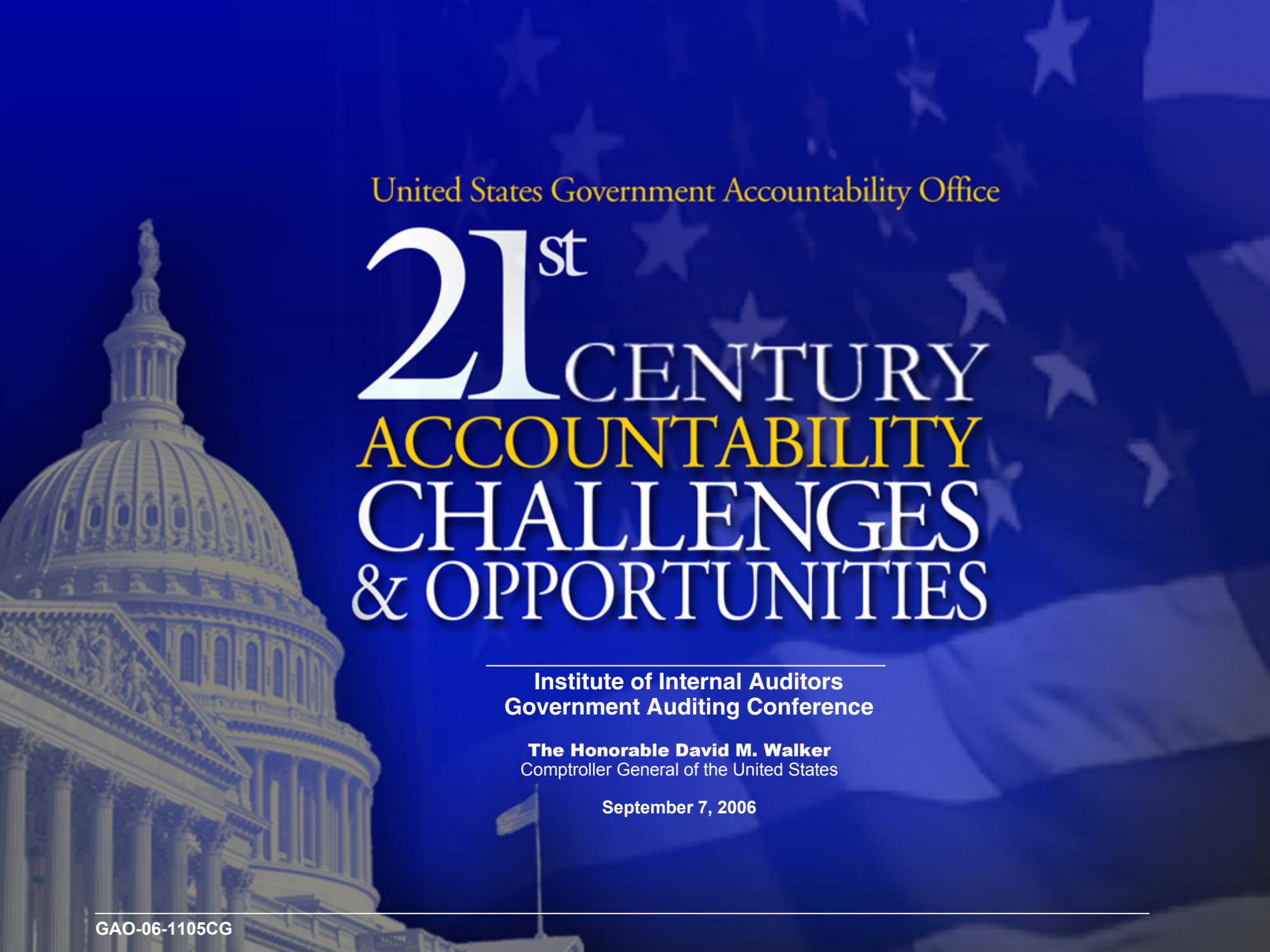


United States Government Accountability Office



# 21<sup>st</sup> CENTURY ACCOUNTABILITY CHALLENGES & OPPORTUNITIES

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**Institute of Internal Auditors  
Government Auditing Conference**

