

How Should the Federal Government Do Business in the 21st Century?

Federal Financial Management Challenges in the 21st Century

Delivered by
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DELIVERED BY THE HONORABLE DAVID M. WALKER, COMPTROLLER GENERAL OF THE UNITED STATES, SEPTEMBER 15, 2000, AT THE 50TH ANNIVERSARY CELEBRATION OF THE ASSOCIATION OF GOVERNMENT ACCOUNTANTS, COOLIDGE AUDITORIUM, LIBRARY OF CONGRESS

Congratulations to AGA on its 50th anniversary of service to our nation, our profession and its members. I was pleased to accept the invitation to speak on this most noteworthy occasion of AGA's history and to give a glimpse of the future in the area of government financial management and accountability.

AGA, within half a century, has compiled an impressive record of accomplishment in advancing government accountability. For example, AGA played a key role in supporting major financial management legislation like the Chief Financial Officers (CFO) Act and other important management reform initiatives. It also led the effort to design and implement an appropriate and well-recognized professional designation for government financial management professionals. As a result, we now have thousands of individuals with their Certified Government Financial Manager (CGFM) designation.

While much has been accomplished during the past 50 years for which AGA should rightfully be proud, in my opinion, AGA can play an even more important and expanded role in the future. Our nation and our profession are both at important crossroads. From a national perspective, the cold war is over and we won. In addition, after years of annual budget deficits we now have projected surpluses for as far as the eye can see. As a result, this is the perfect time to ask: "What should the government do and how should government do business in the 21st century?"

From a fiscal perspective, we aren't out of the woods yet. The future surpluses that are the current subject of intense debate are based on projections. Just three years ago we had projected deficits for as far as the eye could see. In addition, we know that we face a demographic tidal wave that can swamp our future fiscal picture and return us to the days of growing deficits if we are not prudent about our actions today. This demographic tidal wave is not a projection, it is a fact because the individuals who comprise it are already living, and many are rapidly approaching their normal retirement eligibility dates.

Many of the greatest challenges that we face as a nation are not immediate, but they are on the horizon. For example, the growing burdens of entitlement programs will serve to bring back the days of red ink unless needed reforms are made. They will also serve to crowd out the ability of future generations to make some of their own choices regarding what role government should play. Government must have the discretionary resources available to play those roles without imposing excessive tax burdens, halting economic growth or mortgaging the future. As a result, we must be prudent regarding how we handle today's decisions regarding the surplus and begin to prepare for tomorrow. This means focusing more attention on longer-range issues and the long-term effects of current decisions in both our financial reporting and budgeting processes. It also means focusing on differentiating between wants, which are unlimited; needs, which are real; and affordability, of which there is a limit. We need to do so in a range of areas, especially in connection with health care and major weapons systems.

The questions associated with what the government should do need to be answered by elected officials. At the same time, these officials will need the help of accountability organizations like GAO to get the facts, understand the options, and analyze the pros and cons to make timely and informed judgments. Financial management professionals also have an important role to play in making sure timely, accurate, and useful financial information is incorporated into this process. As Lincoln once said "I am a firm believer in the people. If given the truth, they can be depended upon to meet any national crisis. The great point is to bring them the real facts."

Financial and accountability professionals should have a more direct and "front line" role to play in answering the questions of how the government should do business. This means moving beyond the traditional focus on combating fraud, waste, abuse, and mismanagement to looking at how government goes about doing its business everyday and how it measures success. While we should always have zero tolerance for waste, fraud, abuse and mismanagement, it will never be zero. After all, the federal government alone is the largest, most complex, and most diverse entity in the world. We must continue to take steps to fight these unacceptable practices, but we must also place additional emphasis on changing how government does business. The return on investment for this type of initiative is much greater than the traditional fraud, waste, abuse, and mismanagement efforts.

We must continue to build upon the existing management reforms in the areas of strategic planning, financial management, and information technology. We must also do much more in the area of performance management, especially in connection with human capital, or people issues. Government at all levels is comprised of knowledge and service-based entities. As a result, their employees represent their most valuable asset. Attracting, retaining, renewing, and rewarding this key asset will become increasingly important in the years ahead. Many federal agencies and accountability organizations are smaller, out of shape, have selected skill imbalances, and significant succession planning challenges to address. The federal government faces an emerging human capital crisis that must be addressed. After all, you can't maximize the performance and ensure the accountability of any entity without having modern and effective human capital strategies.

The accountability profession is at a crossroads as well. While financial management and accountability professionals and the CPA profession, in particular, are members of one of the most respected professions in existence, they are under stress. Our reputation was built on the concept that we hold a public trust. For example, for CPAs that trust has historically come primarily from our attest responsibilities in connection with financial reporting for investors and other stakeholders. However, the world has changed and the role of accountability professionals must change with it. The days are gone when decisions are made on the basis of historical financial information that may be months old before it is subject to an audit opinion. Decisionmakers are increasingly focused on the future and not the past.

