DODARO. About 40–45 percent.

Mr. RENACCI. What happens if those countries decide they no longer want to lend this money to the United States?

Mr. DODARO. We will either have to pay probably higher interest rates to domestic savers. And we do not have a lot of domestic savings to begin with. And whatever the Federal Government takes up from domestic savings, that is less for capital investment for economic growth. So we would be in trouble.

Mr. RENACCI. Yeah, and there has been a couple ideas driven out, which I realize. But let's talk about spending. You said, the average, we need to cut spending by is 25 percent on the average over the next 10 years. Today 70 percent of our spending is Medicare, Medicaid, Social Security interests. And you also said that is on autopilot. And 15 percent is military, and 15 percent is discretionary. If you cut 25 percent, I am just looking at the spending side.

Mr. DODARO. Yeah, right.

Mr. RENACCI. If you cut 25 percent, you would basically have to gut our military and gut every bit of discretionary spending, because the 70 percent is on autopilot. So, if it is just the spending side, would you agree with that?

Mr. DODARO. Yeah, if you did not change the mandatory programs, that is what you would have to do.

Mr. RENACCI. All right, so——

Mr. DODARO. And I would not recommend it, but——

Mr. RENACCI. No, I would not recommend it either, but it is kind of interesting——

Mr. DODARO. Yeah, right. Yeah, right.

Mr. RENACCI.——because if you are going to cut 25 percent, you would cut everybody's salary here, too.

Mr. DODARO. Yeah, but it shows the magnitude of the problem that we have.

Mr. RENACCI. Absolutely. Now, on the income side of the issue—and I realize that. I mean, I heard one of the members say, "Well, if you increase the Social Security tax on the payout, the problem is you would also be increasing the expense to the corporation." Because, you know, that is 6 ½ percent more of an expense to the corporation, which will slow their ability to grow as well. Would you agree?

Mr. DODARO. Yes, it would have implications. In particular, the only way it would help solve the problem is if you delink it to their benefits, so if their benefits did not rise based on their payments. And that would have other consequences for people, as well.

Mr. RENACCI. Sure. So, I want to look; we went to the expense side, which was kind of drastic to fix this. On the income side, we also have the highest corporate tax rate in the world. Would you agree with that?

Mr. DODARO. On a statutory basis, not necessarily on an effective tax rate basis.

Mr. RENACCI. But corporations are leaving and going overseas because they can get a lower corporate rate. So we are losing businesses to overseas markets.

Mr. DODARO. Yeah, well, that is a problem. But our study shows that the effective tax rate, after all the tax expenditures are in place, is an average of about 14 percent.

Mr. RENACCI. Okay, so again, the real key here is, and I agree it has to be a mix of expenses and probably have to look at some issues with our tax rate. But in the end, and I am just hoping we can get to the bottom of this. I mean, our spending is out of control;

our debt is out of control, and we have 70 percent of our spending, which is on autopilot.

Interest rates, I heard if it just goes up 1 percentage point our debt increase is $1.6 trillion over 10 years. I sure hope the Congress members are listening today because these are the issues that we face every day. So I thank you again for being here, and Madam Chairman, I yield back and thank you for having this hearing.

Chairman BLACK. The gentleman yields back. Now the gentlelady from Texas, Ms. Sheila Jackson Lee, is recognized for 5 minutes.

Ms. JACKSON LEE. I thank the Chairman and the ranking member and Mr. Dodaro. I thank you for the years of service that you have given. It is a privilege to serve on the Budget Committee with my colleagues. And I get a chance to see the gentleman who is behind so many good studies that come before our Committees on responsible management.

And I wanted to make sure that I put on the record that the essential agency, this agency, to support the fiscal management of agencies. You carry out audits, evaluative and investigative assignments, provide legal analysis for the Congress, which I think is very important.

I think another important element of your work, of course, is that you deal with the issue of audited financial [inaudible]. And that we raise a concern about ensuring that our agencies can get to that point, that they can do that. But more importantly, you have found that the consolidated financial statements for fiscal year 2016 and 2015 indicate that the Federal Government make more strides in improving Federal financial management.

But to say all that is to say that we also have to have the dollars, the balanced dollars, to be able to be fiscally responsible. And I think that that is something that I want to pursue in a line of questioning. We are in tax season, and there are a number of proposals. One, in particular, that has come forward that has a list of eliminating the AMT, eliminating the estate tax. And the calculated number is about $2 trillion in debt or deficit that will be increased.

So, my question is the biggest tax cut a person could receive is not paying any Federal income taxes at all. That is, of course, under the jurisdiction of the IRS. In your 40 years of experience at GAO, have you come across any evidence that, when a person avoids paying taxes for 20 years, they are helping the economy? And their tax avoidance activities, some will say tax avoidance festivities actually pay for themselves, so that when individuals do not pay their taxes and if someone has not paid it for 20 years, that it actually pays for itself.

Mr. DODARO. I am not sure. In terms of an individual, on an individual basis——

Ms. JACKSON LEE. It could be a corporation or——

Mr. DODARO. Yeah. If it is a corporation, whatever, I mean——

Ms. JACKSON LEE. A person of wealth.

Mr. DODARO. Yeah, well, they are definitely not in compliance with the law, and it is not helping fund the Federal Government.

So they are not fulfilling their legal responsibilities. And, therefore, it is not helping anyone other than themselves.

Ms. JACKSON LEE. Another quick question. Can the IRS, in your perception now, adequately address tax compliance without additional staff? And will the tax gap widen if we continue to cut IRS staff, actual staff?