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

September 7, 2006

# Three Key Elements for Success

**Incentives**

**Transparency**

**Accountability**

# Contributing Elements

## Government Examples

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### Incentives

- Rule of law
- Civil Service
- Checks and balances

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### Transparency

- Financial disclosure
- Due process
- Free press

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### Accountability

- Enforcement of laws
- Oversight
- Independent judiciary

# Contributing Elements

## SAI Examples

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### Incentives

- Independence
- Resources
- Access rights

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### Transparency

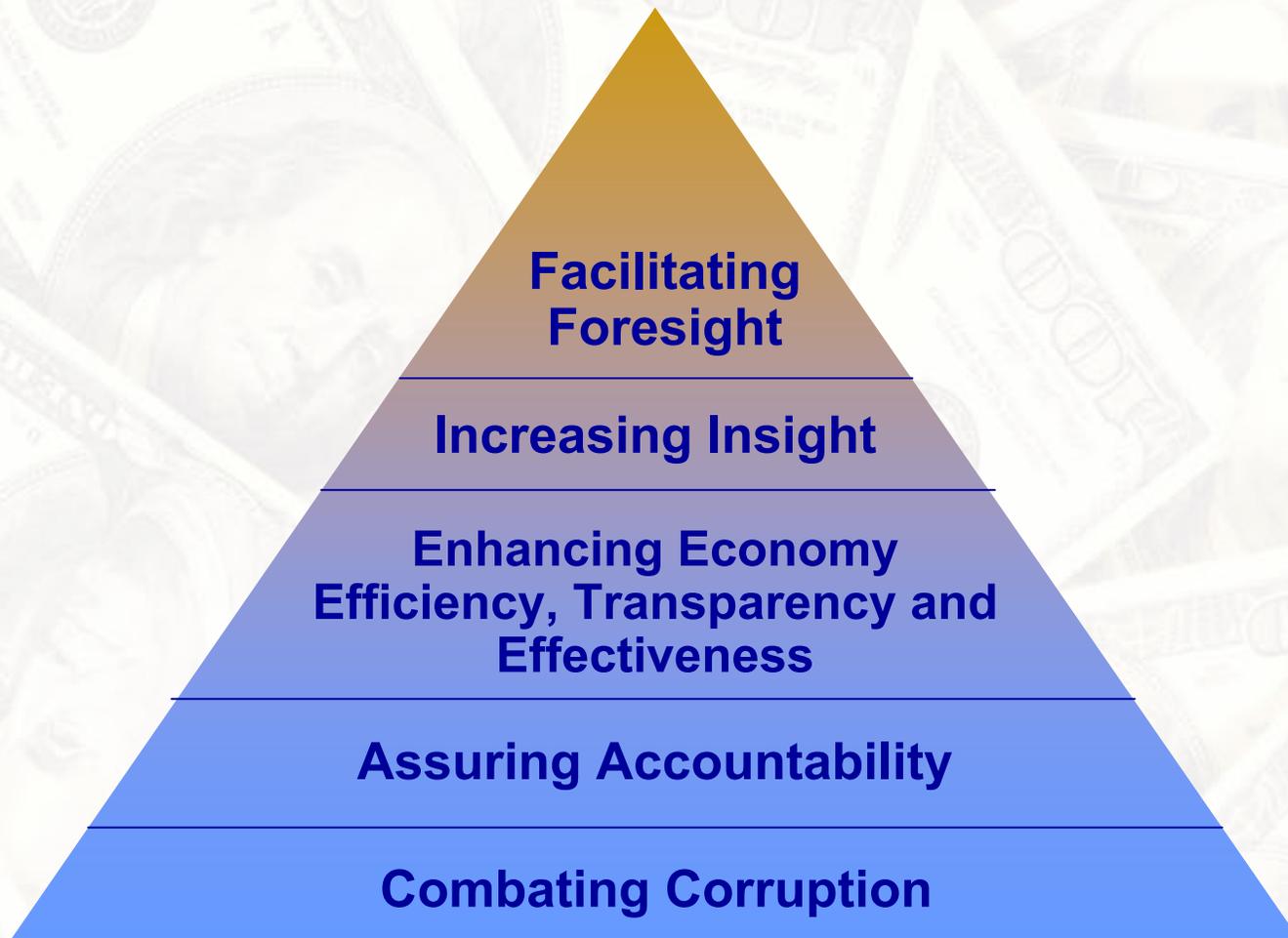
- Protocols
- Public reporting
- Testimony

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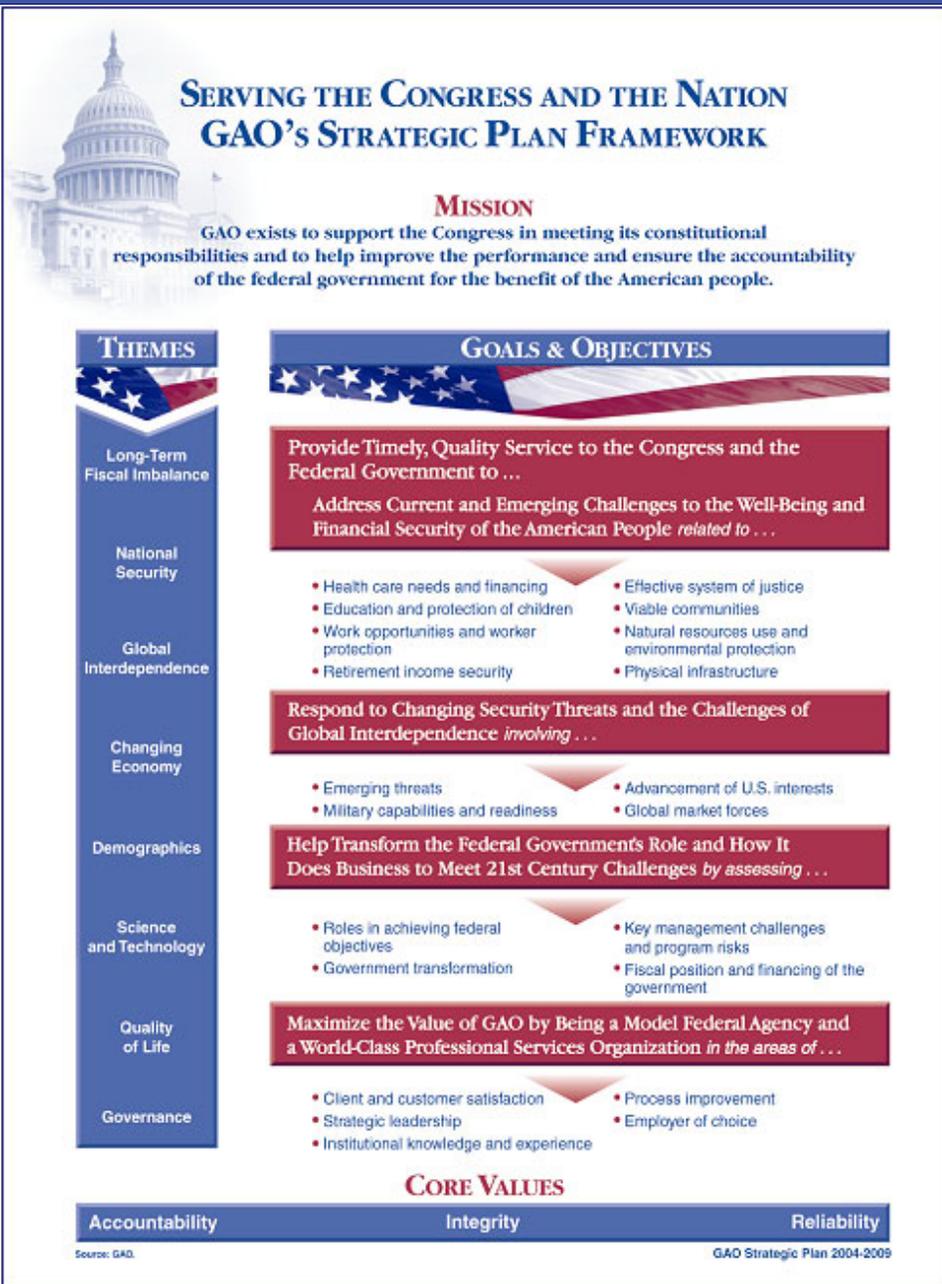
### Accountability

- Performance and accountability reporting
- External audit
- Peer review

# Possible SAI Roles



# GAO's Strategic Plan



Source: GAO.

