



UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE

Preparing the Accountability Profession for 21st Century Challenges

**The Institute of Internal Auditors
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United States**



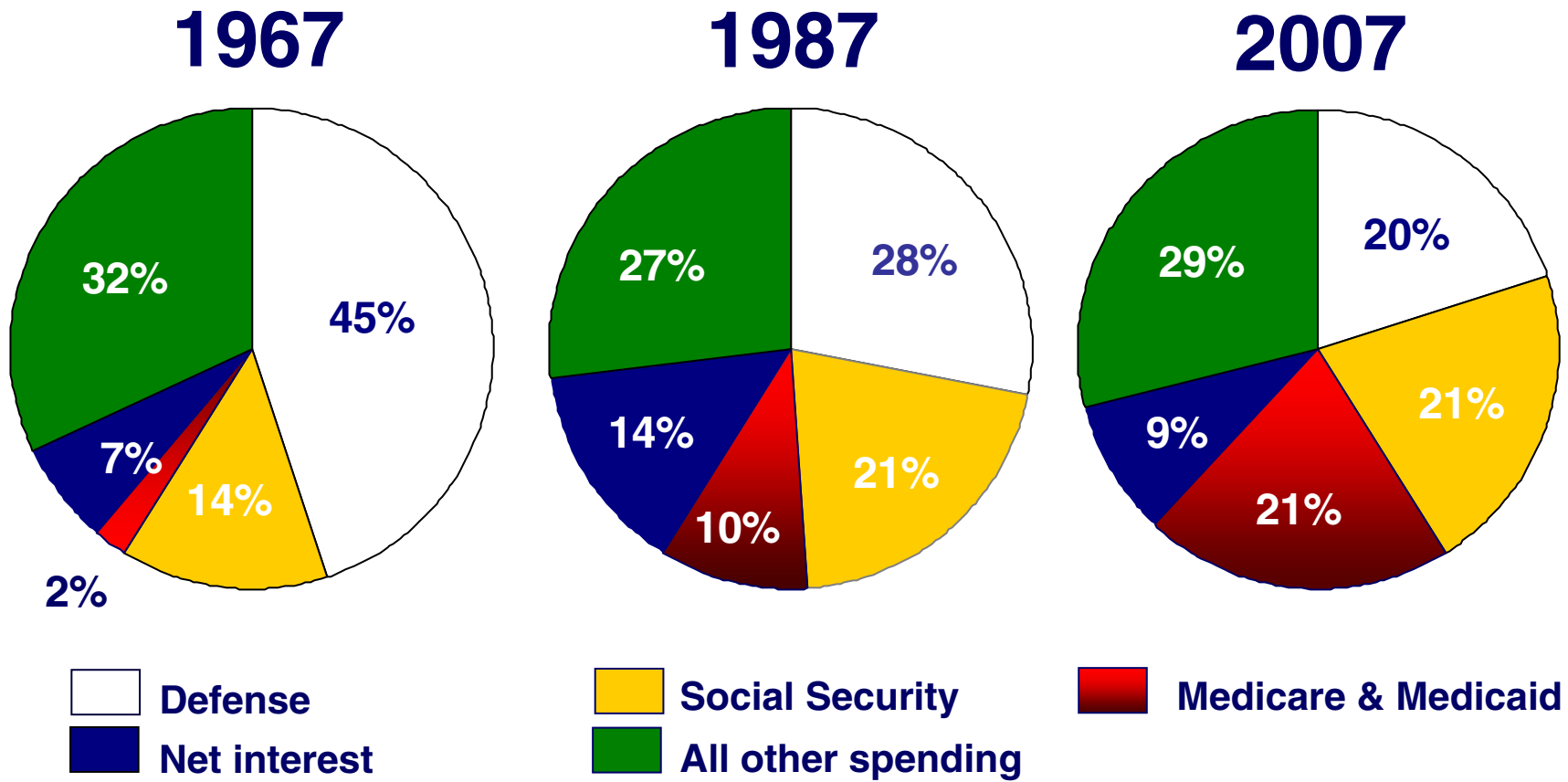
Presentation Outline

- Many dynamics shaping our environment
 - Gauging current and emerging challenges
- Strengthening the accountability profession to:
 - Enhance stewardship and
 - Help transform organizations