Mr. DODARO. Yeah, well, I think the record is pretty clear. If you add additional resources to the IRS, they will produce additional revenue. We have made a lot of recommendations though, too, that they could do more with the revenue that they have to have a better comprehensive plan. And I would recommend that the Congress, if they decide to make a policy decision to give them additional money, they also require them to produce greater return on the investment that is made and show that they are pursuing the best comprehensive strategy to use their resources in a constrained budget environment.

Ms. JACKSON LEE. Thank you so very much. Let me further ask, is not receiving an emolument of the type prohibited on the Constitution the worst of improper payment? And does not an emolument have far greater potential to corrode our democratic system of governance than a working class taxpayer who may be overpaid a few hundred dollars under the earned income tax credit?

Mr. DODARO. Yeah, we have not done any work, that I recall, on an emolument issue. I will go back and check, and if we have something, I will submit it for the record.

Ms. JACKSON LEE. And I appreciate it. And I am going to make an official request, and I will put it in writing that I had asked the GAO to make that assessment because I think it is important, when you look at the balance between what the earned income tax credit does for a working family, or a single person, as well as how it impacts on the emolument.

We are in the midst of debating health care. And so one of the questions is the loss of insurance for 24 million people. Can you comment on how the breakdown in the appropriations process has hurt taxpayers? Meaning that we do not do it, and we are in a CR, hurt taxpayers and programs, beneficiaries like the 24 million who now receive available accessible, quality health care through the Affordable Care Act, who depend upon the efficient administration of vital government services?

Mr. DODARO. Yeah, well, there needs to be, you know, final decisions made by the Congress on how they are going to handle those issues. I mean, the continuing resolution process, if that is what you are referring to——

Ms. JACKSON LEE. Yes.

Mr. DODARO.——really affects the functioning of the agencies. And it debilitates their hiring approach and working with contractors. And it also requires them to make compressed spending decisions about the money once the appropriations available at the end of the year. So it is disruptive to the agency operations. Now, how that translates into impacts on individual people, American citizens, varies from program to program.

Ms. JACKSON LEE. Might I say that it might also impact upon their audited financial statements or their ability to put financial statements together when we have a disruptive appropriations process and cannot fund the government in the way that it can plan?

Mr. DODARO. Yeah. It is definitely not a best practice.

Chairman BLACK. The gentlelady's time has expired.

Ms. JACKSON LEE. I thank the gentlelady.

Mr. DODARO. Yeah.

Chairman BLACK. The gentleman from Alabama, Mr. Palmer, you are recognized for 5 minutes.

Mr. PALMER. Thank you, Madam Chairman. I just want to address the issue of delinquent taxes for just a moment, if I may, and point out that, as reported in 2015, that there was $3.5 billion owed to the Federal Government by Federal workers; 3.1 percent of the Federal workforce had not paid their taxes, including a number of key officials within the Obama administration.

There was a bill introduced in 2015 that would have given agency directors the ability to take action against Federal workers, Federal employees, who did not pay their taxes. And our colleagues across the aisle would not support it. There was a Senate bill to block bonuses for people who failed to pay their taxes, and that bill also failed.

Now, to get back to the topic at hand and the improper payments. I thank you for coming here, and you have been enormously helpful. I am very grateful for the work you and the GAO have done on this. I want to talk about a couple things, one, to try and put this in perspective. There are four programs, well, actually two, and one of which has three subsets, that being Medicare, that account for $96 billion in improper payments.

And just for a point of reference, I want to point out that the entire Department of Education was funded at $69.2 billion, the Department of Labor at $12.2 billion. I mean, those two departments together are less than what we sent out in improper payments. So, this is a huge problem.

I appreciate what was done in the previous administration and their efforts to try to stop the improper payments, but I think we have to take this very seriously. And I have got a slide, and it is actually from your testimony and from a previous meeting that we have had with the Subcommittee on Intergovernmental Affairs at OGR and with this Committee as well.

And I just want to point out that, in terms of where the problem lies, it is really due diligence. You have got 56.5 percent of the problem in terms of due diligence that is insufficient documentation, inability to authenticate eligibility, and the failure to verify data; 56.5 percent that is low-hanging fruit. We ought to be able to stop that. That would account for $75.5 billion, okay?

And then you mentioned problems with data systems, outdated technology, that sort of thing. I think that falls under the administrative or process errors at the state, local, other parties, and federal level. That accounts for another 33.8 percent. That is a little tougher to solve. I think that is going to require some outlays from the Federal Government to improve their data systems. But that accounts for $45.2 billion. I think the savings more than justify whatever it might cost us to upgrade our data systems. Would you agree with that?

Mr. DODARO. Definitely, if properly managed. If properly managed, the——

Mr. PALMER. Well, that gets back to the due diligence part.

Mr. DODARO. Yeah, right.

Mr. PALMER. I cannot understand why we have not had some enforcement effort on the agencies, particularly the ones who have the bigger numbers and with the 18 programs that failed to report. We have got to take this seriously because I made this point several times that, when we look at the dollars that are going out, the $133.7 billion, that is not all that is going out. I think just the top of my head estimate, we are paying about 2.8 percent interest so——

Mr. DODARO. That is about right.

Mr. PALMER. About right?

Mr. DODARO. Average, on average.

Mr. PALMER. So you add that to the dollars that are going out improperly, and that adds another $3.7 billion. So Madam Chairman, I just think this is a critical issue for us. I think it helps us in terms of finding a pathway to balancing the budget if we can just stop sending out the money. I have had some people say, "Well, how do you recover?" I would love to be able to recover the money, but right now, I would be quite happy if we just stopped it.