# Four Key Success Elements

- **Results**
- **Clients**
- **People**
- **Partnerships**

# Results Measures

(1998 and 2005)

| Performance measure                        | Actual  |         |
|--|---------|---------|
|  | FY 1998 | FY 2005 |
| Financial benefits (billions)              | \$19.7  | \$39.6  |
| Other benefits                             | 537     | 1409    |
| Past recommendations implemented           | 69%     | 85%     |
| Return on investment (ROI)                 | 58:1    | 83:1    |
| Financial benefits per employee (millions) | \$6.1   | \$12.4  |
| Timeliness                                 | 93%     | 97%     |

Source: GAO.

# People Measures

GAO exceeded the latest private sector and Office of Personnel Management (OPM) benchmark measures in the following four questions, as shown below.

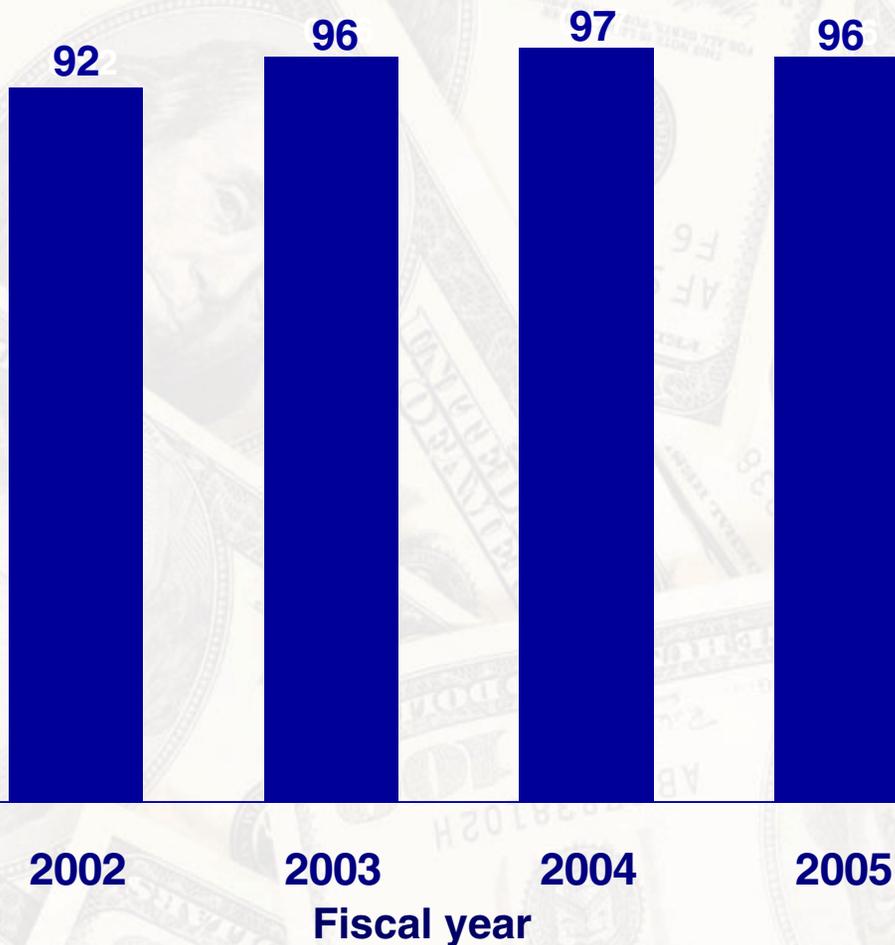
| <b>Personal Experiences</b>  | <b>Benchmarking Results</b>  |                 |                 |
|--|------------------------------|-----------------|-----------------|
|  | <b>Private Industry 2004</b> | <b>OPM 2004</b> | <b>GAO 2005</b> |
| <b>I am given a real opportunity to improve my skills in my organization</b> | <b>62%</b>                   | <b>63%</b>      | <b>72%</b>      |
| <b>My job makes good use of my skills and abilities</b>                      | <b>74%</b>                   | <b>67%</b>      | <b>75%</b>      |
| <b>My work gives me a feeling of personal accomplishment</b>                 | <b>75%</b>                   | <b>71%</b>      | <b>80%</b>      |
| <b>Considering everything, how satisfied are you with your job?</b>          | <b>71%</b>                   | <b>68%</b>      | <b>76%</b>      |

Source: Federal Human Capital Survey 2004 analysis, excluding GAO column.

