Speech before the National Association of State Auditors, Comptrollers, and Treasurers (NASACT)

Transitions and Transformations

PRESENTED BY DAVID M. WALKER
COMPTROLLER GENERAL OF THE UNITED STATES
TO THE NATIONAL ASSOCIATION OF STATE AUDITORS, COMPTROLLERS, AND TREASURERS (NASACT)
OKLAHOMA CITY, OK
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Transitions and Transformations

Transition

GAO's Strategic Plan Framework

Composition of Federal Spending by Budget Function

Composition of Spending as a Share of GDP

Composition of Spending as a Share of GDP

Federal Resources for Health Care

Performance is Determined by Several Tools

Transformation

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"The Case for Change"

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Accounting Profession Transformation Challenges

Selected Government Accountability Issues: Leading by Example

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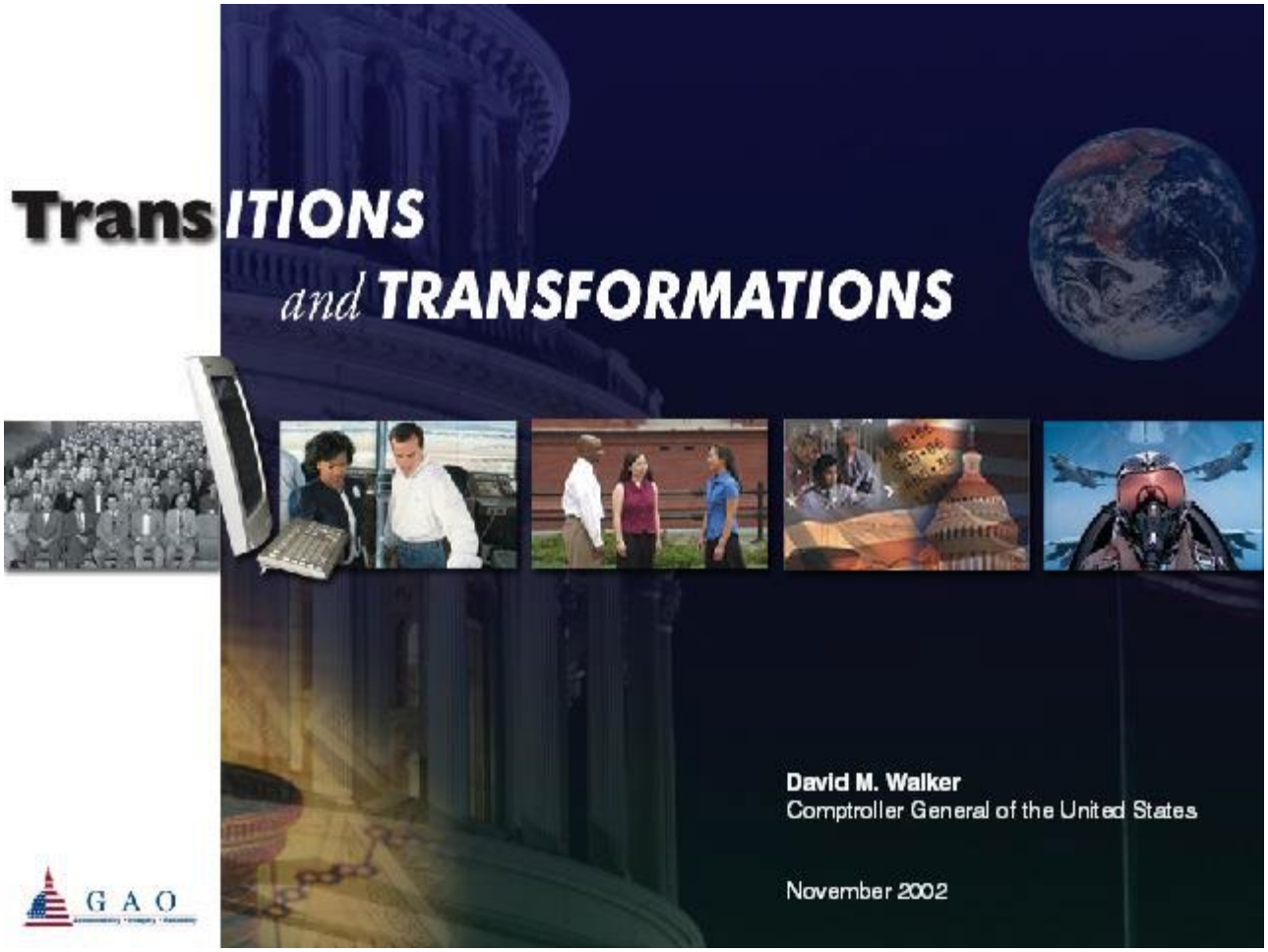
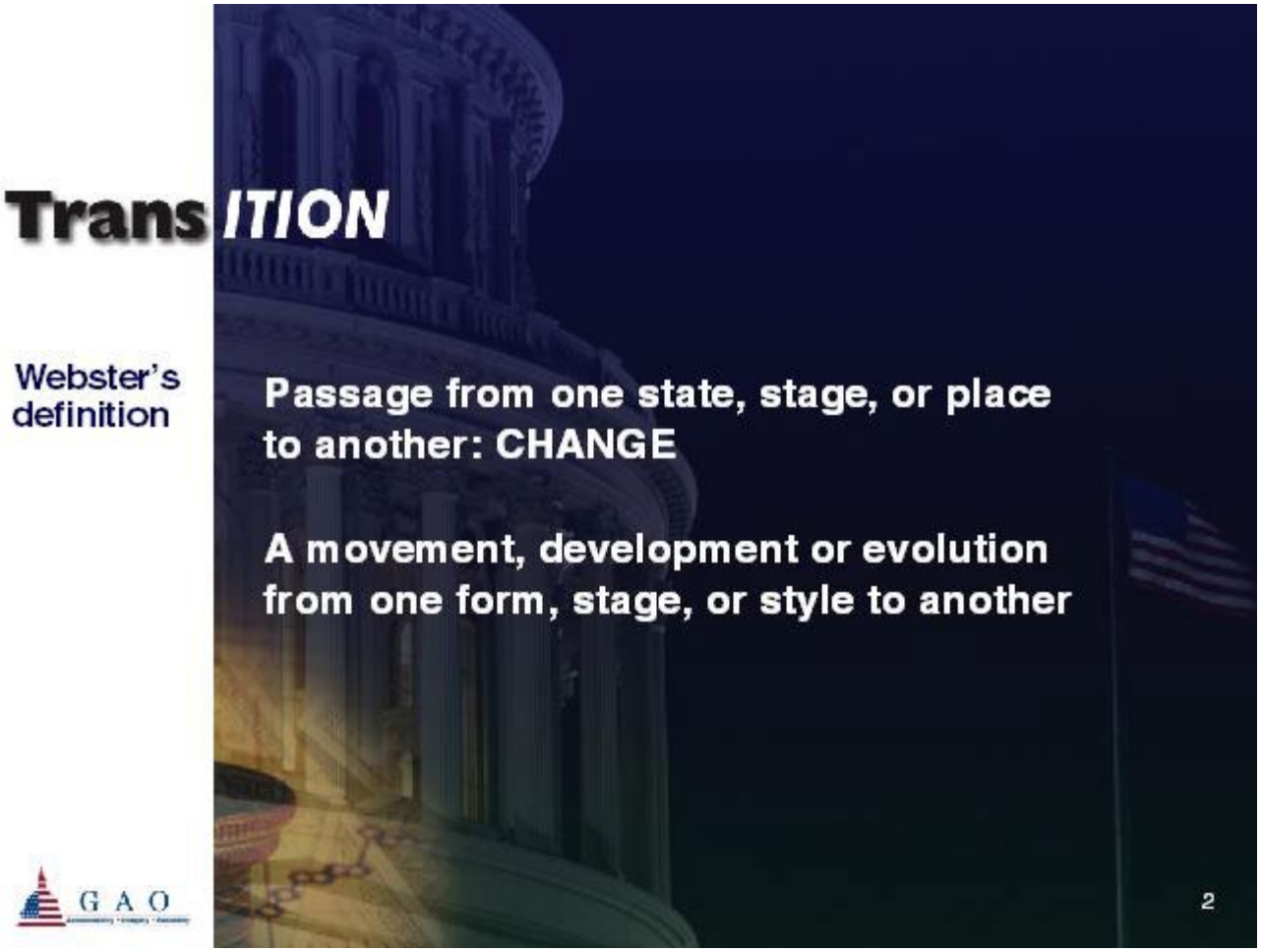
Key Concepts in the Accountability Profession