Again, General Dodaro, I thank you for this outstanding work. I would encourage my colleagues on the Committee to take a look at that slide. It is in your binder on page 28 in the General's testimony. And we need to start working out a way to have the program directors do the due diligence to make sure we stop the improper payments. I yield back.

Chairman BLACK. The gentleman yields back. And I want to say, at the beginning, I gave you recognition for bringing this issue to our forefront, and we really appreciate that.

I now recognize the gentleman from Ohio, Mr. Johnson, for 5 minutes.

Mr. JOHNSON. Thank you, Madam Chairman. Thank you for joining us today. I appreciate it. GAO's long-term budget projections indicate that, absent some policy changes, the Federal Government's debt held by the public as a share of GDP is expected to rise steadily from today's already high level of 77 percent. It will surpass its historical high of 106 percent in 15 years under GAO's alternative simulation. And in 25 years under GAO's baseline simulation, the debt-to-GDP ratio would continue to escalate at an ever-increasing rate in subsequent years under both scenarios.

GAO writes that this compares to an average of 44 percent since 1946. As I understand it, the GAO report, recent CBO long-term budget outlook reports, and the fiscal year 2016 financial report of the United States, all conclude that the Federal Government's fiscal path is unsustainable. Do I have this correct?

Mr. DODARO. Yes, you do.

Mr. JOHNSON. an you elaborate on what this unsustainable fiscal path could mean for our country and the American people? Could this debt path eventually lead to a fiscal crisis in which borrowing rates rise sharply? And, if so, how soon might this occur?

Mr. DODARO. This definitely has a lot of different impacts on the country.

Mr. JOHNSON. None of them good.

Mr. DODARO. The American people. None of them good. None of them good. That is a good summary. What they include are higher interest rates that the Federal Government will have to pay to service this debt. So you have, right now in 2016, there were over $250 billion in interest that we were already paying the Federal Government to service this debt. That will continue to compound and grow the more debt we have and the more interest rates grow up over a period of time.

That means that there is going to be more pressure on the rest of the Federal Government's budget that could ultimately impact the types of decisions Congress makes about what programs to fund, what benefits to provide, what services to authorize. It will also potentially affect our credit rating. I mentioned earlier that all the bond raters believe our existing debt burden is already a credit weakness in our profile. And one has reduced our credit rating from the top credit rating and that, if it impacts our credit rating in the future, that will affect not only our interest cost, but borrowing.

It also enormously affects the flexibility of the Congress to deal with problems, the known problems, that will occur, Social Security program, Medicare program, for example; the Pension Benefit Guaranty program is going to be a problem; flood insurance is already not actuarially sound and owes over $23 billion to the Federal Government. And that is unlikely to be repaid.

So, there are enormous implications. Over the long-range it could reduce national savings and income that would have deleterious effects to the economy as well.

Mr. JOHNSON. Like we said, none of them good.

Mr. DODARO. That is right.

Mr. JOHNSON. Does this debt trajectory that GAO projects emphasize the need for putting in place policies as soon as possible that would arrest this trend and lower debt levels over time? And do you have any ideas of what some of those policies might be?

Mr. DODARO. Yeah, well, definitely the sooner the Congress takes action to put a plan together, the better. These things will accrue over time. If we stop the compound interest on our debt, that will help a lot there in that area. So, the exact policies that the Congress wants to follow, that is up to the Congress to decide. That is not, you know, a role for the GAO. Our role is to say you have a problem; you need to deal with the problem. The sooner you deal with it, the better because the longer you wait, as you mentioned earlier, none of the options are good. But the longer you wait, the more difficult and more draconian those options become in order to deal with the problem.

You know, one of the most difficult parts of my job is to try to get people to take action before it becomes a crisis. So, I am here today to tell you, if you start taking action, this will avoid a potential crisis down the road.

Mr. JOHNSON. You sound a little bit like that commercial.

Mr. DODARO. You pay me now, or you pay me later, yeah.

Mr. JOHNSON. Yeah, I am not a guard. I am just a robbery monitor.

Mr. DODARO. Yeah.

Mr. JOHNSON. There is a robbery. So I, for one, would——

Mr. DODARO. I am not elected. You are.

Mr. JOHNSON. And I appreciate that, and you are right; it is Congress' responsibility.

Mr. DODARO. Yeah.

Mr. JOHNSON. But, you know, as people might assume, we do not hold the corner market on all the good ideas. And if you have some, I, for one, would love to hear what they are. And with that, I yield back.

Chairman BLACK. The gentleman yields back. I just want to clarify, for the record, one question that was asked by Mr. McClintock earlier on the level of Federal revenues compared to the historical average. And the staff reminds me, according to page 2 of the Congressional Budget Office's January 2017 baseline report, the budget and economic outlook for 2017 to 2027, it says, "If current laws generally remain unchanged, revenues would rise from 17.8 percent of GDP in 2017 to 18.4 percent by 2027. They have averaged about 17.4 percent of the GDP over the last 50 years."

So, according to the CBO's current low baseline Federal revenues as a percent of GDP are projected to be higher than the 50-year historical average, both this year and over the budget window. And I think it just, once again, says that, no matter how much we grow our revenue, if we do not get our spending under control, the revenue will not matter if we just keep spending more than what we bring in day after day after day, and year after year after year.