Gauging Current and Emerging Challenges

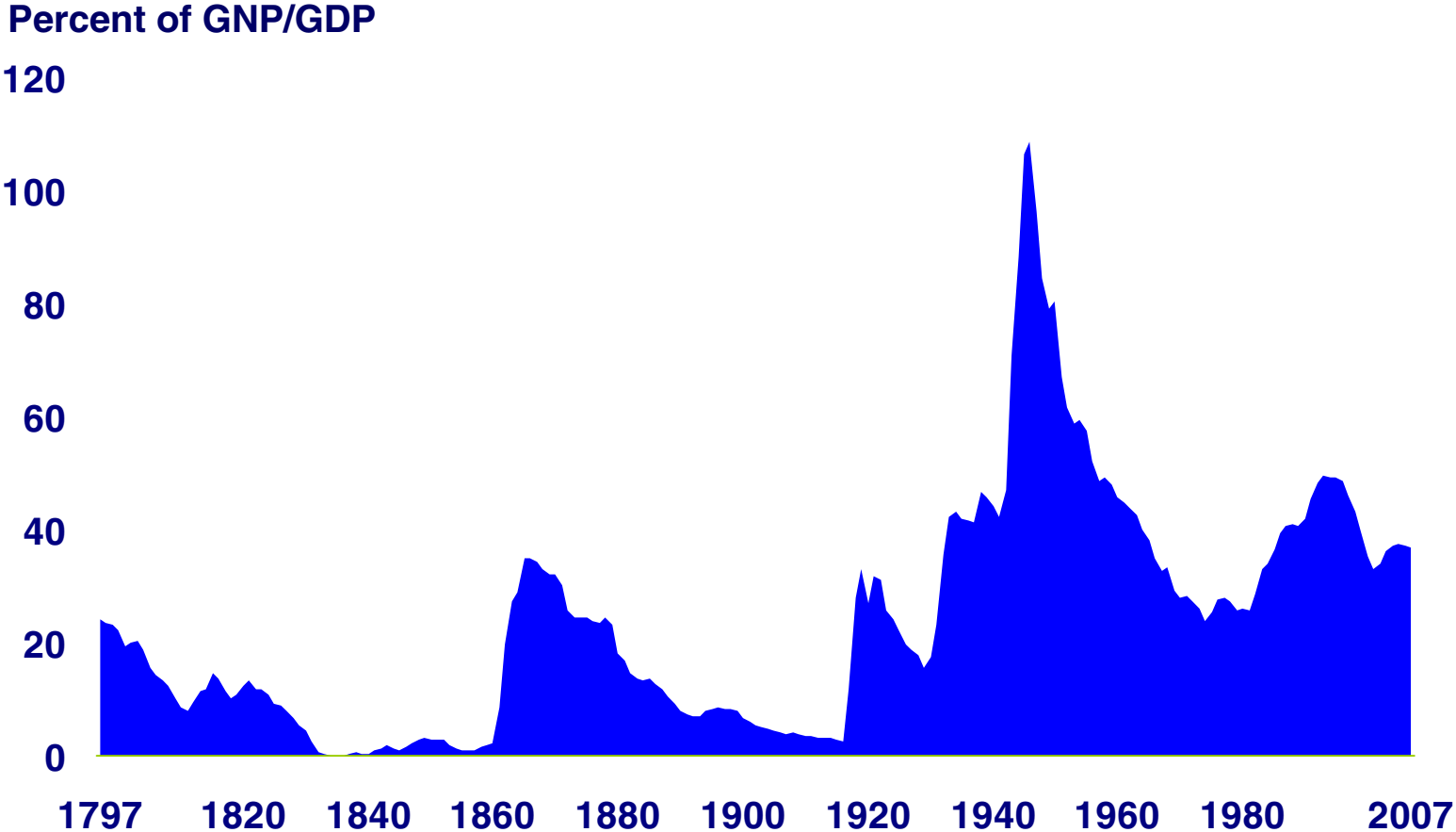
- Escalating fiscal pressures
- Increasing critical infrastructure protection
- Strengthening homeland security capabilities
- Growing expectations for the accountability profession

Composition of Federal Spending



Source: GAO analysis of data from the Office of Management and Budget.