Transitions
and Transformations
David M. Walker
Comptroller General of the United States
November 2002
GAO


Trans ITION
Webster's definition
Passage from one state, stage, or place to another: CHANGE
A movement, development or evolution from one form, stage, or style to another
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SERVING THE CONGRESS
GAO'S STRATEGIC PLAN FRAMEWORK
MISSION
GAO exists to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people
THEMES
Security and Preparedness
Globalization
Changing Economy
Demographics
Science and Technology
Quality of Life
Governance
GOALS & OBJECTIVES
Provide Timely, Quality Service to the Congress and the Federal Government to . . .
Address Current and Emerging Challenges to the Well-Being and Financial Security of the American People related to . . .
Respond to Changing Security Threats and the Challenges of Global Interdependence involving . . .
Help Transform the Federal Government's Role and How It Does Business to Meet 21st Century Challenges by assessing . . .
Maximize the Value of GAO by Being a Model Federal Agency and a World-Class Professional Services Organization in the areas of . . .
CORE VALUES
Accountability
Integrity
Reliability
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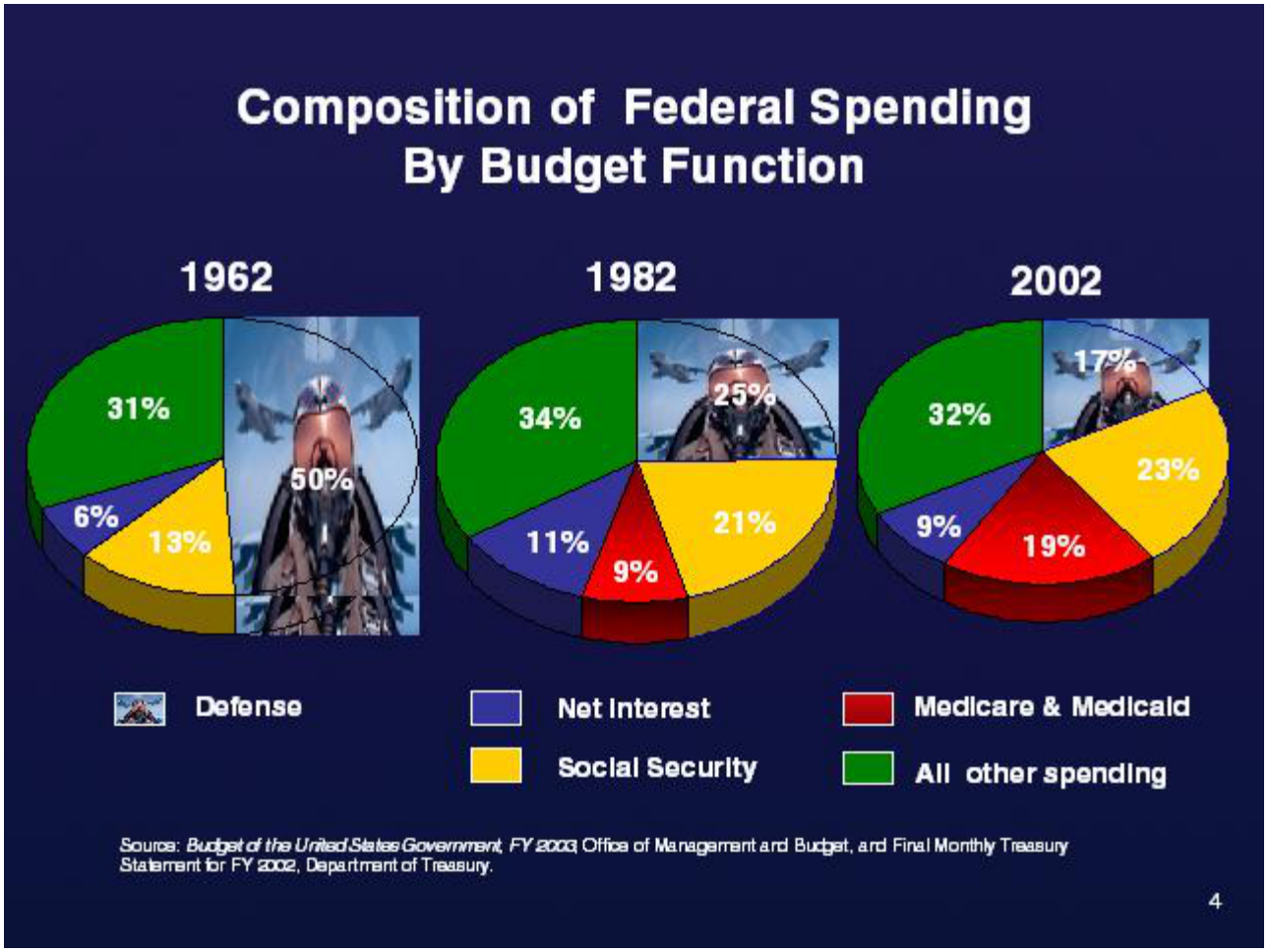
Composition of Federal Spending
By Budget Function
1962
1982
2002
31%
6%
13%
50%
34%
11%
9%
21%
25%
32%
9%
19%
23%
17%
Defense
Net Interest
Social Security
