

Truth, Transparency AND TRANSFORMATION



**The Honorable
David M. Walker**
Comptroller General
of the United States

National State
Auditors Association
Annual Conference
Wrightsville Beach
North Carolina
June 11, 2005

GAO's Strategic Plan



SERVING THE CONGRESS AND THE NATION 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

Long-Term Fiscal Imbalance

National Security

Global Interdependence

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 . . .*

- Health care needs and financing
- Education and protection of children
- Work opportunities and worker protection
- Retirement income security
- Effective system of justice
- Viable communities
- Natural resources use and environmental protection
- Physical infrastructure

Respond to Changing Security Threats and the Challenges of Global Interdependence *involving . . .*

- Emerging threats
- Military capabilities and readiness
- Advancement of U.S. interests
- Global market forces

Help Transform the Federal Government's Role and How It Does Business to Meet 21st Century Challenges *by assessing . . .*

- Roles in achieving federal objectives
- Government transformation
- Key management challenges and program risks
- Fiscal position and financing of the government

Maximize the Value of GAO by Being a Model Federal Agency and a World-Class Professional Services Organization *in the areas of . . .*

- Client and customer satisfaction
- Strategic leadership
- Institutional knowledge and experience
- Process improvement
- Employer of choice

CORE VALUES

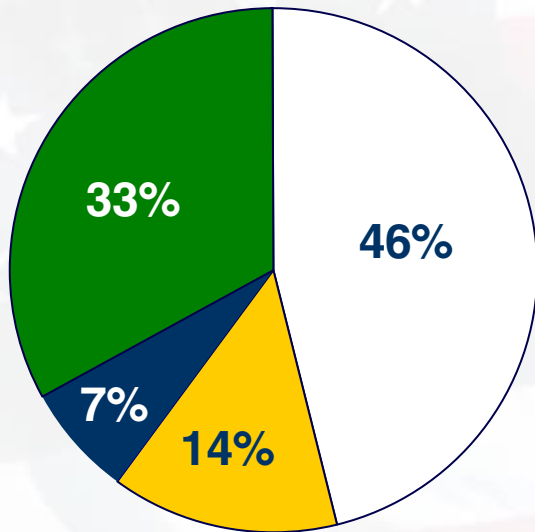
Accountability

Integrity

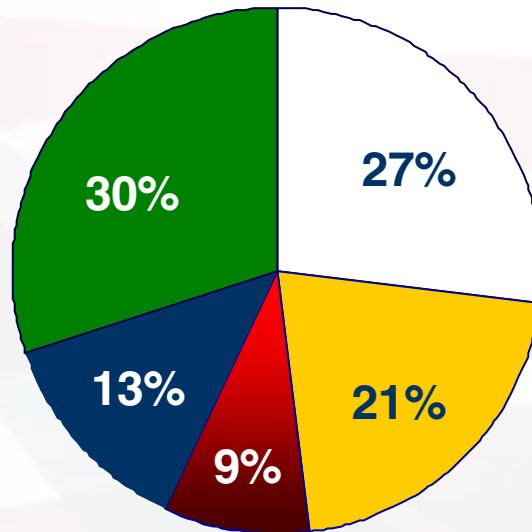
Reliability

Composition of Federal Spending

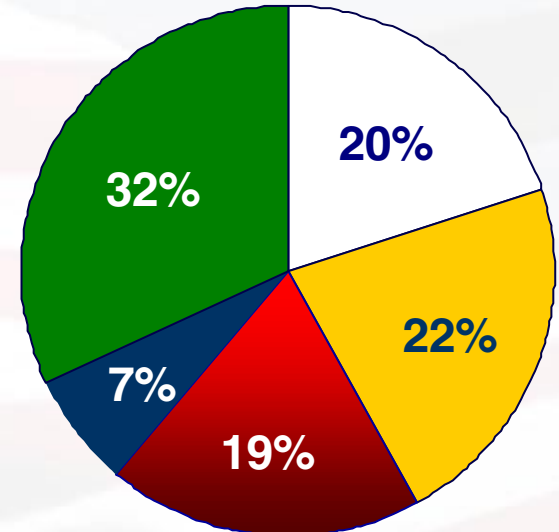
1964



1984



2004



Defense



Net interest



Social Security



All other spending

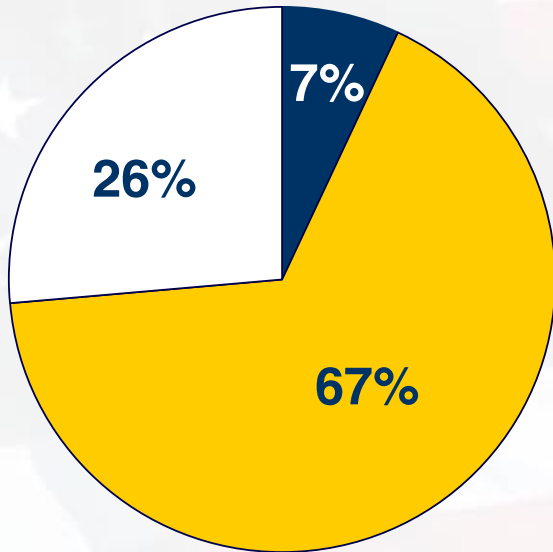


Medicare & Medicaid

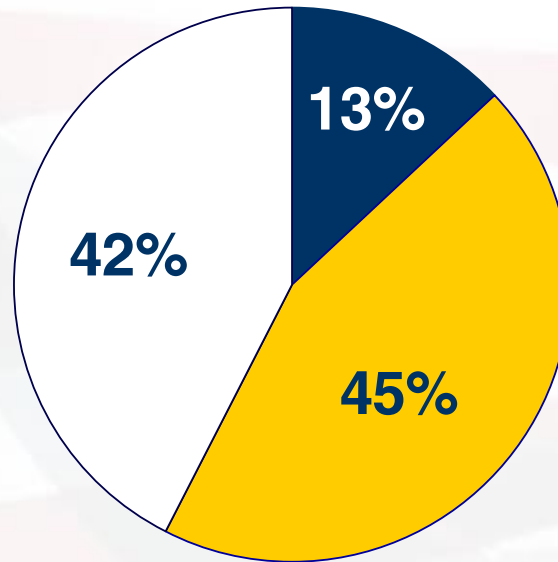
Source: Office of Management and Budget.

Federal Spending for Mandatory and Discretionary Programs

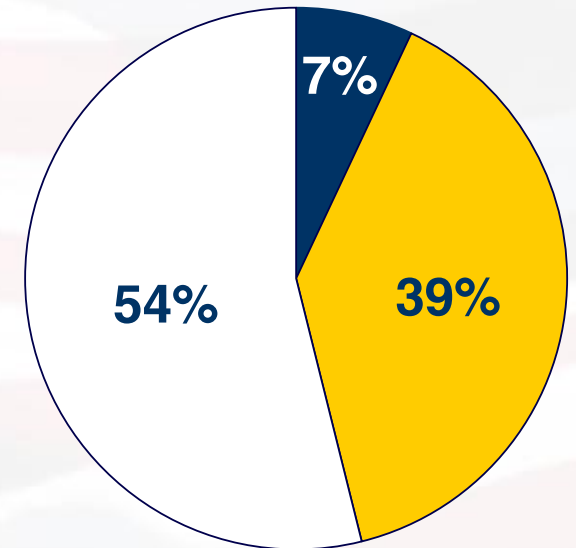
1964



1984



2004



Net Interest

Discretionary

Mandatory

Source: Office of Management and Budget.