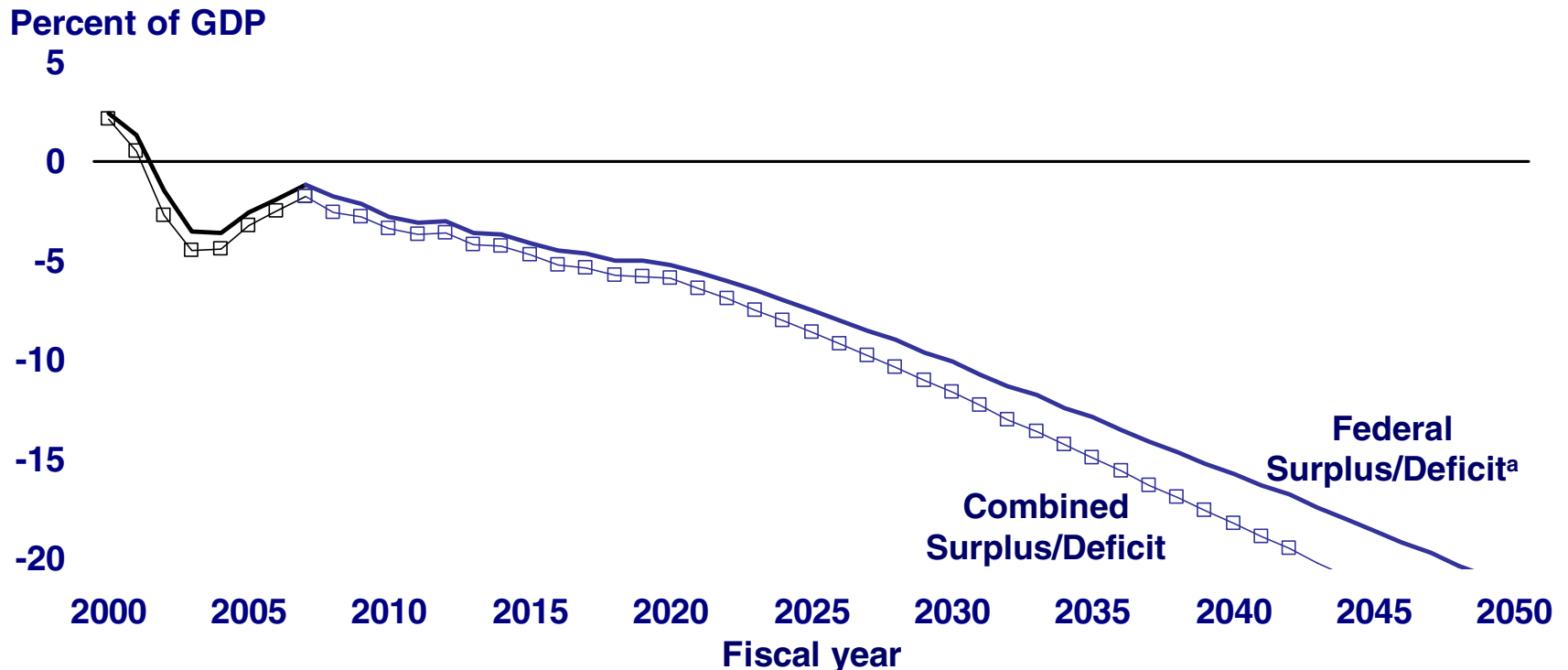
Debt Held by the Public as a Share of GDP (1797-2007)



Source: GAO analysis of data from the Department of Commerce, Office of Management and Budget, and Congressional Budget Office.

Note: Data until 1929 are shown as a percent of gross national product (GNP); data from 1930 to present are shown as a percent of GDP.

State and Local Fiscal Challenges Add to the Nation's Fiscal Difficulties



Source: GAO's April 2008 analysis.

^aUnder GAO's Alternative simulation.