Medicare & Medicaid
All other spending
Source: Budget of the United States Government, FY 2003, Office of Management and Budget, and Final Monthly Treasury Statement for FY 2002, Department of Treasury.
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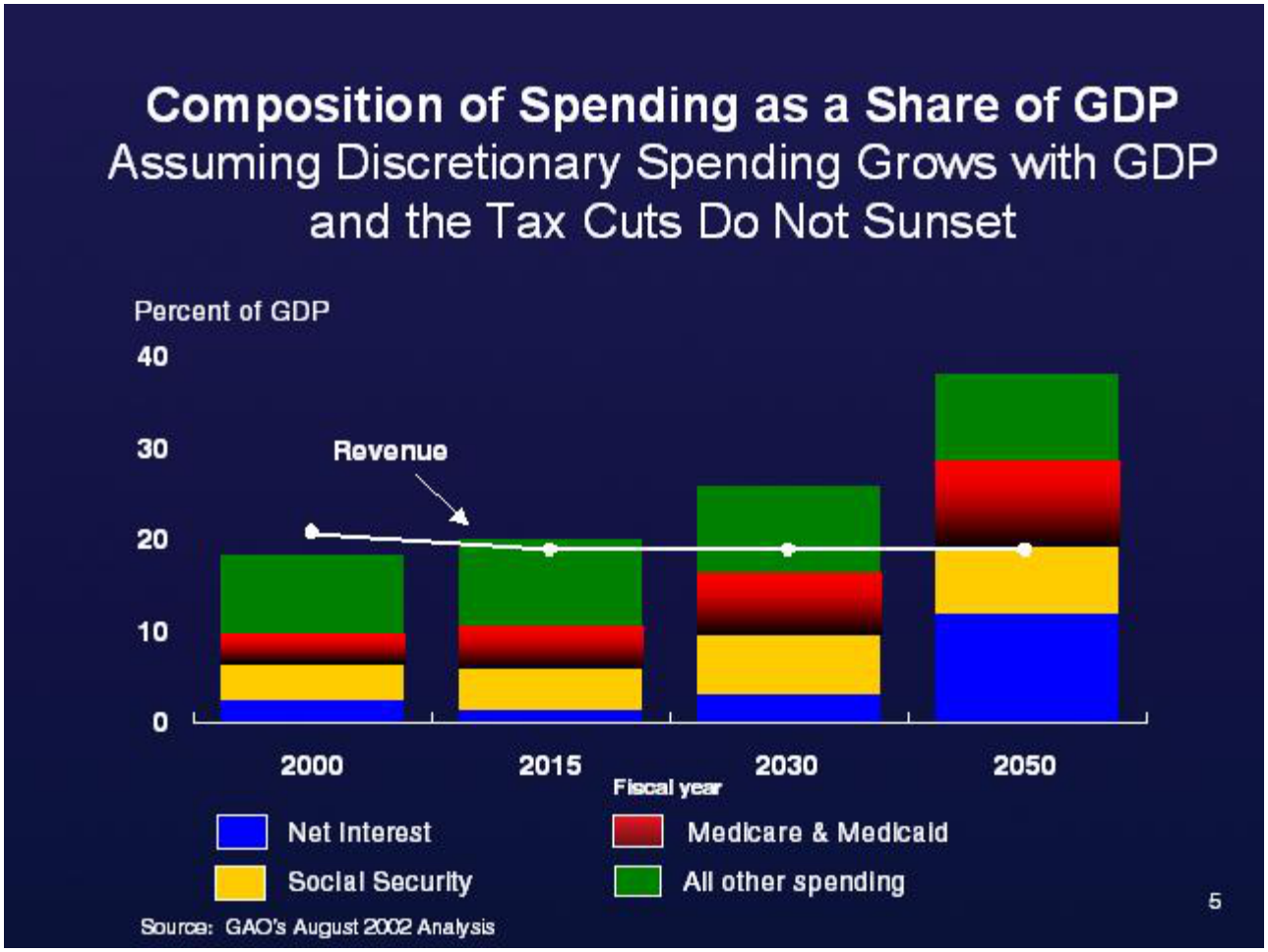
Composition of Spending as a Share of GDP
Assuming Discretionary Spending Grows with GDP and the Tax Cuts Do Not Sunset
Percent of GDP
40
30
20
10
0
Revenue
2000
2015
2030
2050
Fiscal year
Net Interest
Medicare & Medicaid
Social Security
All other spending
Source: GAO's August 2002 Analysis
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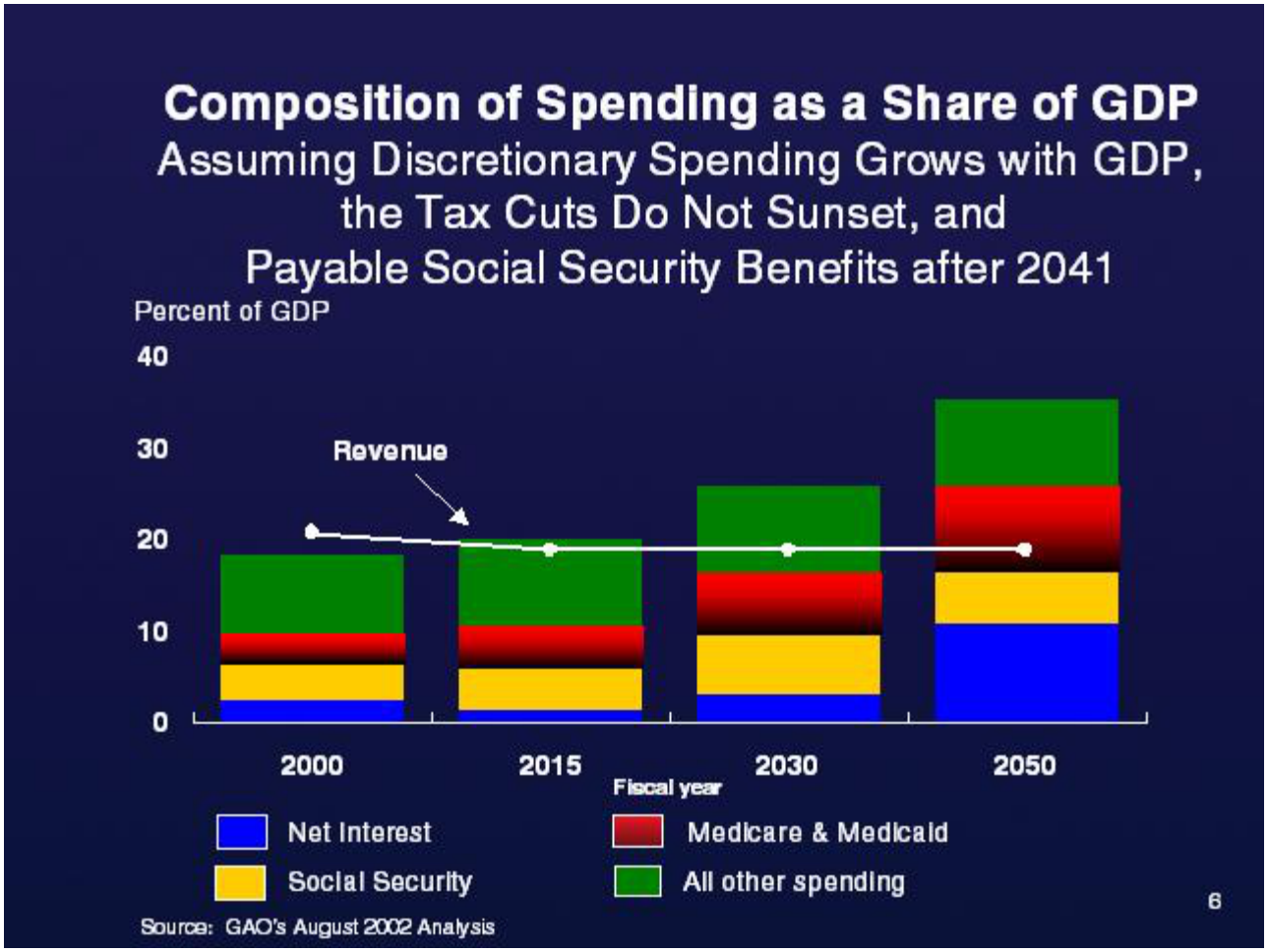
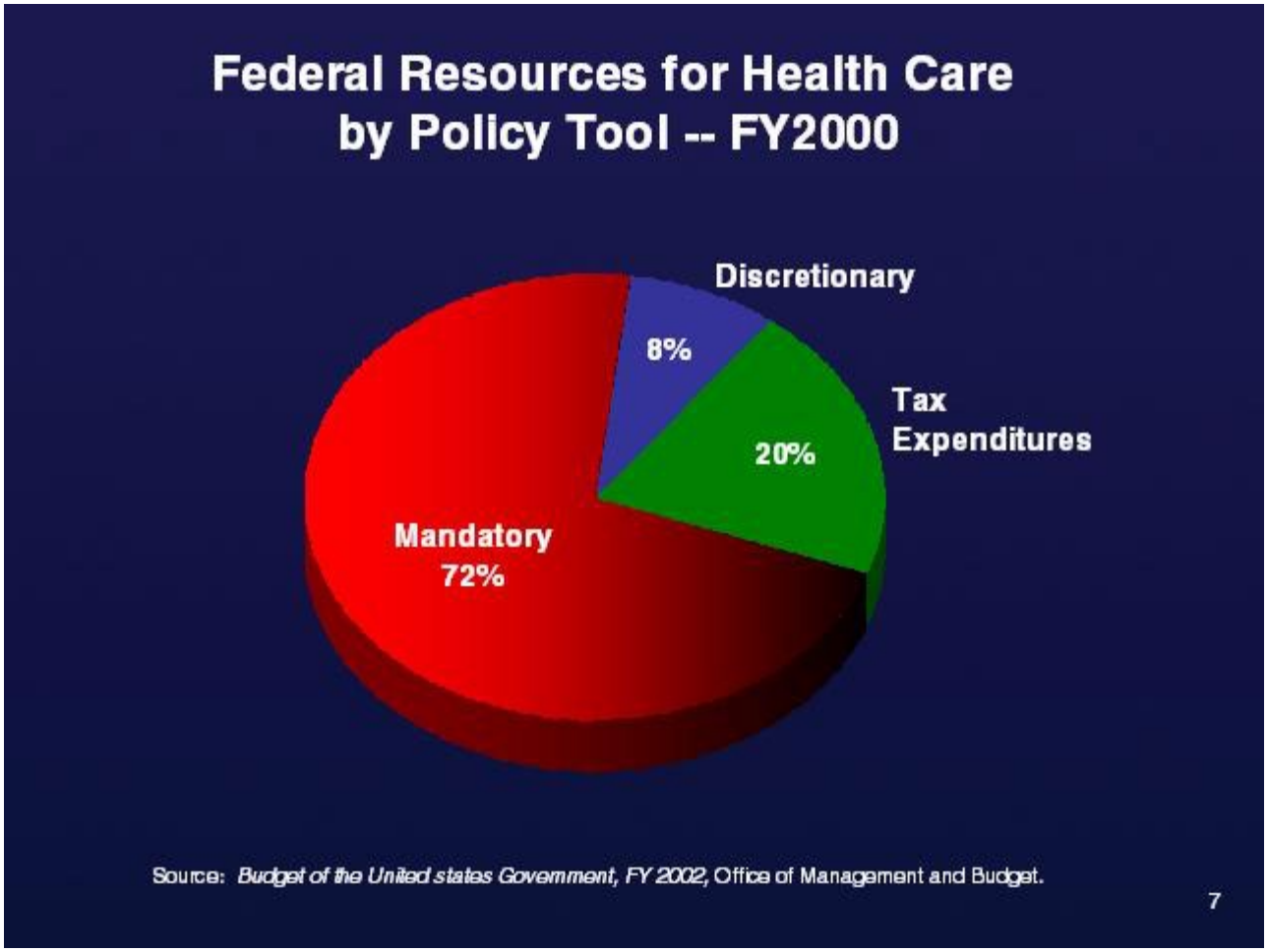