Fiscal Year 2004 Deficit Numbers

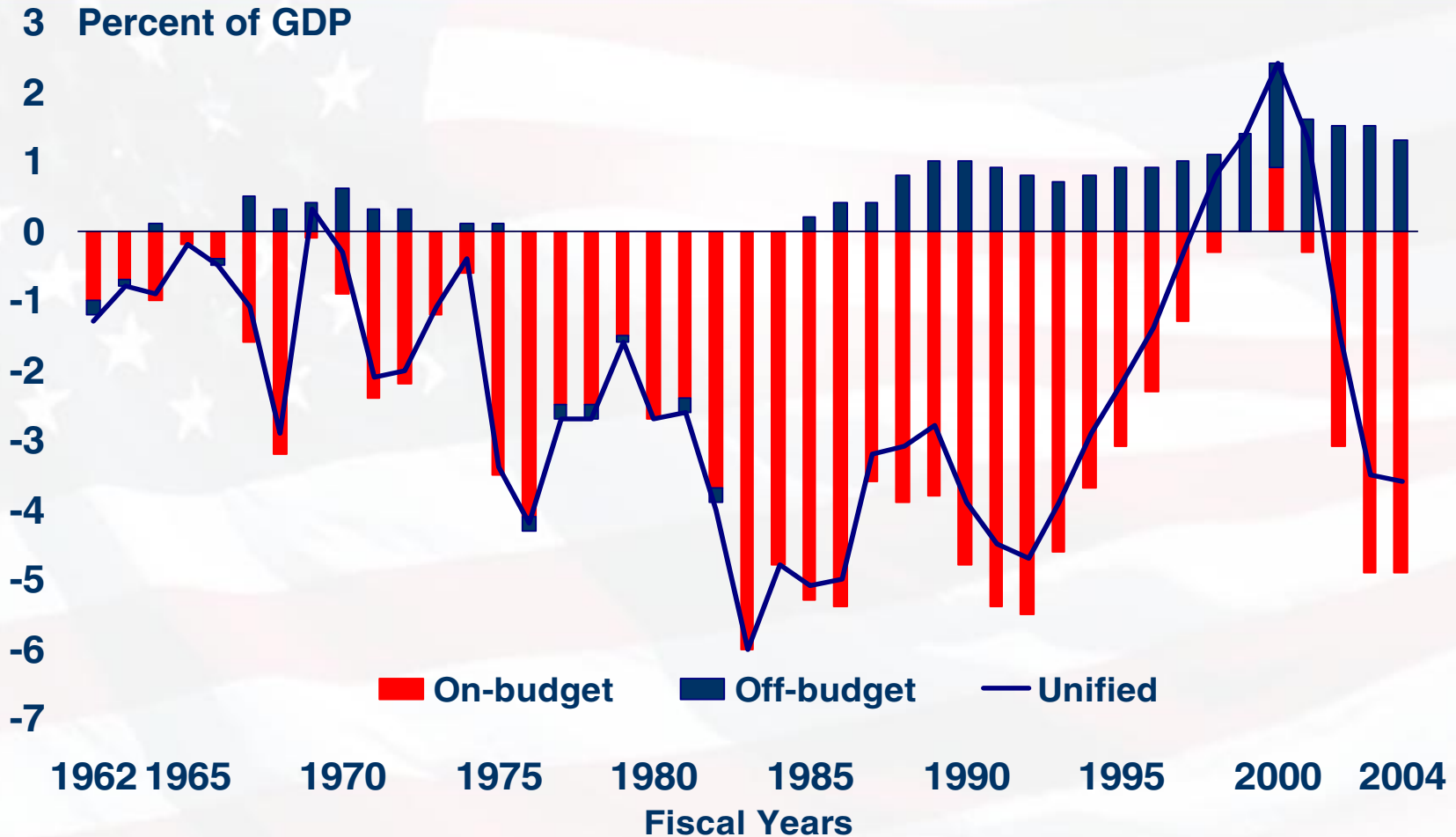
	\$ Billion	% of GDP
On-Budget Deficit	(567)	(4.9)
Off-Budget Surplus	155*	1.3
Unified Deficit	(412)	(3.6)

*Includes the \$151 billion Social Security surplus and a \$4 billion surplus for the Postal Service

March 2005

Surplus or Deficit as a Share of GDP

Fiscal Years 1962-2004



Source: Office of Management and Budget and Congressional Budget Office.

Selected Fiscal Exposures: Sources and Examples 2005^a

Type	Example (dollars in billions)
Explicit liabilities	Publicly held debt (\$4,297) Military and civilian pension and post-retirement health (\$3,059) Veterans benefits payable (\$925) Environmental and disposal liabilities (\$249) Loan guarantees (\$43)
Explicit financial commitments	Undelivered orders (\$596) Long-term leases (\$39)
Financial contingencies	Unadjudicated claims (\$4) Pension Benefit Guaranty Corporation (\$96) Other national insurance programs (\$1) Government corporations e.g., Ginnie Mae
Exposures implied by current policies or the public's expectations about the role of government	Debt held by government accounts (\$3,071) ^b Future Social Security benefit payments (\$4,017) ^c Future Medicare Part A benefit payments (\$8,561) ^c Future Medicare Part B benefit payments (\$12,384) ^c Future Medicare Part D benefit payments (\$8,686) ^c Life cycle cost including deferred and future maintenance and operating costs (amount unknown) Government Sponsored Enterprises e.g., Fannie Mae and Freddie Mac

^a All figures are for end of fiscal year 2004, except Social Security and Medicare estimates, which are as of January 1, 2005.

^b This amount includes \$845 billion held by military and civilian pension and post-retirement health funds that would offset the explicit liabilities reported by those funds.

^c Figures for Social Security and Medicare are net of debt held by the trust funds (\$1,687 billion for Social Security, \$268 billion for Medicare Part A, and \$19 billion for Medicare Part B) and represent net present value estimates over a 75-year period. Over an infinite horizon, the estimate for Social Security would be \$11.1 trillion, \$24.1 trillion for Medicare Part A, \$25.8 trillion for Medicare Part B, and \$18.2 trillion for Medicare Part D.