# Client Feedback Fiscal Years 2002-05

## Percent Favorable

100%  
90%  
80%  
70%  
60%  
50%  
40%  
30%  
20%  
10%  
0%



Response rates:

46% in FY02,  
31% in FY03,  
34% in FY04  
30% in FY05

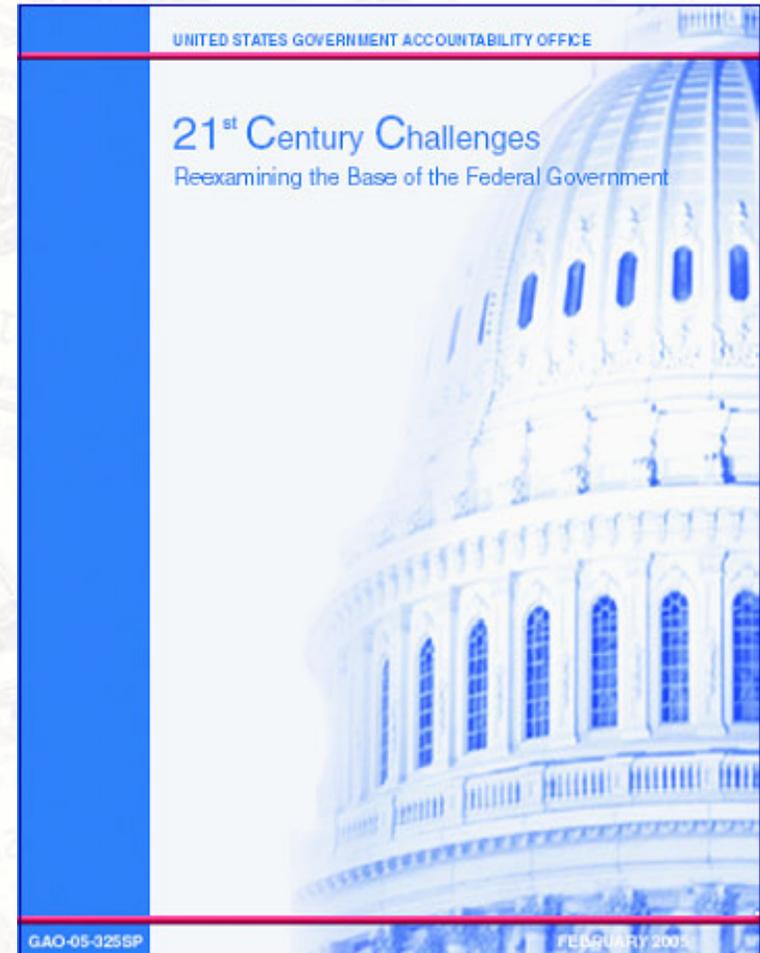
Source: GAO.

# Key GAO Partnerships



# 21<sup>st</sup> Century Challenges Report

- Provides background, framework, and questions to assist in reexamining the base
- Covers entitlements & other mandatory spending, discretionary spending, and tax policies and programs
- Based on GAO's work for the Congress



Source: GAO.

# 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

# 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?

# The Case for Change

**The federal government is on a “burning platform,” and the status quo way of doing business is unacceptable for a variety of reasons, including:**

- Past fiscal trends and significant long-range challenges
- Rising public expectations for demonstrable results and enhanced responsiveness
- Selected trends and challenges having no boundaries
- Additional resource demands due to Iraq, Afghanistan, incremental homeland security needs, and recent natural disasters in the United States
- Numerous government performance/accountability and high risk challenges
- Outdated federal organizational structures, policies, and practices

# Fiscal Year 2004 and 2005 Deficits and Net Operating Costs

|                                 | <b>Fiscal Year 2004</b> | <b>Fiscal Year 2005</b> |
|---------------------------------|-------------------------|-------------------------|
|                                 | <b>(\$ Billion)</b>     |                         |
| On-Budget Deficit               | (568)                   | (494)                   |
| Off-Budget Surplus <sup>a</sup> | 155                     | 175                     |
| Unified Deficit                 | (413)                   | (318)                   |
| Net Operating Cost              | (616)                   | (760)                   |

Sources: The Office of Management and Budget and the Department of the Treasury.

<sup>a</sup>Includes \$151 billion in fiscal year 2004 and \$173 billion in fiscal year 2005 in Social Security surpluses and \$4 billion in fiscal year 2004 and \$2 billion in fiscal year 2005 in Postal Service surpluses.

# Estimated Fiscal Exposures

(\$ trillions)

|  | 2000          | 2005          |
|--|---------------|---------------|
| <b>• Explicit liabilities</b>  | <b>\$6.9</b>  | <b>\$9.9</b>  |
| <ul style="list-style-type: none"> <li>• Publicly held debt</li> <li>• Military &amp; civilian pensions &amp; retiree health</li> <li>• Other</li> </ul> |               |               |
| <b>• Commitments &amp; contingencies</b>   | <b>0.5</b>    | <b>0.9</b>    |
| <ul style="list-style-type: none"> <li>• E.g., PBGC, undelivered orders</li> </ul>   |               |               |
| <b>• Implicit exposures</b>  | <b>13.0</b>   | <b>35.6</b>   |
| <ul style="list-style-type: none"> <li>• Future Social Security benefits</li> </ul>  | 3.8           | 5.7           |
| <ul style="list-style-type: none"> <li>• Future Medicare Part A benefits</li> </ul>  | 2.7           | 8.8           |
| <ul style="list-style-type: none"> <li>• Future Medicare Part B benefits</li> </ul>  | 6.5           | 12.4          |
| <ul style="list-style-type: none"> <li>• Future Medicare Part D benefits</li> </ul>  | --            | 8.7           |
| <b>Total</b>   | <b>\$20.4</b> | <b>\$46.4</b> |

Source: U.S. government's consolidated financial statements (CFS).

Note: Estimates for Social Security and Medicare are at present value as of January 1 of each year as reported in the CFS and all other data are as of September 30.