Composition of Spending as a Share of GDP
Assuming Discretionary Spending Grows with GDP, the Tax Cuts Do Not Sunset, and Payable Social Security Benefits after 2041
Percent of GDP
40
30
20
10
0
Revenue
2000
2015
2030
2050
Fiscal year
Net Interest
Medicare & Medicaid
Social Security
All other spending
Source: GAO's August 2002 Analysis
6


Federal Resources for Health Care by Policy Tool -- FY2000
Discretionary
8%
Tax Expenditures
20%
Mandatory
72%
Source: Budget of the United states Government, FY 2002, Office of Management and Budget.
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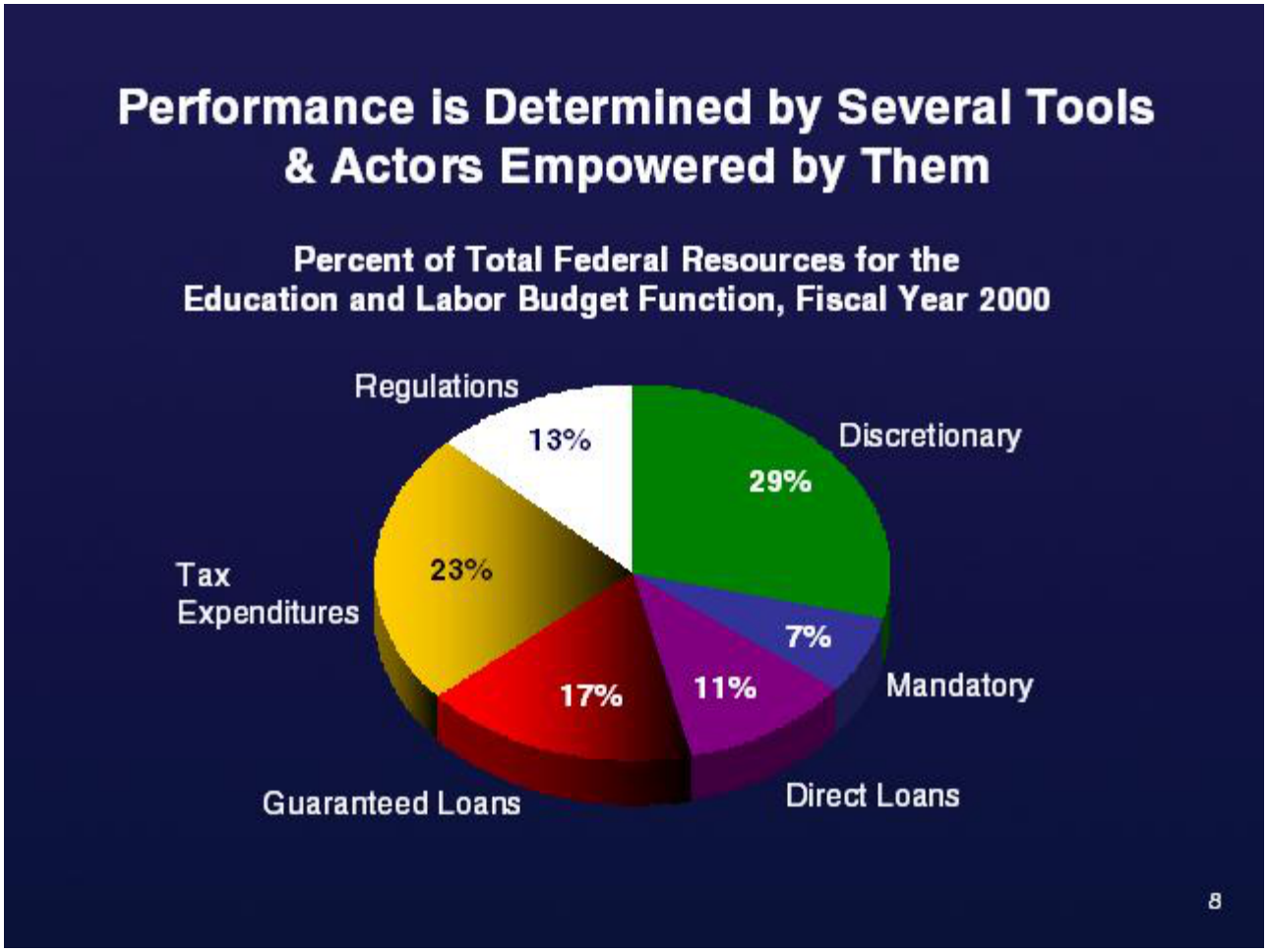
Performance is Determined by Several Tools & Actors Empowered by Them
Percent of Total Federal Resources for the Education and Labor Budget Function, Fiscal Year 2000
Regulations
13%
Discretionary
29%
Tax Expenditures
23%
7%
Mandatory
17%
11%
Guaranteed Loans
Direct Loans
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Trans FORMATION
Webster's definition