Potential Fiscal Outcomes

Under Alternative Simulation Revenues and Composition of Spending as a Share of GDP

50 Percent of GDP

40

30 Revenue

20

10

0

2007

2018

2030

2040

Fiscal year

■ Net interest

■ Social Security

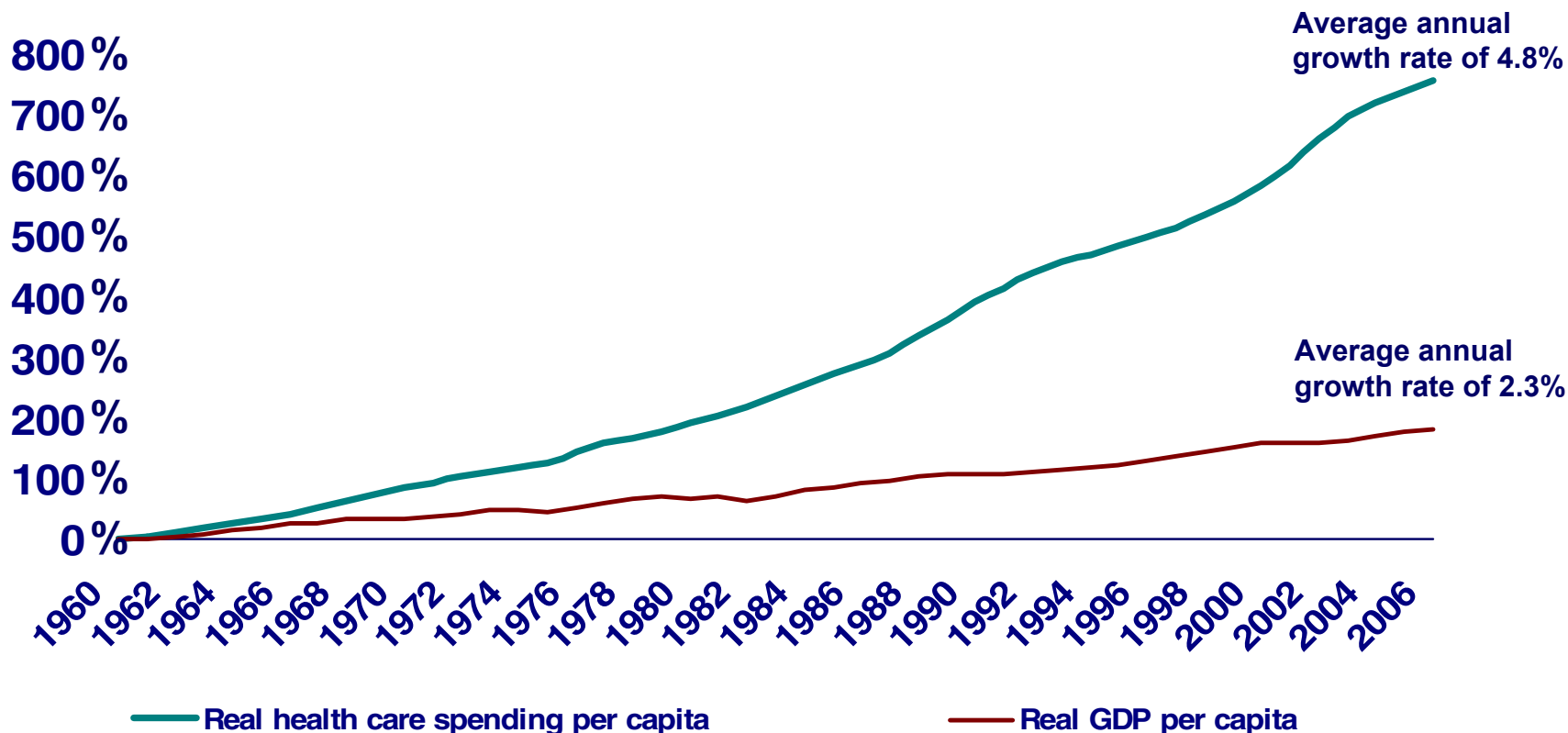
■ Medicare & Medicaid

■ All other spending

Source: GAO's January 2008 analysis.

Note: Discretionary spending grows with GDP after 2008. AMT exemption amount is retained at the 2007 level through 2018 and expiring tax provisions are extended. After 2018, revenue as a share of GDP returns to its historical level of 18.3 percent of GDP plus expected revenues from deferred taxes, i.e. taxes on withdrawals from retirement accounts. Medicare spending is based on the Trustees April 2007 projections adjusted for the Centers for Medicare and Medicaid Services alternative assumption that physician payments are not reduced as specified under current law.