# How Big is Our Growing Fiscal Burden?

Our total fiscal burden can be translated and compared as follows:

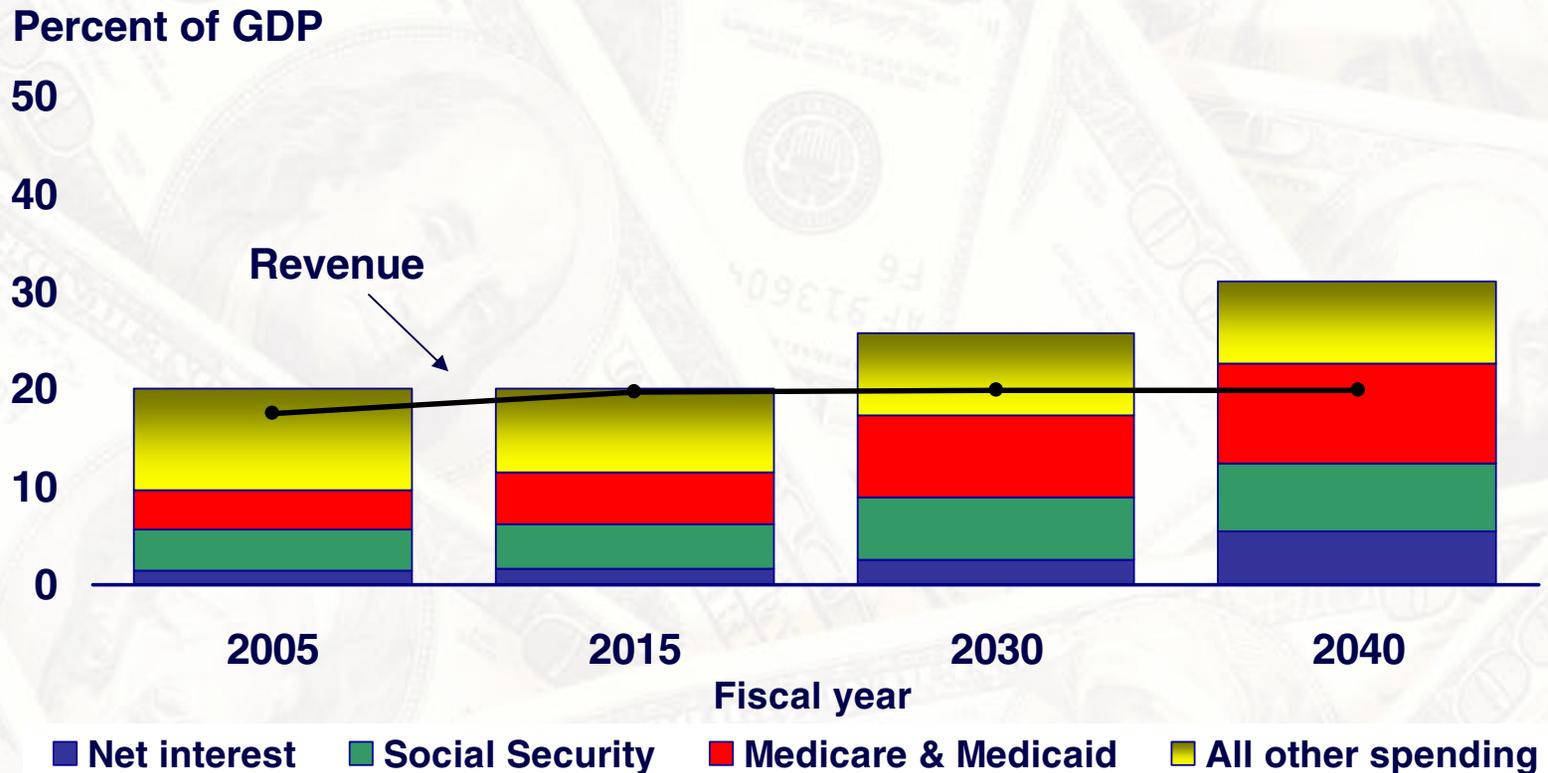
|  |                        |
|--|------------------------|
| <b>Total fiscal exposures</b>                            | <b>\$46.4 trillion</b> |
| <b>Total household net worth<sup>1</sup></b>             | <b>\$51.1 trillion</b> |
| <b>Burden/Net worth ratio</b>                            | <b>91 percent</b>      |
| <b>Burden<sup>2</sup></b>                                |                        |
| <b>Per person</b>  | <b>\$156,000</b>       |
| <b>Per full-time worker</b>                              | <b>\$375,000</b>       |
| <b>Per household</b>                                     | <b>\$411,000</b>       |
| <b>Income</b>  |                        |
| <b>Median household income<sup>3</sup></b>               | <b>\$44,389</b>        |
| <b>Disposable personal income per capita<sup>4</sup></b> | <b>\$30,431</b>        |

Sources: GAO analysis.

Notes: (1) Federal Reserve Board, Flow of Funds Accounts, Table B.100, 2005:Q3 (Dec. 8, 2005); (2) Burdens are calculated using total U.S. population as of 9/30/05, from the *U.S. Census Bureau*, full-time workers for 2004, reported by the Bureau of Economic Analysis, in NIPA table 6.5D (Aug. 4, 2005); and households for 2004, reported by the U.S. Census Bureau, in *Income Poverty & Health Insurance Coverage in the US: 2004* (Aug. 2005); (3) U.S. Census Bureau, *Income Poverty & Health Insurance Coverage in the US: 2004* (Aug. 2005); and (4) Bureau of Economic Analysis, *Personal Income and Outlays: October 2005*, table 2, 2005:Q3, (Dec.1, 2005).