An act, process, or instance of change in structure appearance, or character
A conversion, revolution, makeover, alteration, or renovation
GAO
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Transformation is about creating the future rather than perfecting the past.
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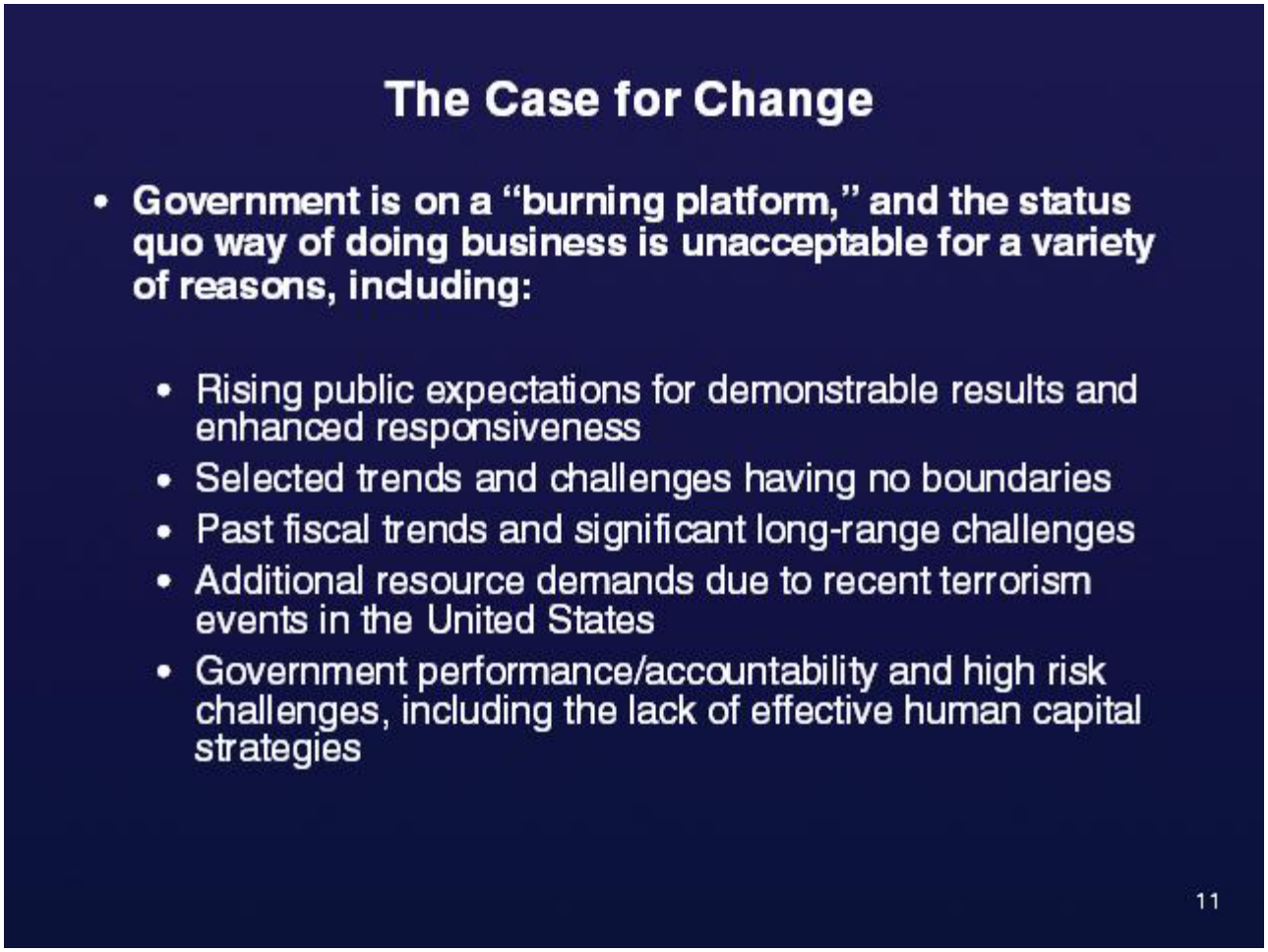
The Case for Change
• Government is on a "burning platform," and the status quo way of doing business is unacceptable for a variety of reasons, including:
• Rising public expectations for demonstrable results and enhanced responsiveness
• Selected trends and challenges having no boundaries
• Past fiscal trends and significant long-range challenges
• Additional resource demands due to recent terrorism events in the United States
• Government performance/accountability and high risk challenges, including the lack of effective human capital strategies
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GAO's High Risk List