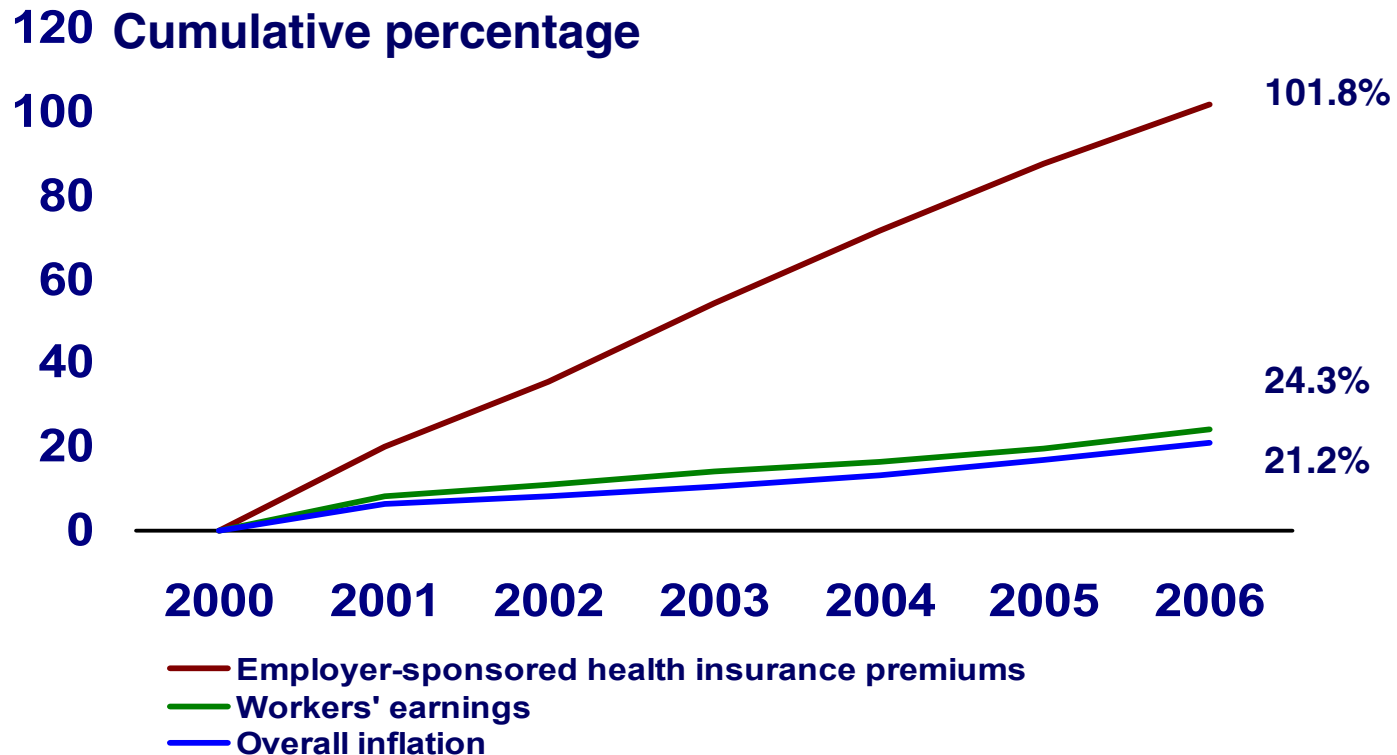
Public and Private Health Care Spending Exceeds Economic Growth



Source: GAO analysis of data from the Centers for Medicare & Medicaid Services, Office of the Actuary, and the Bureau of Economic Analysis.

Note: The most current data available on health care spending per capita are for 2006.