# Composition of Spending as a Share of GDP

## Under Baseline Extended



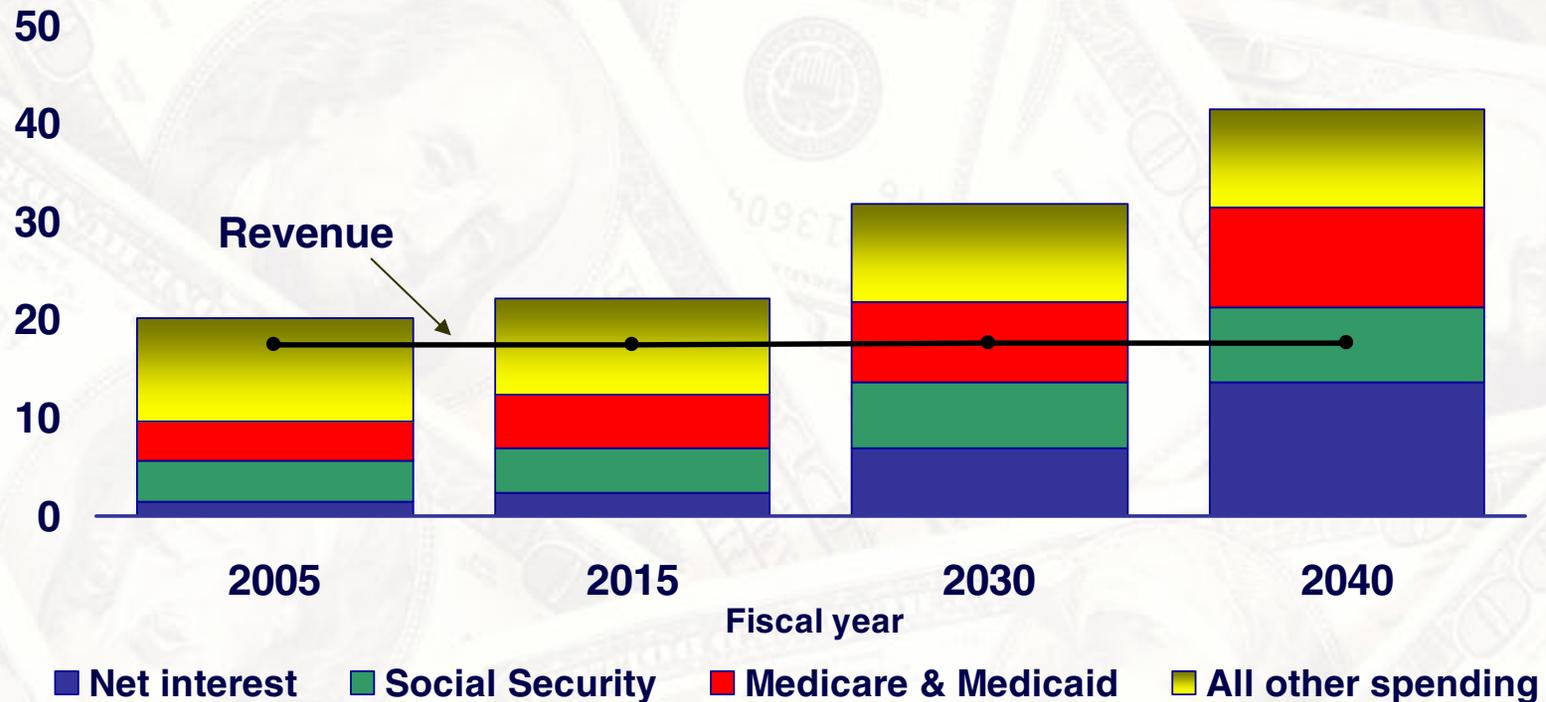
Source: GAO's August 2006 analysis.

Notes: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2016 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2016, revenue as a share of GDP is held constant.

# Composition of Spending as a Share of GDP

Assuming Discretionary Spending Grows with GDP After 2006  
and All Expiring Tax Provisions are Extended

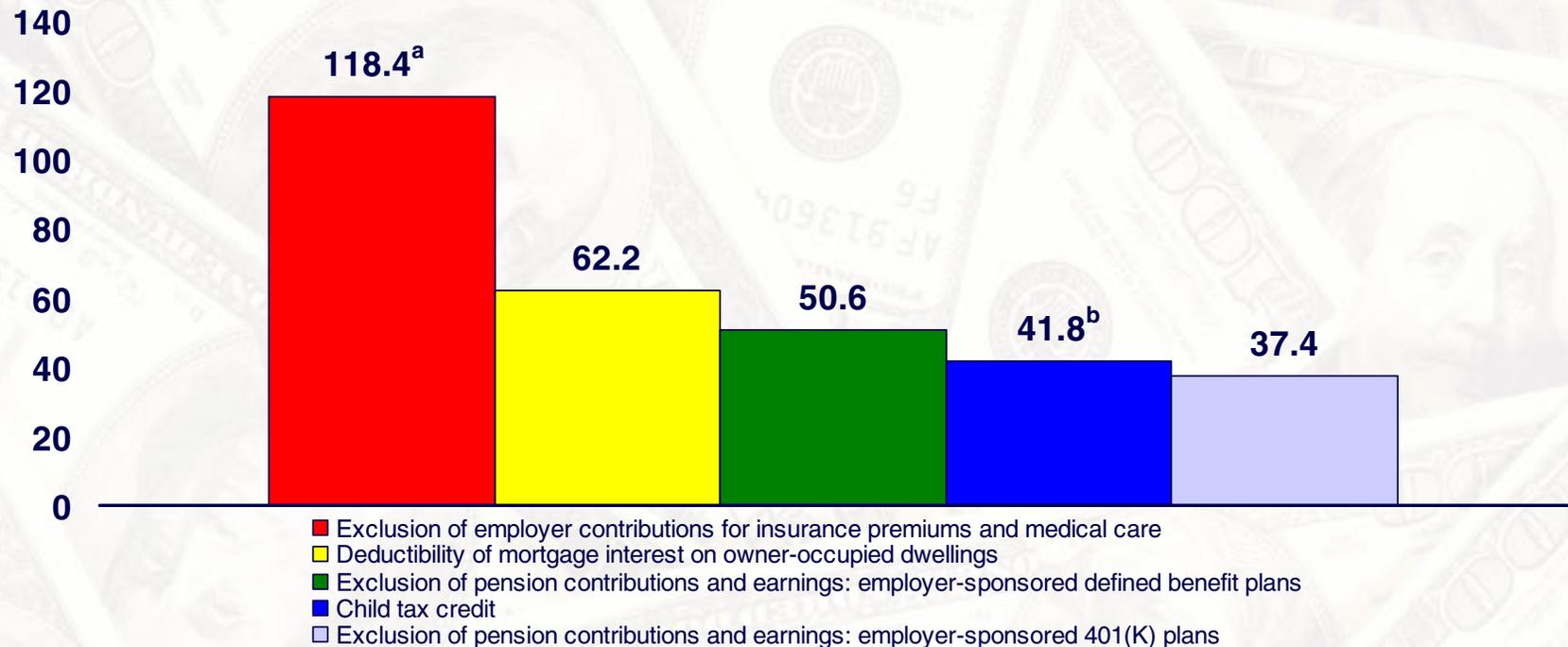
Percent of GDP



Source: GAO's August 2006 analysis.

