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Fiscal unsustainability propelling a rise in oversight

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The news over the past few weeks has been saturated with reports describing efforts by the new Administration to rein in federal spending and shrink the bureaucracy. These efforts are having a downstream impact on federal contractors, many of whose contracts with the government are being terminated and/or scrutinized to assess alignment with the Administration's priorities.

While the calls to reduce spending are not new, some of the methods being used by the Administration are. In particular, the Department of Government Efficiency (DOGE) has exploded onto the scene employing non-traditional forms of oversight aimed at quickly identifying and addressing what it claims are instances of fraud, waste, and abuse in government programs, operations, and contracts.

According to GAO, Congress has been operating for the past eight years — the span of time GAO has been issuing this report — without any strategy in place to set the government on a sustainable fiscal path.

These efforts are not being undertaken in a vacuum. Concerns about federal spending and rising national debt have been mounting. In fact, "The federal government is on an unsustainable fiscal path" was the bleak prediction that began the letter to the President and Congressional leadership transmitting this year's Government Accountability Office (GAO) report (https://bit.ly/4j3vOjA) to Congress on the nation's fiscal health.

How unsustainable? In two years, the debt held by the public will exceed 100% of the nation's gross domestic product (GDP). Why does public debt matter? According to GAO, when the government spends more than it collects in revenue, it typically borrows from the public to finance the resulting deficit. Over time, debt held by the public generally ends up equal to the accumulated budget deficits.

In other words, our federal budget deficits are on track to outpace the United States' GDP by 2027.

Or such would be the case absent any policy changes in revenue and program spending. GAO produces this annual fiscal health report using a fiscal simulation that examines the federal government's current fiscal condition and future outlook were the federal government to continue on its current path without change.

But maintaining the status quo is by no means GAO's objective; quite the contrary. GAO undertakes this exercise each year to provide data, analyses, and recommendations to congressional decisionmakers to inform strategies and policies aimed at mitigating the negative effects of growing debt and improving the nation's fiscal outlook.

Key findings of this year's report

GAO does this by describing trend lines across several key areas, including federal debt, primary deficits (i.e., the gap between program spending and revenue), and net interest spending. Some of this year's key findings are summarized below.

- Debt is projected to grow faster than the economy. Not only is debt expected to exceed 100% of GDP by 2027, it will more than double that by 2047. This could have serious implications for the economy and individuals, including rising interest rates and an increased risk of a financial crisis.
- Debt levels are being driven by increasingly large annual deficits. For the fifth year in a row, the federal deficit has exceeded $1 trillion. Because projected increases in spending for Medicare, other federal health care, and Social Security programs are expected to outpace projected increases in revenue, GAO anticipates persistent and widening budget deficits (which will impact debt growth).
- The government's borrowing costs are increasing dramatically. The government pays a considerable amount of interest on its debt. Spending on net interest has more than tripled since 2017 and, in 2024, it exceeded spending on some of the largest categories of federal spending, including Medicare and defense spending. In other words, paying the interest on our debt now costs us more than what we spend on our national defense.

So, what does GAO recommend to address these rather dire circumstances? A strategy.

That's right, a strategy. That may not sound like much but, according to GAO, Congress has been operating for the past eight years — the span of time GAO has been issuing this report — without any strategy in place to set the government on a sustainable fiscal path.

That strategy, GAO suggests, should focus on the long-term and could include elements like fiscal rules and targets to address spending and revenue imbalances and areas of strategic focus, including addressing financing gaps for Social Security and Medicare and considering replacing the debt limit.

Broader implications of reducing federal spending

Whether Congress takes up GAO's recommendations remains to be seen. In the meantime, the new Administration has forcefully moved to advance its policy goals in the early weeks of the term, including through the drastic reduction of perceived wasteful government spending by "streamlining" government agencies, programs, and personnel.

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While the immediate effects of these cuts were initially felt within the federal government, the downstream impacts on government contractors, grantees, and assistance awardees were not far behind.

The impacts are varied, but one of particular concern to those who do business with or are regulated by the federal government is the increased risk of audits, investigations, and other forms of government oversight.

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Among the tools in the Administration's toolbox are traditional forms of oversight, like the audits and evaluations typically performed by Offices of Inspectors General (OIGs) and GAO.

Although the firing of 18 Inspectors General shortly after the inauguration has unsettled the oversight community, traditional oversight continues to be performed.

The Administration is also experimenting with a newer, non-traditional form of "oversight" — that being undertaken by the newly established Department of Government Efficiency (DOGE). Although the structure, nature, leadership, and authorities of this agency appear to be evolving, it is clear DOGE enjoys a broad mandate covering the entire federal government.

Accordingly, all government contractors could, conceivably, find themselves engaging with DOGE (https://bit.ly/3El3hXA) at some point over the next 18 months.

To get ready for that engagement, contractors should prepare as they would for traditional oversight, but keep the following considerations in mind.

- **DOGE appears to be applying different oversight standards**. DOGE teams are not conducting work to traditional auditing standards (e.g., Generally Accepted Government Auditing Standards). They appear to be applying an agile methodology, iterating their processes as they proceed through each review.

  What this means for contractors is that the review process likely will not "look" typical and may move much more quickly than usual. Contractors must be prepared to marshal data and other information quickly. Moreover, contractors should ensure data maintained in systems and provided to DOGE is accurate since data verification is not necessarily taking place prior to publicization of findings.

- **DOGE appears to be applying different criteria**. While DOGE has not announced precisely what criteria it is using when conducting its oversight work, there are hints in several executive actions suggesting that the driving criteria is "value" — i.e., are the tax dollars spent via this contract or grant providing value to taxpayers.

Perhaps the clearest articulation of "value" can be found in Executive Order 14222 (https://bit.ly/4hgswlm), "Implementing the President's [DOGE] Cost Efficiency Initiative," in which the President describes a "justified" payment as spending that "promote[s] efficiency and advance[s] the policies of my Administration."

Contractors preparing for DOGE engagement should begin to assess their contributions to the government in terms of the Administration's definition of "value," developing a narrative and supporting information that demonstrates both efficiency and alignment with the Administration's strategic priorities.

As GAO notes in its letter transmitting this year's fiscal health report to the President and Congress, bringing federal spending more in line with revenue collection involves "difficult budgetary and policy decisions."

Government contractors are only beginning to feel the impacts of these decisions. And as more decisions are teed up, oversight will likely play an important role in informing decision-makers about where the next round of cuts should be made.

Government contractors would be wise to begin to prepare now for potential scrutiny — whether in the form of traditional or non-traditional oversight.

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