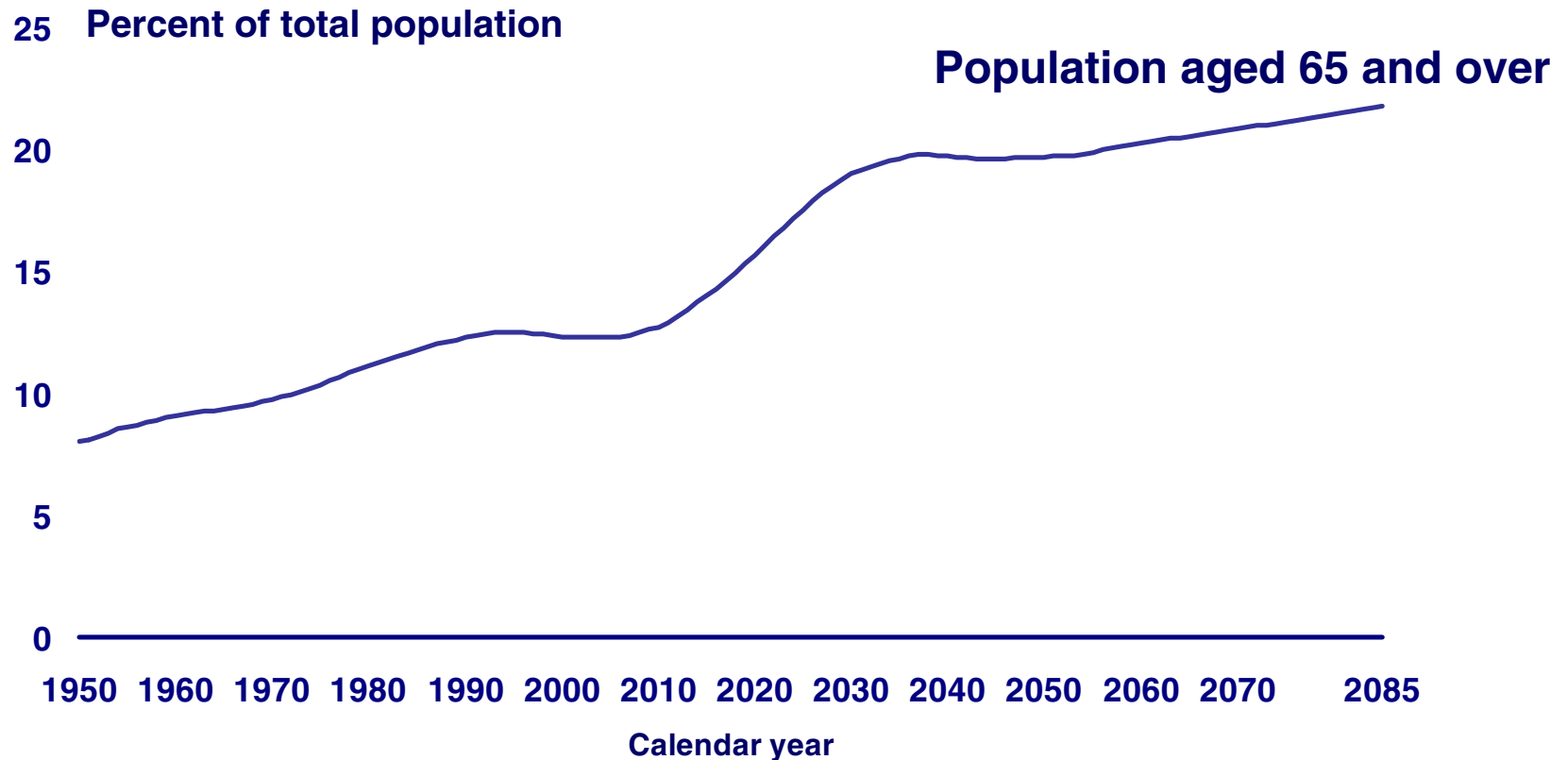
Earnings Keep up with Inflation— But not with Insurance Premiums



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, Bureau of Labor Statistics.

Note: Data on premium increases reflect the employer's and employee's cost of health insurance premiums for a family of four.

Aged Population as a Share of Total U.S. Population



Source: GAO analysis of data from the Office of the Chief Actuary, Social Security Administration.

Note: Projections based on the intermediate assumptions of the 2008 Trustees' Reports.