While we have made real progress in connection with several federal financial management areas during the past two years, we have a long way to go. For example, the Financial Accounting Standards Advisory Board (FASAB) recently received designation from the AICPA as an official standard setting body. This means that federal auditors can now use the familiar and important words of "in accordance with generally accepted accounting principles" in their opinion reports. In addition, more than half of the 24 major federal departments and agencies received unqualified opinions on their fiscal year 1999 financial statements. However, many didn't, and many of those that did have material control weaknesses and significant compliance problems to deal with.

We must recognize that, while obtaining a clean opinion is a noteworthy accomplishment, it is a beginning and not an end. Equal attention needs to be placed on eliminating material control weaknesses and significant compliance issues. In addition, we must realize that the real purpose of the CFO Act was to help ensure that managers had timely, accurate, and useful financial and other important management information to make decisions and monitor government performance everyday. Most agencies are a long way from making this goal a reality.

The FASAB has also made progress in enhancing the amount and placement of information associated with Social Security and Medicare programs. However, more needs to be done in this area, and this critically important information needs to be subject to appropriate audit procedures. We need to resolve long-standing national defense assets issues and begin to address the performance reporting model. Don't get me wrong, we've come a long way in a relatively short period of time in the federal financial reporting area, but we got a late start and we have a lot of ground to make up. At the same time, the federal government has the opportunity to provide much needed leadership in selected areas of reporting such as in connection with key internal controls, performance, and compliance related information. The government should be a leader and not a follower in these areas. This is particularly important because government is dealing with other people's money, namely the taxpayers'. In addition, the federal government doesn't have a stock price to serve as a market indicator of its performance and value. As a result, we need to focus more attention on reporting key results-oriented and outcome-based performance measures.

The government also has the opportunity to be a leader in the area of consolidated annual reporting - or accountability reports. AGA is playing an important role in this regard through its Certificate of Excellence in Accountability Reporting program. Interestingly, we also need to recognize that none of the current public or private sector reporting models give adequate treatment to the most valuable asset in our new knowledge based economy, namely people, or what we at GAO refer to as human capital.

Members of the accountability profession, including the CPA professional community, are currently going through a debate about their future. In doing so, we must adjust our roles and approaches to recognize the realities of a knowledge based economy where it will become increasingly important to translate assertions and information into facts and knowledge in a timely

manner.

We must begin to partner more with our fellow accountability professionals around the world and at different levels within government since we face many common challenges. In addition, as GAO's strategic plan notes, an increasing number of challenges that we face have no borders and involve shared responsibilities. These additional partnerships must also extend between the public, private, and not-for-profit sectors. With this shared responsibility comes shared accountability. This makes life tougher, but it's a reality. We must also recognize that, as accountability professionals, we hold a public trust. That trust is hard to earn but easy to lose. We must keep this in the forefront of our minds as we move forward.

This issue is particularly relevant in connection with independence issues and the scope of attest-based work. Independence is more than a state of mind. At the present time, both the GAO and the Security Exchange Commission are dealing with difficult and controversial independence related issues. We must both consider carefully the comments that we have received before we decide on an ultimate course of action. Our actions can have a profound effect on the accountability profession, the individuals who comprise it, and the public's confidence in and respect for both. We need to focus on real risks and ensure that our final actions pass a cost/benefit test from a public interest perspective. I'm confident that this balance can be achieved with the concerted efforts of all involved.

In addition to who does the work, it's also important to focus on what type of work accountability professionals should be doing in the years ahead. In my view, accountability professionals should move to perform more attest-based work in connection with key internal controls, performance information, future projections, and Internet based activity. This will require additional attention and guidance in connection with related professional standards. We must also constantly strive to ensure the relevancy and enhance the value of the services we provide, both in the public and private sectors. We must continue to seek additional ways to use technology to enhance the value and minimize the cost of our services. At the same time, we must ensure that the use of technology by our organizations and those that we audit and evaluate does not serve to threaten our national security or the personal privacy of American citizens.

Accountability professionals, the CPA profession, the major CPA firms, and the government all have roles to play to make this conversion to a knowledge based reporting and assurance model a reality. It's not too late to do it, but the clock is ticking. We need to get on with it. In addition, financial management and other accountability professionals will have an opportunity to play a major role in the overall effort to move to a more results oriented and technologically proficient government. This will include areas such as strategic planning, information technology, and human capital. While we all have full-time jobs, the training, backgrounds, and positioning of financial and accountability professionals within organizations enable them to add value to these areas, while helping to ensure the necessary links are in place for an integrated approach to organizational issues. At the same time, the actions of external audit professionals in these areas must meet both the letter and spirit of applicable independence standards.

In summary, times have changed and we need to change with the times.

We have come a long way but we have more challenges to tackle. These challenges also present us with real opportunities. Our nation and our profession need to focus more on the concept of stewardship. Under that concept, we all have a responsibility of not just leaving things better off when we leave than when we came, we also have a responsibility to leave our nation, our organizations, and our profession better positioned for the future. This is a much tougher challenge, but I think we are up to it. It will require change and hard work. But we can do it if we maintain the proper perspective and work together with persistence and perseverance. If we do this, we will prevail.



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