High Risk Areas	Year Designated High Risk
Addressing Governmentwide High-Risk Areas	
Strategic Human Capital Management	2001
Information Security Weaknesses	1997
Ensuring Major Technology Investments Improve Services	
FAA Air Traffic Control Modernization	1995
IRS Tax Systems Modernization	1995
DOD Systems Modernization Efforts	1995
Providing Basic Financial Accountability	
DOD Financial Management	1995
Forest Service Financial Management	1999
FAA Financial Management	1999
IRS Financial Management	1995
Reducing Inordinate Program Management Risks	
Medicare	1990
Supplemental Security Income	1997
Earned Income Credit Noncompliance	1995
Collection of Unpaid Taxes	1990
DOD Infrastructure Management	1997
DOD Inventory Management	1990
U.S. Postal Service Long-Term Outlook and Transformation	2001
HUD Single-Family Mortgage Insurance and Rental Housing Assistance Programs	1994
Student Financial Aid Programs	1990
Asset Forfeiture Programs	1990
Managing Large Procurement Operations More Efficiently	
DOD Weapon Systems Acquisition	1990
DOD Contract Management	1992
Department of Energy Contract Management	1990
NASA Contract Management	1990

Cultural Transformation: A New Model for Government Organizations

- Government organizations will need to become **less** hierarchical, process-oriented, stovepiped, and inwardly focused.
- They will need to become **more** partnerial, results-oriented, integrated, and externally focused.
- They will need to achieve a better balance between results, client/customer, and employee issues.
- They will need to work better with other governmental organizations, non-governmental organizations, and the private sector, both domestically and internationally, to achieve results.

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Keys to Making Change Happen

- Commitment and sustained leadership
- Demonstrated need for change
- Process (e.g., employee involvement)
- Identifiable and measurable progress over time
- Communication, communication, communication

- Several other actions needed:
  - Strategic Plan
  - Core values
  - Organizational alignment
  - Recruiting, development, and succession planning strategies
  - Performance measurement and reward systems

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In today’s world, organizations who do not change may find themselves headed for extinction. At the same time, every organization should have a set of core values that can stand the test of time.
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Key Enablers for Effective Performance Management

- People
- Process
- Technology
- Environment

The most important of the four is **PEOPLE** — an agency's human capital.

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Homeland Security: Transition and Transformation in Action

- **President Proposes the Creation of a Cabinet-level Department of Homeland Security – Congress Agrees with General Concept**
  - Primary missions:
    - Prevent terrorist attacks within the US
    - Reduce vulnerability to terrorism at home
    - Minimize damage and assist in recovery if attacked
  - Primary responsibilities and possible divisions:
    - Information analysis - Intelligence
    - Critical infrastructure protection
    - Chemical, biological, radiological and nuclear countermeasures
    - Science and Technology
    - Border and transportation security
    - Emergency preparedness and response
- **Timetable:**
  - House passed legislation on Wednesday, November 13, 2002.
  - Senate expected to pass legislation the week of November 18, 2002.