So, Mr. Dodaro and your staff, all the workers in your office, I just want to say a big thank you for the work you do. You have given us such great information that has enlightened us, given us some instructions on how we can control this path that we are going down right now. I only wish that I could have all 435 members of Congress hearing what you are saying in here. And I am going to recommend, at least in my conference, that they listen to this hearing and that they read the information that you put out because it is such helpful information. First, we have to know it, and then we have to take charge of it and make sure that we put those policies in place.

And then I think, finally, we have got to hold people accountable for the policies you put in place because, obviously, they are no good unless you do hold people accountable. You can put the ideas out there, the recommendations, but there has got to be accountability at the end of the day.

So, I thank you. I thank Ms. Jayapal for sitting in for the ranking member and being here with me during the hearing.

I want to advise that members may submit written questions to be answered later in writing. And those questions and your answers will be made part of the formal hearing record. Any members who wish to submit questions or any extraneous materials for the record may do so within 7 days. So all of those ghosts that are sitting here, hear that.

With that, the Committee stands adjourned.

[Whereupon, at 12:09 p.m., the Committee was adjourned.]

Congresswoman Pramila Jayapal
Questions for the Record following hearing with
GAO Comptroller General, Gene Dodaro
May 3, 2017

1. From the ACA repeal proposals to President Trump's one-page tax plan, the Republican majority seems intent in providing tax cuts to the wealthiest Americans at any cost. Can you speak to how starving the nation of critical services will help get those working families who are most in need back on track?

2. How significant is climate change to the fiscal health of our nation?

3. Similarly, how do immigrants and New Americans affect the fiscal health of our nation? I have to note that in my home state of Washington, the Washington State Budget and Policy Center reports[1] that immigrant-owned businesses account for more than a billion dollars a year.

4. I note that these estimates of improper payments do not include the DOD's Defense Finance and Accounting Service (DFAS). What would you say is the best estimate of what is missing from your picture of improper payments from DOD? Are you able to reconcile how DOD can function efficiently and effectively if it has been the one agency in the Federal government that has remained unauditable? According to the Project on Government Oversight, "[Since 1990], [t]he Department of Defense remains the only federal agency that can't get a clean audit opinion on its Statement of Budgetary Resources."

[1] http://budgetandpolicy.org/schmudget/the-economic-contributions-of-immigrants-in-washington-state

REP. LEE'S QUESTIONS FOR THE RECORD
BUDGET COMMITTEE HEARING:

FAILURES OF FISCAL MANAGEMENT:
A VIEW FROM THE COMPTROLLER GENERAL

Date: Wednesday, May 3rd, 2017
Location: 1334 Longworth
Time: 10:00 AM

1. **DEPARTMENT OF DEFENSE SPENDING:**

Mr. Dodaro, I have long been concerned about the financial management of the Pentagon as – shamefully –it is the only federal agency that has NOT achieved an audit. Since 1995, according to past GAO reports, the Pentagon remains on the "High-Risk" list for its inability to control costs, ensure accountability and prevent and detect fraud, waste, and abuse. And in December, the Washington Post drew attention to the fact that the Pentagon spent $125 billion they could not account for – that is really unacceptable. All of this underscores the need to pass my bill – the bi-partisan Audit the Pentagon Act – which would bring long overdue transparency and accountability to defense spending by reducing by .5% a federal agency's discretionary budget authority for a fiscal year if that agency cannot be audited.

It is really unacceptable that we keep trying to balance the budget on the backs of the poor by slashing funding for safety net programs, while turning a blind eye to a department that mismanages a $600B budget.

a. **Mr. Dodaro, I understand that the GAO has compiled numerous recommendations for cost saving measures that will help save tens of billions of dollars and bring a culture of financial accountability to the Pentagon. From what I also understand, and from the GAO's recent report in February, the Pentagon has YET to meet any of these requirements. Do you have an update for the committee on the Pentagon's progress in meeting any of the recommendations originally laid out by GAO?**

b. **Would it be a fair and sensible strategy to stop increasing spending for the DOD until they are capable of successfully passing an audit,**

especially considering that OCO spending is already an additional slush fund of money for the DOD to tap into?

2. **OVERSEAS CONTINGENCY OPERATIONS (OCO):** For a number of years, the Overseas Contingency Operations (OCO) designation has been used as a budget gimmick to circumvent budget caps – what we like to call a "slush fund."

   Based on the FY17 Omnibus, the total for that account is now $83 billion – a slush fund for military action that benefits defense contractors. This practice obscures the true cost of regular government operations, it inhibits long-term planning, and it really is a budget gimmick.

   a. **Mr. Dodaro, does using the OCO designation in this way adhere to your notion of sound budgeting and accounting principles?**

3. **TAXES:**
   a. History shows us that the massive tax cuts under the Reagan and Bush administrations – what we like to call "trickle-down economics" - resulted in huge deficits because they hurt working families and the poor.

      i. **In your decades of experience at GAO, have you come across any evidence to the contrary, that somehow President Trump's trillions of dollars in tax cuts will have a positive impact on our nation's debt?**

Congresswoman Pramila Jayapal
Questions for the Record following hearing with
GAO Comptroller General, Gene Dodaro
May 3, 2017

1. From the ACA repeal proposals to President Trump's one-page tax plan, the Republican majority seems intent in providing tax cuts to the wealthiest Americans at any cost. Can you speak to how starving the nation of critical services will help get those working families who are most in need back on track?

   GAO response:

   We have not conducted the analysis to answer the question.