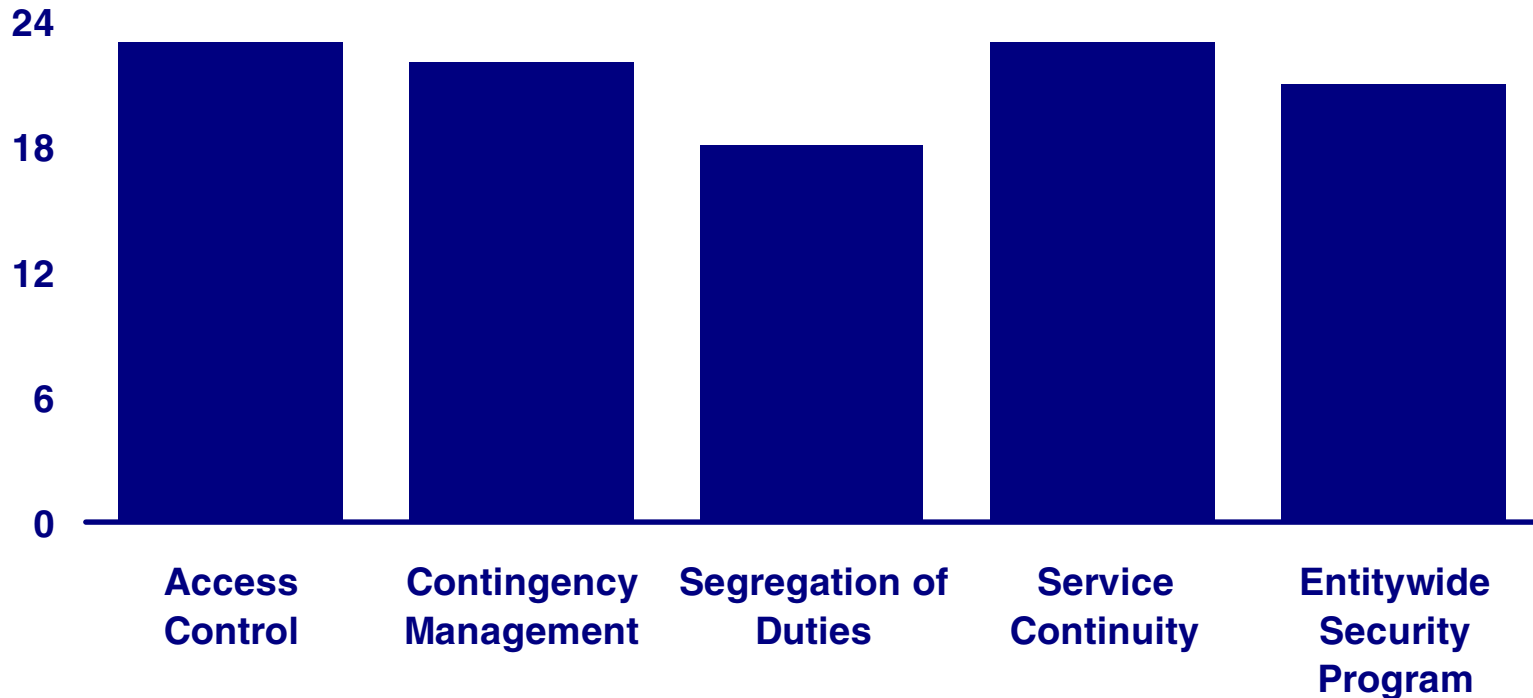
Examples of Critical Infrastructure Systems

- Power distribution
- Water supply
- Telecommunications
- National defense
- Emergency services