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Homeland Security: Implementation will be Pivotal to Success

- **GAO has identified several keys to successful implementation:**
  - Human capital strategy, including agency leadership
  - Strategic planning
  - Organizational alignment
  - Communication and partnerships
  - Performance and accountability management
  - Information management and technology
  - Knowledge management
  - Financial management
  - Acquisition management
  - Risk management
  - Change management

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Accounting Profession Transformation Challenges

- The collapse of Enron and other recent events have served to increase the visibility of and concerns relating to a range of issues, including:
  - The adequacy of the current accounting and reporting model
  - The independence and effectiveness of auditors
  - The appropriateness of current governance structures
  - The adequacy of existing pension rules
  - The roles of other key players (e.g., management, boards, analysts, attorneys, investment advisors)
- Definitive actions are needed by a range of parties to address legitimate concerns, better protect the public interest, and restore investor confidence (e.g., Congress, stock exchanges, management, boards, CPAs)
- Government has both the need and the opportunity to lead by example in some important areas

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Selected Government Accountability Issues Leading by Example

- **Definition of success in financial management**
  - Clean opinion on financial statements
  - No major control weaknesses
  - No major compliance issues
  - Systems that produce timely, accurate, and useful financial and management information
- **Scope of audit**
  - Internal controls (current)
  - Compliance matters (current)
  - Performance and projection information (future)
- **Additional issues**
  - FASAB restructuring
  - Accelerated financial reporting
  - Audit/financial management committees
  - Auditor independence

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New Independence Standards

- **Key Principles**
  - Auditors should not perform management functions or make management decisions
  - Auditors should not audit their own work or provide nonaudit services if such services are material to the subject matter of the audit
- **Safeguards**
  - Personnel
  - Audit scope
  - Documentation
  - Quality assurance
- **Additional Guidance**
  - Delayed effective date
  - Additional transition flexibility
  - Application of principles and safeguards

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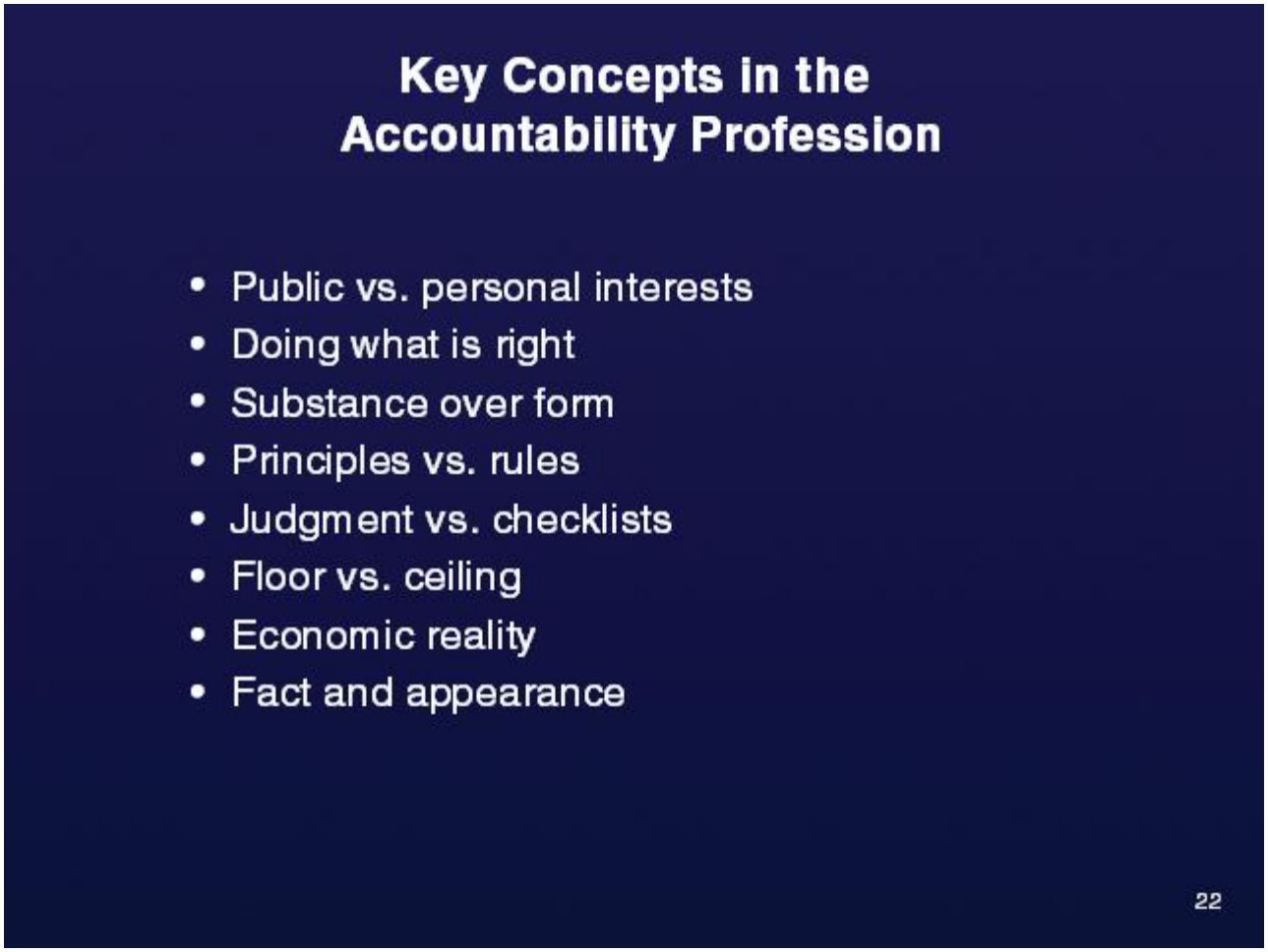
Key Concepts in the Accountability Profession
Public vs. personal interests
Doing what is right
Substance over form
Principles vs. rules
Judgment vs. checklists
Floor vs. ceiling
Economic reality
Fact and appearance
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