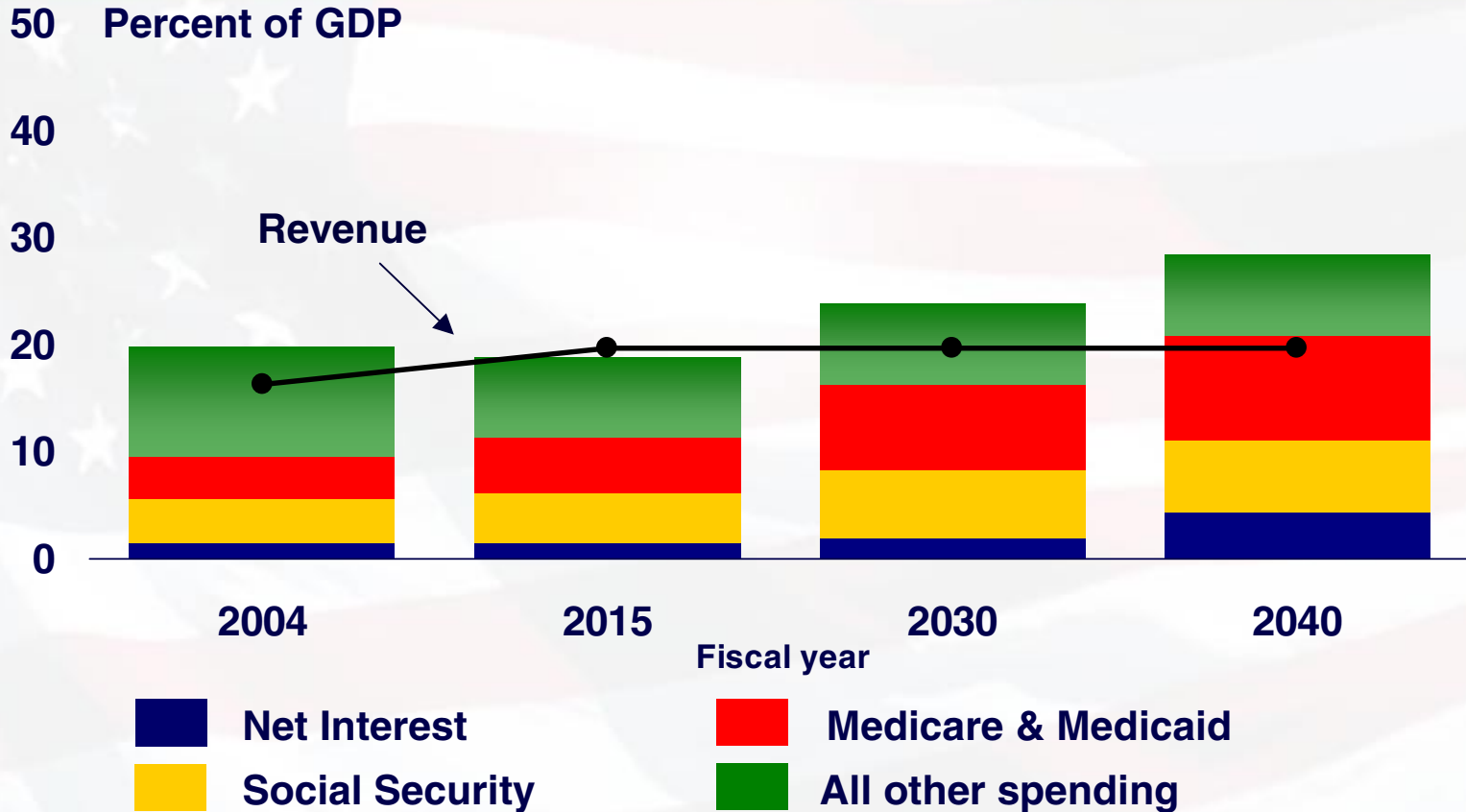
Source: GAO analysis of data from the Department of the Treasury, the Office of the Chief Actuary, Social Security Administration, and the Office of the Actuary, Centers for Medicare and Medicaid Services.

Another Way to Think About These Numbers

- Debt held by the public—\$4.3T
- Trust fund debt—\$3.1T
- Gross debt—\$7.4T
- Gross debt per person—about \$25,000
- If we add everything on the previous slide, the burden is more than \$150,000 per person or more than \$365,000 per full-time worker. Alternatively, it amounts to a total burden of more than \$45 trillion in current dollars, which is about 18 times the current annual federal budget or about 3.7 times the current annual GDP. This compares with an estimated \$48.5 trillion in total net worth, including home equity, for all Americans.

Note: The calculations are based on 75-year projections for Social Security and Medicare.