# Health Care Is the Nation's Top Tax Expenditure in Fiscal Year 2005

Estimated dollars in billions



Source: Office of Management and Budget (OMB), *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2007*.

Note: "Tax expenditures" refers to the special tax provisions that are contained in the federal income taxes on individuals and corporations. OMB does not include forgone revenue from other federal taxes such as Social Security and Medicare payroll taxes.

<sup>a</sup>If the payroll tax exclusion were also counted here, the total tax expenditure for employer contributions for health insurance premiums would be about 50 percent higher or \$177.6 billion.

<sup>b</sup>This is the revenue loss and does not include associated outlays of \$14.6 billion.

# 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 60 percent or
  - Raising federal taxes to 2 times today's level

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

- Closing the current long-term fiscal gap based on reasonable 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 Way Forward: A Three-Pronged Approach

1. Strengthen Budget and Legislative Processes and Controls
2. Improve Financial Reporting and Performance Metrics
3. Fundamental Reexamination & Transformation for the 21<sup>st</sup> Century

*Solutions Require Active Involvement from both the Executive and Legislative Branches*

# Key National Indicators

- **WHAT:** A portfolio of economic, social, and environmental outcome-based measures that could be used to help assess the nation's and other governmental jurisdictions' position and progress
- **WHO:** Many countries and several states, regions, and localities have already undertaken related initiatives (e.g., Australia, New Zealand, Canada, United Kingdom, Oregon, Silicon Valley (California) and Boston).
- **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 housed by the National Academies domestically and related efforts by the OECD and others internationally.

# Key National Indicators: Where the United States Ranks

The United States may be the only superpower, but compared to most other OECD countries on selected key economic, social, and environmental indicators, on average, the U.S. ranks

# 16 OUT OF 28

## OECD Categories for Key Indicators (2006 OECD Factbook)

|                        |                   |                  |                          |
|------------------------|-------------------|------------------|--------------------------|
| • Population/Migration | • Energy          | • Environment    | • Quality of Life        |
| • Macroeconomic Trends | • Labor Market    | • Education      | • Economic Globalization |
| • Prices               | • Science & Tech. | • Public Finance |                          |

Source: 2006 OECD Factbook.

# Moving the Debate Forward

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

- The miracle of compounding is currently working against us
- Less change would be needed, and there would be more time to make adjustments
- Our demographic changes will serve to make reform more difficult over time

- **Need Public Education, Discussion, and Debate**

- The role of government in the 21<sup>st</sup> Century
- Which programs and policies should be changed and how
- How government should be financed

# 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:**

- Strengthening the independence of the FASAB
- Revitalizing the JFMIP principals' efforts, including definitions of success, accelerated reporting, etc.
- Creating of the U.S Auditing Standards Coordinating Forum (i.e., GAO, PCAOB, ASB)
- Leading strategic planning and coordination efforts with major accountability organizations around the world (e.g., INTOSAI, IGAF) that includes oversight, insight, and foresight dimensions
- 2003 revision of *Government Auditing Standards* (2006 revision is in process)
- Modernizing of the accounting/reporting and audit models (e.g. IFAC, IAASB, FASB, GASB, FASAB, etc. )
- Enhancing federal financial reporting and pursuing publication of a summary annual report
- Assuring appropriate treatment of restatements by auditors and others
- Monitoring 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
- Considering whether reform elements similar to those in Sarbanes-Oxley make sense for the federal government
- Exploring additional opportunities for employing more frequent reporting and continuous auditing approaches
- Exploring revised approaches to quality assurance programs, including internal inspections and peer reviews

# 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 (GAO's audit and selected others currently)
  - Compliance matters (all currently)
  - Performance and projection information (future)
- **Additional issues**
  - Accelerated and enhanced financial reporting (all agencies)
  - Audit/financial management committees (GAO and selected other agencies)

# The Future Accounting/Reporting and Audit Reporting Model

- **We need to review and revise the existing accounting/reporting model to reflect several dimensions:**
  - Generic provisions
  - Industry information
  - Entity-specific information (i.e., value and risk)
- **We need to recognize the difference between certain types of financial and other information:**
  - Historical cost
  - Readily marketable assets
  - Non-readily marketable assets
  - Projection information
  - Performance information

# The Future Accounting/Reporting and Audit Reporting Model

- We need to review and revise the existing audit reporting model to accomplish at least four objectives:
  - Recognize that the opinion should address whether the financial statements are fairly presented in all material respects and prepared in accordance with authoritative accounting principles (e.g., promulgated by FASB, GASB, FASAB, IFAC)
  - Expand the auditor's report to include key value and risk-based performance and projection information over time and as appropriate
  - Update the audit reporting model to link it with the new financial reporting model, and provide appropriate degrees of assurance for each type of information to improve value and reduce risk
  - We need to move beyond “going concern opinions” to provide more timely and meaningful information to the users of financial statements in appropriate circumstances (e.g. US government)
- We need to ultimately go global in connection with all major accounting and audit matters
- We need to coordinate domestic efforts in the interim (e.g., U.S. auditing standards coordinating forum)