2. How significant is climate change to the fiscal health of our nation?

   GAO response:

   Since 2013, we have highlighted the significance of the fiscal exposure to the federal government from projected climate change impacts in our High Risk Series—which focuses on serious weaknesses in areas that involve substantial resources and provide critical services to the public.[1] The 2017 High Risk Series update section focuses on 5 areas where action is needed to reduce federal fiscal exposure: (1) strategic planning, (2) federal property and resources, (3) federal flood and crop insurance, (4) technical assistance, and (5) disaster aid.[2]

   Examples of federal fiscal exposure to projected impacts such as sea-level rise and more frequent or intense severe weather events include:

   - *Property:* The federal government owns and manages facilities and land vulnerable to climate change. For example, the Department of Defense's (DOD) 2010 and 2014 Quadrennial Defense Reviews stated that climate change poses risks to defense infrastructure, particularly on the coasts. DOD's infrastructure consists of more than 555,000 defense facilities and 28 million acres of land, with a replacement value of close to $850 billion.[3]

   - *Federal insurance:* Two federal insurance efforts— the Federal Emergency Management Agency's National Flood Insurance Program (NFIP) and the U.S. Department of Agriculture's Federal Crop Insurance Corporation—face climate change and other challenges that increase federal fiscal exposure and send inaccurate price signals about risk to policyholders. For example, we found that NFIP likely will not generate sufficient revenues to repay the billions of dollars borrowed

---

[1]GAO, *High-Risk Series: An Update,* GAO-13-283 (Washington, D.C.: February 2013).
[2]GAO, *High-Risk Series: Progress on Many High-Risk Areas, While Substantial Efforts Needed on Others,* GAO-17-317 (Washington, D.C.: Feb. 15, 2017).
[3]GAO, *Climate Change Adaptation: DOD Can Improve Infrastructure Planning and Processes to Better Account for Potential Impacts*, GAO-14-446 (Washington, D.C.: May 30, 2014).

from the Department of the Treasury to cover claims and expenses from the 2005 and 2012 hurricanes or potential claims related to future catastrophic losses.

- *Technical assistance:* To reduce fiscal exposure, the federal government plays a role in providing climate information to state, local, and private-sector decision makers—who are responsible for planning and maintaining infrastructure paid for with federal funds, federally-insured, or eligible for federal disaster aid.

- *Federal disaster aid:* Disaster aid functions as the insurance of last resort in certain circumstances because whatever is not covered by insurance or not built to be resilient to extreme weather increases the government's implicit fiscal exposure through disaster relief. For example, from fiscal years 2005 through 2014, the federal government obligated at least $277.6 billion across 17 federal department and agencies for disaster assistance programs and activities.

One way to reduce the potential fiscal impacts of climate-related risks is to enhance climate resilience (i.e. adjusting natural or human systems in response to actual or expected climate change). Enhancing climate resilience can cost additional money up front, but could also reduce potential future damage from climate-related events that—given expected budget pressures—would otherwise constrain federal programs. We have made several recommendations in this area and almost of them remain open.

3. Similarly, how do immigrants and New Americans affect the fiscal health of our nation? I have to note that in my home state of Washington, the Washington State Budget and Policy Center reports[4] that immigrant-owned businesses account for more than a billion dollars a year.

GAO response:

We have not conducted the analysis to answer the question.

4. I note that these estimates of improper payments do not include the DOD's Defense Finance and Accounting Service (DFAS). (1) What would you say is the best estimate of what is missing from your picture of improper payments from DOD? (2) Are you able to reconcile how DOD can function efficiently and effectively if it has been the one agency in the Federal government that has remained unauditable? According to the Project on Government Oversight, "[Since 1990], [t]he Department of Defense remains the only federal agency that can't get a clean audit opinion on its Statement of Budgetary Resources."

GAO response:

Our work and that of the DOD Office of Inspector General (OIG) have identified various shortcomings with the statistical validity and completeness of DOD's improper payment estimates, including the Defense Finance and Accounting Service (DFAS) Commercial Pay (vendor and contract payments) program estimate.

[4] http://budgetandpolicy.org/schmudget/the-economic-contributions-of-immigrants-in-washington-state

- In May 2013, we reported on major deficiencies in DOD's process for estimating fiscal year 2012 improper payments in the DFAS Commercial Pay program, including deficiencies in identifying a complete and accurate population of payments from which to sample.[5] The foundation of reliable statistical sampling estimates is a complete, accurate, and valid population from which to sample. DOD has yet to establish key quality assurance procedures to ensure the completeness and accuracy of sampled populations. Therefore, DOD's fiscal year 2016 improper payment estimates, including the DFAS Commercial Pay program, may not be reliable.
    - The Office of Management and Budget (OMB) includes the DFAS Commercial Pay improper payment estimate when reporting the governmentwide total of improper payments. We exclude the DFAS Commercial Pay estimate because it significantly affects the overall governmentwide improper payment rate due to a combination of the low overall error rate DOD reports for this program (0.04 percent) and the high amount of outlays for this program (nearly $249 billion for fiscal year 2016). Excluding the DFAS Commercial Pay program estimate yields a governmentwide error rate of 5.1 percent for fiscal year 2016 compared to an error rate of 4.7 percent if this program were included.

- In February 2015, we reported that DOD uses a methodology for measuring TRICARE improper payments that is less comprehensive than the methodology used to measure improper payments in the Medicare program despite similarities between the two programs.[6] DOD's TRICARE methodology does not include a medical record review to verify the medical necessity of the services provided. DOD did not validate that the diagnostic and procedural information reported on the TRICARE claim matched the care and services documented in the supporting medical record whereas such procedures are performed by the Centers for Medicare & Medicaid Services (CMS) when testing Medicare claims for improper payments. As a result, the DOD TRICARE estimate is not comparable to the Medicare estimate and is likely understated.