Composition of Spending as a Share of GDP Under Baseline Extended

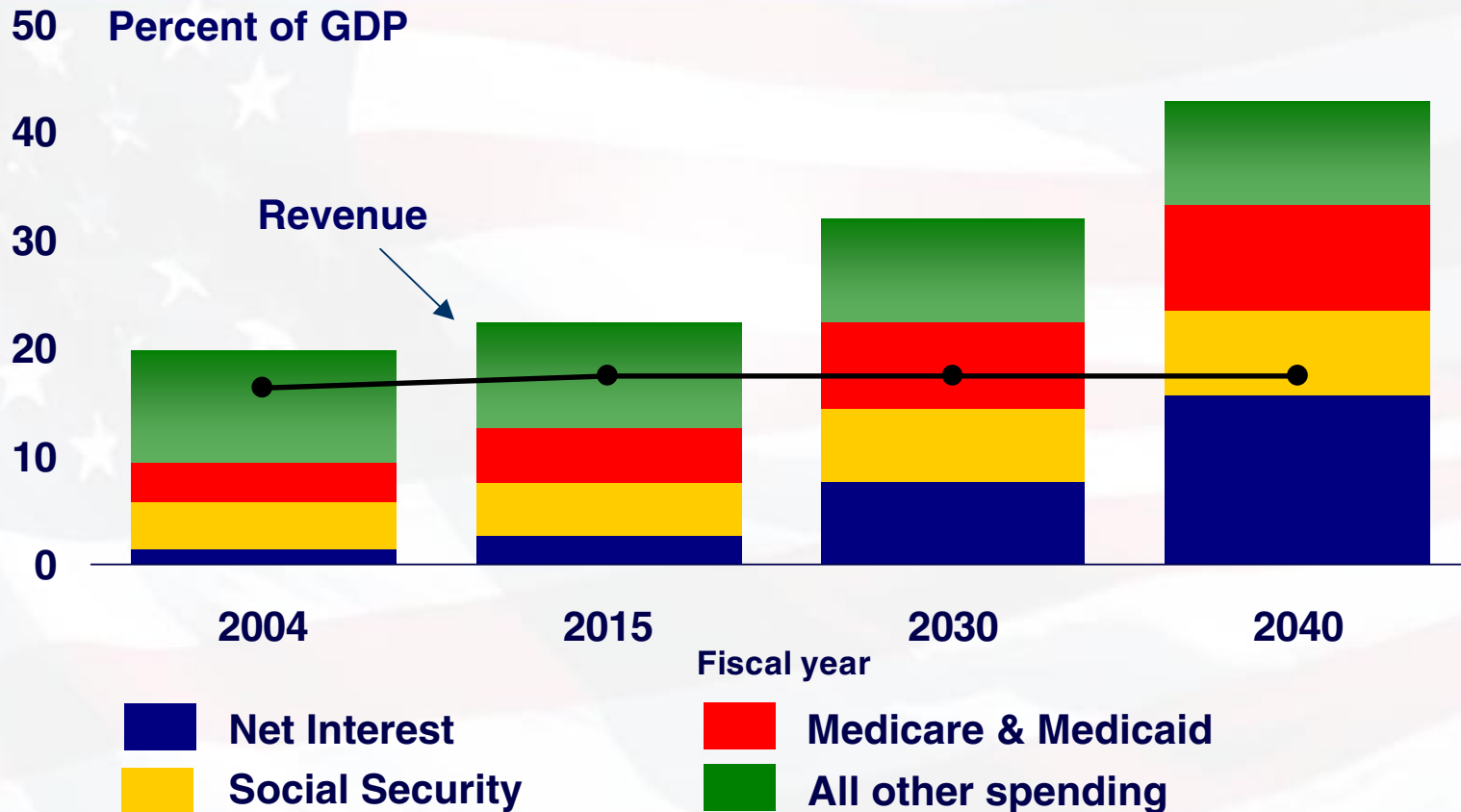


Notes: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2015 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2015, revenue as a share of GDP is held constant.

Source: GAO's March 2005 analysis.

Composition of Spending as a Share of GDP

Assuming Discretionary Spending Grows with GDP after 2005
and All Expiring Tax Provisions are Extended



Notes: Although expiring tax provisions are extended, revenue as a share of GDP increases through 2015 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2015, revenue as a share of GDP is held constant.

Source: GAO's March 2005 analysis.

Current Fiscal Policy Is Unsustainable

- **The “Status Quo” is Not an Option**

- We face large and growing structural deficits largely due to known demographic trends and rising health care costs.
- GAO’s simulations show that balancing the budget in 2040 could require actions as large as
 - Cutting total federal spending by about 60 percent or
 - Raising taxes to about 2.5 times today's level

- **Faster Economic Growth Can Help, but It Cannot Solve the Problem**

- Closing the current long-term fiscal gap based on responsible assumptions would require real average annual economic growth in the double digit range every year for the next 75 years.
- During the 1990s, the economy grew at an average 3.2 percent per year.
- As a result, we cannot simply grow our way out of this problem. Tough choices will be required.

- **The Sooner We Get Started, the Better**

- Less change would be needed, and there would be more time to make adjustments.
- The miracle of compounding would work with us rather than against us.
- Our demographic changes will serve to make reform more difficult over time.