# Social Insurance Financial Reporting

- FASAB has made significant progress on a range of federal accounting and reporting issues since their creation, including progress in the social insurance reporting area.
- The statement of social insurance, which has been reported as Required Supplementary Stewardship Information (RSSI) since fiscal year 2000, will become a basic financial statement and be subject to a full audit for the first time beginning with fiscal 2006. This statement discloses the present value of future revenues and scheduled benefits for the various social insurance programs.
- We need to make additional progress on the federal financial reporting areas, including reporting of social insurance programs.
- Among other things, we need to consider whether the bonds in the so called “trust funds should be deemed to be a liability of the US government. We also need to consider how we can enhance the presentation of the federal government’s rapidly growing total liabilities and unfunded commitments, including the fiscal sustainability and intergenerational equity implications of such items.
- The AICPA, AAA, FEI, and other professional organizations should be actively engaged in these discussions and debates, including related due process efforts. Your opinions are both valued and valuable

# 2006 Yellow Book Revisions

- Audit quality assurance, monitoring, inspection, peer review
- Ethics/professional judgment
- Expanding and clarifying the categories of nonaudit services
- Reporting deficiencies in internal control for financial audits
- Auditor's responsibility for evaluating and disclosing financial statement restatements
- Evidence in performance audits
- Audit documentation
- Use of GAGAS with other standards (PCAOB, AICPA, IIA, IAASB)
- Clarification and “clean up”

# Yellow Book Revisions: Next Steps

- Exposure Draft of proposed revisions was disseminated mid-May 2006
- 60-90 day exposure/comment period
- Final 2006 Revised Yellow Book – Fall, 2006

Yellow Book Web Page: [www.gao.gov/govaud/ybk01.htm](http://www.gao.gov/govaud/ybk01.htm)

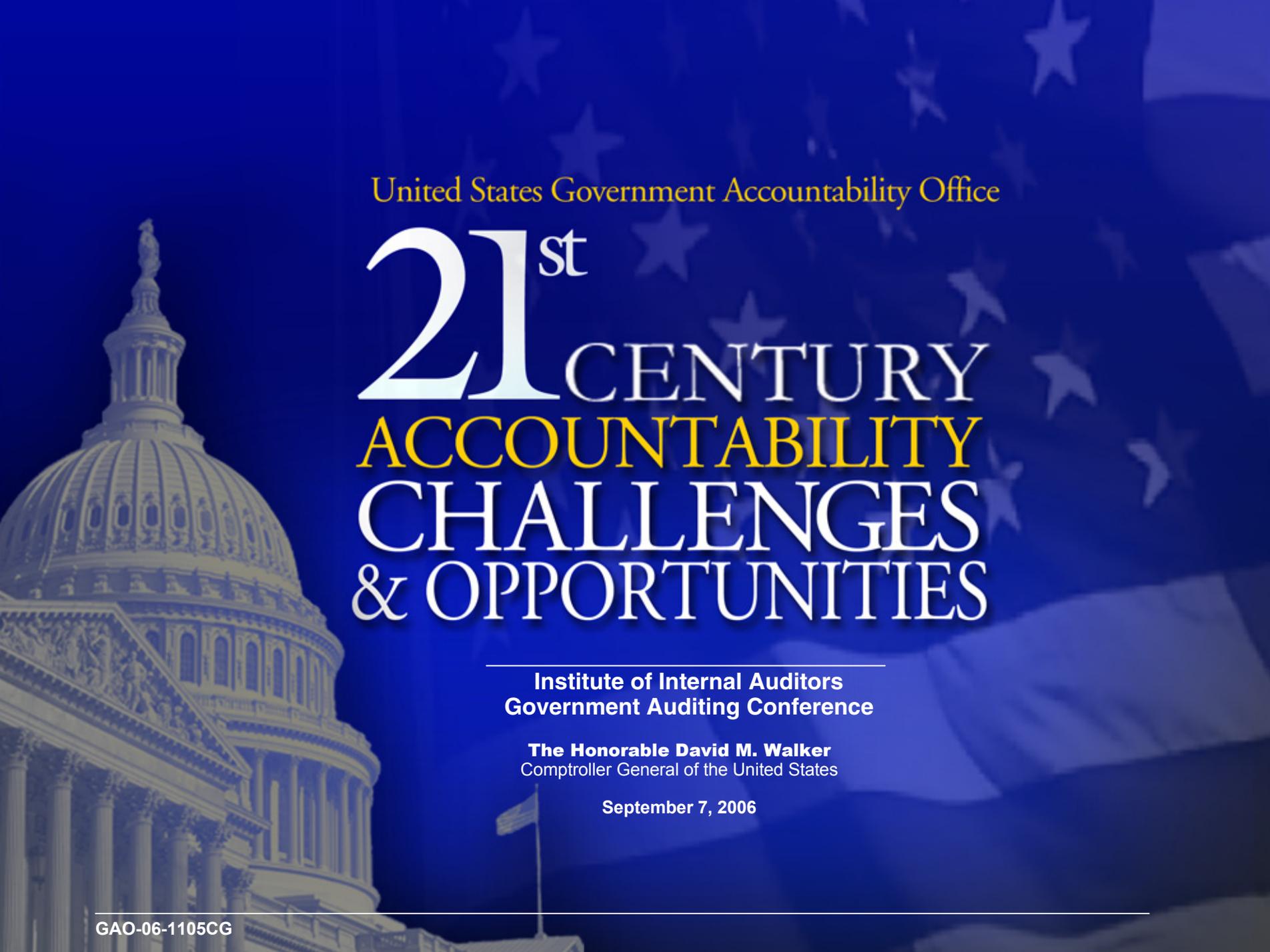
# Learning from the Past and Others While Preparing for Future

- Roman Republic
- British Empire
- New Zealand vs. Argentina

# Key Leadership Attributes Needed for These Challenging and Changing Times

- ***Courage***
- ***Integrity***
- ***Creativity***
- ***Stewardship***

United States Government Accountability Office



# 21<sup>st</sup> CENTURY ACCOUNTABILITY CHALLENGES & OPPORTUNITIES

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**Institute of Internal Auditors  
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Comptroller General of the United States

September 7, 2006

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## On the Web

Web site: [www.gao.gov/cghome.htm](http://www.gao.gov/cghome.htm)

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