    - We recommended and DOD agreed to implement a more comprehensive TRICARE methodology that includes medical record reviews. DOD solicited proposals from companies that would conduct the medical record review we recommended but has not yet awarded a contract for these services. Therefore, our recommendation remains open.

- In May 2017, the DOD OIG reported that DOD failed to comply with the Improper Payment Elimination and Reduction Act of 2010 and cited issues with several of its reported improper payment estimates including the following.[7]
    - The U.S. Army Corps of Engineers developed a statistically valid sampling plan but did not implement it as designed.
    - For DOD Travel Pay, its sampling plans were not statistically valid and it did not have a written sampling plan for fiscal year 2016. Further, although the

[5]GAO, *DOD Financial Management: Significant Improvements Needed in Efforts to Address Improper Payment Requirements*, GAO-13-227 (Washington, D.C.: May 13, 2013).
[6]GAO, *Improper Payments: TRICARE Measurement and Reduction Efforts Could Benefit from Adopting Medical Record Reviews*, GAO-15-269 (Washington, D.C.: Feb. 18, 2015).
[7]Inspector General, U.S. Department of Defense, *The DOD Did Not Comply With the Improper Payment Elimination and Recovery Act in FY 2016,* Report No. DODIG-2017-078. (May 8, 2017).

Army and Air Force estimated improper travel payments, these estimates were not included in the DOD Travel Pay estimate.

- DOD did not ensure that all payments required to be tested were included in the sample plans for DFAS Commercial Pay and Military Health Benefits (TRICARE).

DOD financial management has been on our High-Risk list since 1995 because of long-standing internal control deficiencies, the effects of which extend beyond financial reporting and adversely affect the economy, efficiency, and effectiveness of its operations. For example, DOD's financial management problems have contributed to (1) inconsistent and sometimes unreliable reports to Congress on weapon system operating and support costs, limiting the visibility that Congress needs for effective oversight of weapon system programs, and (2) an impaired ability to make cost-effective choices, such as deciding whether to outsource specific activities or how to improve efficiency through technology.

DOD remains one of the few federal entities that cannot demonstrate its ability to accurately account for and reliably report its spending or assets. DOD has consistently been unable to receive an audit opinion on its financial statements and its financial management problems remain one of three major impediments preventing us from expressing an opinion on the consolidated financial statements of the federal government. DOD's efforts to improve its financial management have been impaired by its decentralized environment; cultural resistance to change; lack of skilled financial management staff; lack of effective processes, systems, and controls; incomplete corrective action plans; and ineffective monitoring and reporting.

DOD is continuing to work towards undergoing a full financial statement audit for fiscal year 2018. DOD has made some progress toward demonstrating leadership commitment and developing capacity and corrective action plans. For example, DOD continues its efforts to address its financial management challenges through (1) updating its financial improvement and audit readiness guidance related to service providers, financial reporting of property, and critical capabilities for full audit readiness; (2) implementing training programs to build a skilled financial management workforce; and (3) developing a number of corrective action plans.

REP. LEE'S QUESTIONS FOR THE RECORD
BUDGET COMMITTEE HEARING:

FAILURES OF FISCAL MANAGEMENT:
A VIEW FROM THE COMPTROLLER GENERAL

Date: Wednesday, May 3rd, 2017
Location: 1334 Longworth
Time: 10:00 AM

1. **DEPARTMENT OF DEFENSE SPENDING:**

Mr. Dodaro, I have long been concerned about the financial management of the Pentagon as – shamefully –it is the only federal agency that has NOT achieved an audit. Since 1995, according to past GAO reports, the Pentagon remains on the "High-Risk" list for its inability to control costs, ensure accountability and prevent and detect fraud, waste, and abuse. And in December, the Washington Post drew attention to the fact that the Pentagon spent $125 billion they could not account for – that is really unacceptable. All of this underscores the need to pass my bill – the bi-partisan Audit the Pentagon Act – which would bring long overdue transparency and accountability to defense spending by reducing by .5% a federal agency's discretionary budget authority for a fiscal year if that agency cannot be audited.

It is really unacceptable that we keep trying to balance the budget on the backs of the poor by slashing funding for safety net programs, while turning a blind eye to a department that mismanages a $600B budget.

a. **Mr. Dodaro, I understand that the GAO has compiled numerous recommendations for cost saving measures that will help save tens of billions of dollars and bring a culture of financial accountability to the Pentagon. From what I also understand, and from the GAO's recent report in February, the Pentagon has YET to meet any of these requirements. Do you have an update for the committee on the Pentagon's progress in meeting any of the recommendations originally laid out by GAO?**

GAO response:

In our 2011 through 2017 annual reports on overlap, duplication, and fragmentation, and areas for cost savings and revenue enhancements, we directed 168 actions to DOD designed to improve the efficiency and effectiveness of its programs and operations. As of March 2017, 95 of these 168 actions remained open. DOD also bears responsibility, in whole or in part, for half (17 of 34) of the areas we have designated as high risk—7 areas that DOD manages and 10 areas for which DOD shares management responsibilities with other federal agencies. Although DOD has made progress in addressing recommendations we have made related to these high risk areas, significant work remains. Our work suggests that effectively taking actions to address these actions and high risk areas would yield financial benefits in the billions of dollars, as discussed below.

DOD headquarters reductions. DOD headquarters functions have significantly grown over the years. For example, headquarters positions at the Functional Combatant Commands increased by about 84 percent from fiscal year 2004 to fiscal year 2013. DOD does not conduct periodic and systematic reviews of its headquarters requirements at the DOD elements we reviewed. In addition, up until 2015, DOD did not have a comprehensive definition of what constituted a major headquarters activity, but has since developed a definition and is working to establish a baseline for some of its organizations, as we had recommended.