The Way Forward

- Implement new accounting and reporting approaches and new budget control mechanisms for considering the impact of spending and tax policies and decisions over the long term
- Develop new metrics for measuring the impact of policies and decisions over the long term (e.g., key national indicators to measure our Nation's position and progress over time and in relation to other countries)
- Reexamine the base—question existing programs, policies and activities

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 and enhanced financial reporting
 - Enhanced performance and accountability reporting
 - Auditor independence

Selected Federal Financial Management and Audit Challenges

- **Financial and Performance Reporting**
 - long-range fiscal challenges (e.g., per capita burden, sustainability, intergenerational impact)
 - “trust funds” (e.g., restricted vs. unrestricted revenues, intra-governmental obligations)
 - DOD assets, liabilities, and contingencies
 - performance reporting
 - Summary annual report
- **Audit Reporting**
 - system of internal control
 - financial vs. performance vs. other information
 - Restatements
 - Beyond “going concern” opinions (e.g., broken business model)
- **Other**
 - Audit/financial management committees
 - Sarbanes-Oxley principles for government
 - Chief Management Officer (CMO)

We Need a Multifaceted Approach to Close the Long-Term Fiscal Gap

Policy:

- Restructure existing entitlement programs
- Reexamine the base of discretionary and other spending
- Review and revise our tax policy and enforcement programs

Operations:

- Reassess and revise how the government does business (e.g., management, planning and operational issues)
- Consider who should provide government services (e.g., sourcing strategy)
- Consider how the government should finance its operations

GAO's High-Risk List

2005

High-Risk Areas

Designated High Risk

Addressing Challenges in Broad-based Transformations

Protecting the Federal Government's Information Systems and the Nation's Critical Infrastructures	1997
Strategic Human Capital Management ^a	2001
U.S. Postal Service Transformation Efforts and Long-Term Outlook ^a	2001
Managing Federal Real Property ^a	2003
Implementing and Transforming the Department of Homeland Security	2003
Establishing Appropriate and Effective Information-Sharing Mechanisms to Improve Homeland Security	2005
DOD Approach to Business Transformation ^a	2005
DOD Supply Chain Management (formerly Inventory Management)	1990
DOD Weapon Systems Acquisition	1990
DOD Business Systems Modernization	1995
DOD Financial Management	1995
DOD Support Infrastructure Management	1997
DOD Personnel Security Clearance Program	2005

Managing Federal Contracting More Effectively

DOE Contract Management	1990
NASA Contract Management	1990
DOD Contract Management	1992
Management of Interagency Contracting	2005

Assessing the Efficiency and Effectiveness of Tax Law Administration

Enforcement of Tax Laws ^{a, b}	1990
IRS Business Systems Modernization ^c	1995

Modernizing and Safeguarding Insurance and Benefit Programs

Medicare Program ^a	1990
HUD Single-Family Mortgage Insurance and Rental Housing Assistance Programs	1994
Medicaid Program ^a	2003
Modernizing Federal Disability Programs ^a	2003
Pension Benefit Guaranty Corporation Single-Employer Insurance Program ^a	2003

Other

FAA Air Traffic Control Modernization	1995
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^a Legislation is likely to be necessary, as a supplement to actions by the executive branch, in order to effectively address this high-risk area.

^b Two high-risk areas—Collection of Unpaid Taxes and Earned Income Credit Noncompliance—have been consolidated to make this area.

^c The IRS Financial Management high-risk area has been incorporated into this high-risk area.

21st Century Challenges Report

- Report was issued February 16
- Based on GAO's work for the Congress
- Provides framework and questions to assist in reexamining the base
- Covers entitlements & other mandatory spending, discretionary spending, and tax policy and programs

Generic Reexamination Criteria and Sample Questions

Relevance of purpose and the federal role

Why did the federal government initiate this program and what was the government trying to accomplish?

Have there been significant changes in the country or the world that relate to the reason for initiating it?

Measuring success

Are there outcome-based measures? If not, why?

If there are outcome-based measures, how successful is it based on these measures?

Targeting benefits

Is it well targeted to those with the greatest needs and the least capacity to meet those needs?

Affordability and cost effectiveness

Is it using the most cost-effective or net beneficial approaches when compared to other tools and program designs?

Best practices

Is the responsible entity employing prevailing best practices to discharge its responsibilities and achieve its mission?

Twelve Reexamination Areas

MISSION AREAS

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

CROSSCUTTING AREAS

- Improving Governance
- Reexamining the Tax System

Themes

- Changing Security Threats
- Increasing Global Interdependence
- Demographic Shifts—Aging Population
- Promoting Growth in a Knowledge-Based Economy
- Governance Challenges

Illustrative 21st Century Questions

- How should the historical allocation of resources across services and programs be changed to reflect the results of a forward-looking comprehensive threat/risk assessment as part of DOD's capabilities-based approach to determining defense needs?
- Should federally funded training programs operated across multiple federal agencies—9 federal agencies administer 44 such programs—be better integrated and restructured in order to increase their cost effectiveness?
- To what extent do the tools and incentives increase spending on housing rather than promote affordable housing? Can the tools and incentives provided to homeownership be better targeted toward increasing home ownership among selected groups with less capacity to access credit markets?