The National Defense Authorization Act for Fiscal Year 2016 required DOD to implement a plan to ensure it achieves not less than $10 billion in cost savings from headquarters, administrative, and support activities for fiscal year 2015 through fiscal year 2019. We are currently reviewing DOD's efforts to do this. Preliminarily, we are finding that DOD does not have plans to achieve the required cost savings by fiscal year 2019, and there is limited support for the approximately $8 billion in cost savings they have identified to date. For example, about $5.3 billion of the approximately $8 billion was self-reported cost savings from subordinate organizations that DOD itself has deemed "not auditable" because the baselines for reductions were not established.

We have five priority recommendations related to DOD headquarters management that the department has not yet addressed. These recommendations are related to (1) collecting reliable information on the costs associated with functions within headquarters organizations; (2) determining requirements to identify opportunities for more efficient use of resources; (3) establishing a baseline to improve the management of headquarters reduction efforts; (4) ensuring that headquarters organizations are properly sized to meet assigned missions; and (5) improving DOD's ability to identify how many headquarters personnel it has, including contractors. DOD has recently undertaken initiatives intended to improve the efficiency of headquarters organizations and identify related cost savings, but these efforts are in the early stages and it is unclear to what extent these initiatives will be fully implemented and result in meaningful savings.

Our body of work in this area has found that over the past decade, authorized military and civilian positions have significantly increased within DOD headquarters organizations. Data provided by five geographic combatant commands, excluding U.S. Central Command, reveal that authorized military and civilian positions increased by about 50 percent from fiscal years 2001 through 2012, to about 10,100 authorized positions. In addition, mission and headquarters support costs at the combatant commands more than doubled from fiscal years 2007 through 2012, to about $1.1 billion. DOD has also increasingly relied on contractors to perform headquarters functions, but their identification and inclusion in headquarters reporting is incomplete.

The size of these organizations has recently leveled off or begun to decline. However, DOD's plans for future reductions are not finalized. For example, the Office of the Secretary of Defense experienced a 20 percent net increase in its authorized military and civilian positions from fiscal years 2001 through 2013. By more appropriately sizing DOD's headquarters activities, DOD could potentially save billions. We will continue to monitor DOD's progress in this area and implementation of our outstanding recommendations, which we have designated as a priority for the department to address.

DOD commissaries. DOD operates 238 commissaries worldwide to provide groceries and household goods at reduced prices as a benefit to military personnel, retirees, and their dependents. In our November 2016 and March 2017 reports, we found that DOD can more efficiently manage its commissaries through modifying its business processes, such as exploring options to use in-house staff for stocking and custodial services rather than contracting these functions out. We found that contracting these functions out costs, on average, $900,000 a year per commissary, compared to $500,000 per year when conducted with in-house staff. DOD can also achieve potential savings by modifying its distribution processes at the commissaries. Pursuing these and other changes would better position department to meet its $2 billion savings target at the commissaries from fiscal years 2017 through 2021.

In March 2017, we recommended that DOD develop a plan with objectives, goals, and time frames on how it will improve efficiency in product management at its commissaries. We also recommended that DOD conduct cost-benefit analyses to guide decisions on how to cost-effectively execute its stocking and custodial services and choose product distribution options. DOD concurred with our recommendation to develop a plan and partially concurred with our recommendation to conduct cost-benefit analysis.

For conducting cost-benefit analysis for stocking and custodial services, DOD stated that there were requirements in certain laws and regulations would impede implementation of our recommendation. With respect to product distribution options, DOD stated that it does not believe there is a demonstrable need to conduct a cost-benefit analysis. While DOD has cited a number of laws and regulations that apply once it has made a decision to contract out for the performance of a function, the Department did not cite a specific provision that would prevent it from conducting a cost-benefit analysis to make an informed decision whether to contract for services or to perform them in-house. Further, DOD did not provide any rationale for why it should not pursue the $2 million in cost avoidances identified in our report for its product distribution options. We continue to believe that both recommendations are valid.

DOD leases and use of underutilized spaces at military installations. Overreliance on costly leasing is one of the major reasons that federal real property management remains on our high risk list. Our prior work has shown that owning buildings often costs less than operating leases, especially where there are long-term needs for space. In March 2016, we reported that DOD has not assessed effects of future force reductions on existing leased facilities and, as a result, DOD may miss opportunities to reduce its leased space. For example, we found three Army leases for administrative space with total annual lease costs of about $915,000 that were within 8 miles of Fort Carson, Colorado, which likely would have available administrative office space after planned inactivations of Brigade Combat Teams.

We recommended that DOD look for opportunities to relocate DOD organizations in leased space to installations that may have underutilized space because of force structure reductions or other indicators of potentially available space, where such relocation is cost effective and does not interfere with the installation's ongoing military mission. DOD did not agree with the recommendation and had not taken action, as of October 2016. These actions could potentially save millions of dollars each year in reduced or avoided rental costs.

DOD business systems. DOD spends billions of dollars each year to acquire modernized systems that are fundamental to achieving its business transformation goals, including systems that address key areas such as personnel, financial management, health care, and logistics. While DOD's capacity for modernizing its business systems has improved over time, significant challenges remain. These challenges include fully defining and establishing management controls for business systems modernization. Such controls are vital to ensuring that DOD can effectively and efficiently manage an undertaking with the size, complexity, and significance of its business systems modernization, and minimize the associated risks. DOD's effort to modernize its business systems environment has been designated as high risk since 1995.