Illustrative 21st Century Questions

- How can industry standards for acceptable care be established and payment reforms be designed to bring about reductions in unwarranted medical practice variation? For example, what can or should the federal government do to promote uniform standards of practice for selected procedures and illnesses?
- What criteria should be used to target federal funding for homeland security in order to maximize results and mitigate risk within available resource levels?
- Do we need to reexamine the U.S. force structure used for nation building and peacekeeping activities by the United Nations, NATO, and other international institutions? Should the United States have a separate force devoted to such functions? What role should the United Nations, NATO, and other international institutions perform in connection with such functions?

Illustrative 21st Century Questions

- To what extent are federal energy policies and incentive structures adequately preparing the nation to satisfy its energy needs over the long term? What is the appropriate balance between efforts to promote enhanced production of fossil fuels, alternative renewable energy sources, and energy conservation?
- How can federal disability programs, and their eligibility criteria, be brought into line with the current state of science, medicine, technology, and labor market conditions?
- How can the United States better develop a world-class technical and scientific domestic workforce that is not as dependent on large inflows of international students and researchers?
- Can intermodal solutions to the needs of modes such as freight, air, and passenger rail service be effectively carried out within the framework of the existing trust funds and other transportation programs or is another model needed?

Illustrative 21st Century Questions

- Which tax incentives need to be reconsidered because they fail to achieve the objectives intended by the Congress, their costs outweigh their benefits, they duplicate other programs, or other more cost-effective means exist for achieving their objectives
- What are the specific leadership models that can be used to improve agency management and address transformation challenges?
- How should the federal government update its compensation systems to be more market-based and performance-oriented?
- Is the federal government effectively informed by a key national indicator system about the position and progress of the nation as a whole—both on an absolute and relative bases compared to other nations—as a guide to helping set agency and program goals and priorities?

Key National Indicators

- **WHAT:** A portfolio of economic, social, environmental and security related outcome-based statistics that could be used to help assess the nation's and other governmental jurisdictions' position and progress
- **WHO:** Many countries and several states and localities have already undertaken related initiatives (e.g., Australia, New Zealand, Canada, United Kingdom, Oregon, Washington, and Charlotte)
- **WHY:** Development of such a portfolio of indicators could have a number of possible benefits, including
 - Serving as a framework for related strategic planning efforts
 - Enhancing performance and accountability reporting
 - Informing public policy decisions, including much needed baseline reviews of existing government policies, programs, functions, and activities
 - Facilitating public education and debate as well as an informed electorate
- **WAY FORWARD:** Consortium of key players led by the National Academies domestically and related OECD efforts internationally

Where Do We Go from Here?

- Reexamining the base of government will take many years
- Various reexamination approaches already exist and have been used by the federal government
- Some states and other nations offer models of reexamination
- Early action on reexamination has significant benefits

GAO's Work to Modernize the Accountability Profession

GAO is actively working to modernize and transform the accountability profession, both inside the government and in the private sector, and to lead by example in this area.

- Definition of success in financial management: clean opinion, no major weaknesses in controls or compliance, and financial systems that produce timely, accurate and useful information for management
- Opinion on system of internal control
- 2003 revision of *Government Auditing Standards*
- Creation of the U.S Auditing Standards Coordinating Forum (i.e., GAO, PCAOB, ASB)
- Coordination with accountability organizations around the world (e.g., INTOSAI)
- Modernization of the accounting/reporting and audit models
- Assure appropriate treatment of restatements by auditors and others
- Monitor implementation of the Sarbanes-Oxley Act, including providing suggestions for possible actions by the PCAOB and the SEC in connection with the internal control reporting requirements under Section 404
- Consider whether reform elements similar to those in Sarbanes-Oxley make sense for the federal government

Key GAO Partnerships



INTOSAI's Strategic Plan



INTOSAI STRATEGIC PLAN FRAMEWORK 2005 - 2010

MISSION

INTOSAI is an autonomous, independent, professional, and nonpolitical organization established to provide mutual support; foster the exchange of ideas, knowledge, and experiences; act as a recognized voice of supreme audit institutions (SAIs) within the international community; and promote continuous improvement among diverse member SAIs.

VISION

Promote good government by enabling SAIs to help their respective governments improve performance, enhance transparency, ensure accountability, maintain credibility, fight corruption, promote public trust, and foster the efficient and effective receipt and use of public resources for the benefit of their peoples.