We have numerous outstanding recommendations aimed at improving DOD's business systems management controls. These include recommendations associated with improving how DOD manages its portfolio of business systems and improving DOD's Business Enterprise Architecture. Potential annual savings associated with implementing these recommendations and making better informed investment decisions would vary by year, but the potential exists for hundreds of millions or more in individual years. We have work underway to examine the department's recent efforts to improve how it manages its business systems, and we expect to issue a report later this year.

DOD contract management. DOD obligated $273.5 billion in fiscal year 2015 on contracts for goods and services, including major weapon systems, support for military bases, information technology, consulting services, and commercial items. As the federal government's largest procurement agency, DOD has opportunities to leverage its buying power to reduce prices, improve quality, and otherwise enhance supplier management and performance. We have found that leading commercial companies often manage 90 percent of their spending using strategic sourcing and generate 10 to 20 percent savings in doing so.

In contrast, we have reported that DOD components (Navy, Air Force, and Army) managed between 10 and 27 percent of their $8.1 billion in spending on information technology services through their preferred strategic sourcing contracts in fiscal year 2013. By awarding hundreds of potentially duplicative contracts, these components diminished the department's buying power.[1] Further, the low utilization rate of federal strategic sourcing initiatives contracts by DOD and other federal agencies resulted in missed opportunities to leverage buying power.

In this case, the Federal Strategic Sourcing Initiatives reported an estimated savings of $470 million between fiscal years 2011 and 2015, an overall savings rate of about 25 percent. In fiscal year 2015, however, the seven large agencies that comprised the Leadership Council—a cohort of large federal agencies responsible for federal strategic sourcing initiatives—directed less than 10 percent of their spending on the types of goods and services offered under federal strategic sourcing initiatives in fiscal year 2015, resulting in a missed opportunity to potentially have saved over $1 billion.[2]

We recommended that DOD agency conduct spend analysis, monitor spending, develop savings goals and metrics, and consider the use of standardized labor categories, as appropriate for their agency. DOD agreed with our recommendations and identified the actions that the Army, Navy, and Air Force intended to take to improve efforts to strategically source IT services.

b. Would it be a fair and sensible strategy to stop increasing spending for the DOD until they are capable of successfully passing an audit, especially considering that OCO spending is already an additional slush fund of money for the DOD to tap into?

GAO response:

The specific decision regarding funding levels for DOD is policy decision for Congress based on a variety of factors.

[1] GAO, *Strategic Sourcing: Opportunities Exist to Better Manage Information Technology Services Spending,* GAO-15-549 (Washington, D.C.: Sept. 22, 2015).
[2] GAO, *Federal Procurement: Smarter Buying Initiatives Can Achieve Additional Savings, but Improved Oversight and Accountability Needed,* GAO-17-164 (Washington, D.C. Oct. 26, 2016).

2. **OVERSEAS CONTINGENCY OPERATIONS (OCO):** For a number of years, the Overseas Contingency Operations (OCO) designation has been used as a budget gimmick to circumvent budget caps – what we like to call a "slush fund."

   Based on the FY17 Omnibus, the total for that account is now $83 billion – a slush fund for military action that benefits defense contractors. This practice obscures the true cost of regular government operations, it inhibits long-term planning, and it really is a budget gimmick.

   a. **Mr. Dodaro, does using the OCO designation in this way adhere to your notion of sound budgeting and accounting principles?**

GAO response:

The need for a clear distinction between what constitutes a war cost versus a base budget cost is an issue that we believe the Administration and Congress needs to resolve and one that we've highlighted in our work. Since 2001, Congress has provided DOD with over $1.7 trillion in appropriations to fund OCO. DOD acknowledges that some of its OCO costs are likely to endure after contingency operations cease. We recently reported in January 2017 that DOD's enduring costs were between $20-$30 billion—as much as 43 percent of DOD's total OCO request for fiscal year 2017 of $69.7 billion. We have recommended that DOD develop a complete and reliable estimate of enduring OCO costs to report in future budget requests. DOD partially concurred with this recommendation but identified no steps planned to develop and report its enduring OCO costs.

We also reported the criteria DOD used for deciding whether items properly belong in the base budget or in the OCO funding request are outdated and do not address the full scope of activities included in DOD's fiscal year 2017 OCO budget request. We have recommended that DOD, in collaboration with the Office of Management and Budget (OMB), reevaluate and revise the criteria for determining what can be included in DOD's OCO budget request. DOD concurred with this recommendation and plans to propose revised OCO criteria to OMB. Taking these steps would provide decision makers with a complete picture of the departments future funding needs and assist them in making informed choices and trade-offs in budget formulation.

3. **TAXES:**
   a. History shows us that the massive tax cuts under the Reagan and Bush administrations – what we like to call "trickle-down economics" - resulted in huge deficits because they hurt working families and the poor.

      i. **In your decades of experience at GAO, have you come across any evidence to the contrary, that somehow President Trump's trillions of dollars in tax cuts will have a positive impact on our nation's debt?**

GAO response:

We have not examined this question directly. Revenue estimates fall within the purview of the Joint Committee on Taxation and the Congressional Budget Office. While tax rate cuts reduce revenue, tax laws can be designed to be revenue neutral—if tax deductions, loopholes, or preferences (known as tax expenditures) are reduced to fully cover the loss in revenue from the rate cuts. On the whole, professional economic literature suggests that any associated economic growth from tax rate cuts has not historically covered the revenue reduction.