STRATEGIC GOALS

■ **Goal 1: Accountability and Professional Standards**

Promote strong, independent, and multidisciplinary SAIs by (1) encouraging SAIs to lead by example and (2) contributing to the development and adoption of appropriate and effective professional standards.

■ **Goal 2: Institutional Capacity Building**

Build the capabilities and professional capacities of SAIs through training, technical assistance, and other development activities.

■ **Goal 3: Knowledge Sharing and Knowledge Services**

Encourage SAI cooperation, collaboration, and continuous improvement through knowledge sharing, including providing benchmarks, conducting best practice studies, and performing research on issues of mutual interest and concern.

■ **Goal 4: Model International Organization**

Organize and govern INTOSAI in ways which promote economical, efficient, and effective working practices, timely decision-making, and effective governance practices while maintaining due regard for regional balance and the different models and approaches of member SAIs

CORE VALUES

INDEPENDENCE INTEGRITY PROFESSIONALISM CREDIBILITY
INCLUSIVENESS COOPERATION INNOVATION

NIAF Strategic Plan



NATIONAL INTERGOVERNMENTAL AUDIT FORUM

Strategic Plan 2005 – 2010

Mission

The National Intergovernmental Audit Forum (National Forum) is an association of audit executives from federal, state, and local governments. It exists to improve coordination, communication, and cooperation among its members, private sector firms, and other accountability organizations in order to address common challenges; enhance government performance, accountability, and transparency; and increase public trust.

Themes

- Governance
- Fiscal constraints
- Human capital
- Homeland security
- Technology
- Interdependence
- Quality of life issues

Strategic Goals

- Foster networking, dialogue, and collaboration on current and emerging issues of common interest within the accountability community
- Enhance the capability, credibility, capacity, effectiveness, and professionalism of audit organizations by advancing audit standards, sharing best practices, and emphasizing the importance of accountability within government and the audit profession
- Improve the Forum's outreach, management, and impact to assist members in transforming government operations

Core Values

Collaboration

Professionalism

Integrity

Domestic Working Group

- Established by GAO in 2001
- Currently comprised of 6 IGs, 7 state auditors, and 6 local auditors
- Meets annually to:
 - Discuss mutual challenges
 - Share experiences
 - Identify opportunities for collaboration with each other.

Domestic Working Group Current Projects

- Grants Management

Nikki Tinsley

- Access to Records

Glenn Fine

- Governance

Jerry Heer

- Long-Term Fiscal Challenges

Ernest Almonte

Domestic Working Group Planned Projects

- Establishing Effective Information Sharing Mechanisms to Improve Homeland Security

Glenn Fine

- Tax Gap

Russell George

- Scoring State Assessments

Jack Higgins

Peer Review Results Performance Audit Practice

- **Clean Opinion**
- **Global Good Practices**
 - Strategic planning process
 - Audit risk assessment
 - Agency Protocols
 - Use of experts
 - E.A.G.L.E
 - Report design
- **Other Observations**
 - Distinguishing between audit and non-audit services
 - Strengthening reporting
 - Reviewing the quality assurance system for further efficiencies
 - Streamlining the documentation requirements
 - Making the inspection program more efficient

Peer Review Financial Audit Practice

- Clean Opinion
- Related oral briefing cited numerous good practices and some suggestions related to documentation
- One recommendation in the comment letter
 - Clarify documentation requirements for internal control work
- Performed by a large, international accounting firm
- Conducted in accordance with *Government Audit Standards* and standards established by the Peer Review Board of the AICPA

Rebuilding Public Trust

For any system to work, it must address three fundamental issues.

- First, provide incentives for people to do the right thing.
- Second, provide transparency to help assure that people do that right thing.
- Finally, have effective accountability mechanisms if people don't do the right thing.

Restoring public trust will require that every participant in the corporate reporting supply chain embrace and live by the following core concepts*

1. **A spirit of transparency**—stop playing games with financial and performance data. Use full disclosure.
2. **A culture of accountability**—management staff, boards, auditors, and stakeholders. High quality, unbiased information to support decision-making.
3. **People of Integrity**—commitment to individual integrity.

*Excerpts from Building Public Trust The Future of Corporate Reporting, Samuel Di Piazza, Jr. and Robert G. Eccles, 2002.

How Do We Move Forward?

- Good governance and accountability are critical
 - in the private sector to promote efficiency and effectiveness in the capital and credit markets, and overall economic growth, both domestically and internationally
 - in the public sector for the effective and credible functioning of a healthy democracy, and in fulfilling the government's responsibility to citizens and taxpayers
 - in both sectors to support a healthy economy that provides economic opportunities and benefits to citizens
- Sorting out the needs and effective and appropriate governance and accountability mechanisms for different sectors and types of organizations and on an international scale will be critical

Key Leadership Attributes for Success

- ***Courage***
- ***Integrity***
- ***Innovation***

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