All rely on computerized information and electronic data

Federal Information Security Continues to be Weak

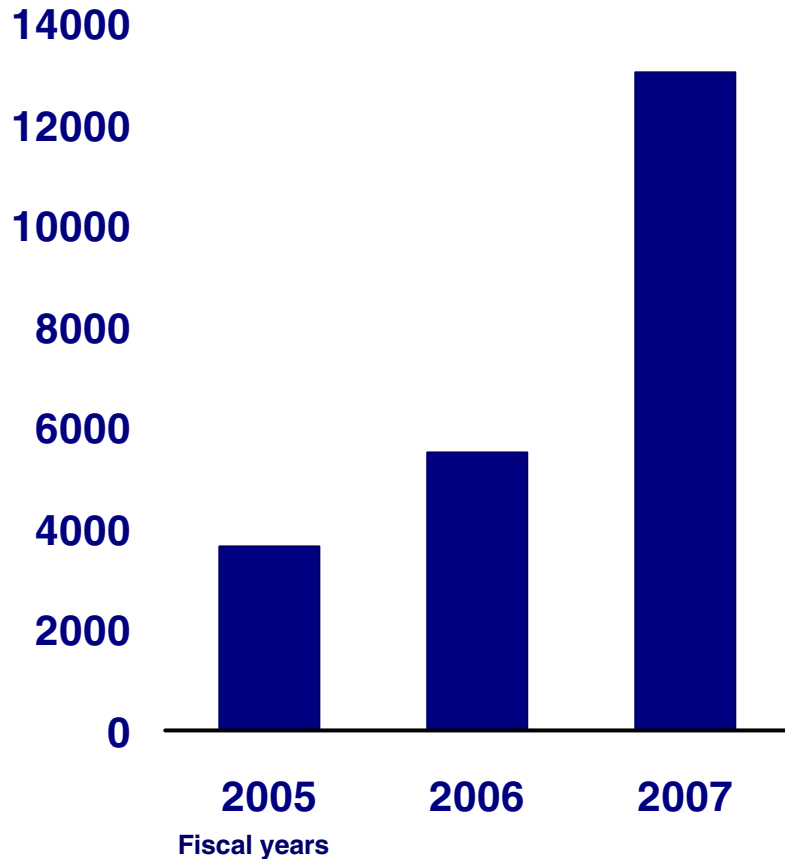
Number of agencies



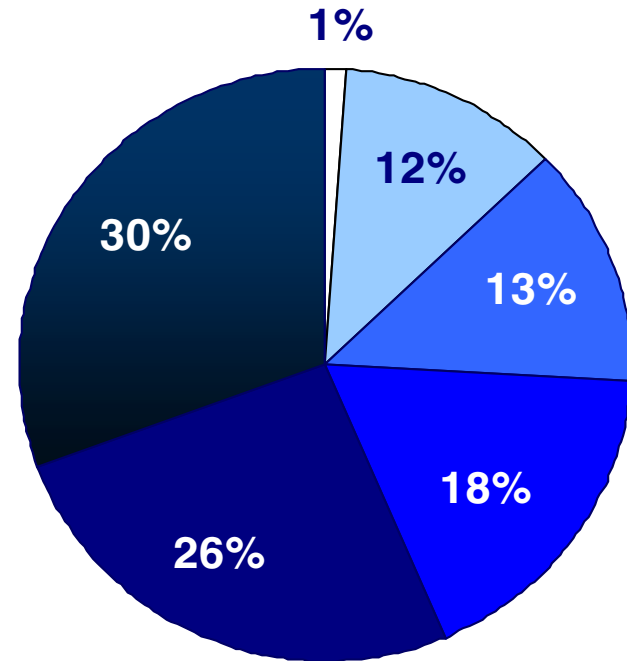
Source: GAO analysis of agency and IG reports for FY2007.

Reported Security Incidents Are on the Rise

Number of incidents reported



Source: GAO analysis of US-CERT data.



- Denial of Service
- Malicious Code
- Scans/Probes/attempted access
- Unauthorized Access
- Improper Usage
- Investigations

Source: GAO analysis of US-CERT data.

Emergency Preparedness and Homeland Defense

- Role of the “new” FEMA
- NORTHCOM collaboration
- National Guard and Reserve readiness
- Public health systems and pandemic planning

The New FEMA

- FEMA given the lead to prepare for and respond to major disasters, including catastrophic disasters and terrorist incidents
- FEMA, rather than the Red Cross, designated as the lead for mass care and shelter
- FEMA to build robust partnerships with states, local governments, and nonprofit/private organizations

The New FEMA

FEMA has enhanced its responsibilities for coordinating the activities of voluntary organizations:

- established a national council and 10 regional advisory councils
- created regional planning positions to facilitate coordinated federal, state, and local emergency preparedness plans

However, GAO has found that FEMA needed more specialized staff to meet this responsibility

NORTHCOM's Collaboration

- NORTHCOM officials need more involvement with states in developing homeland defense and civil support plans
- NORTHCOM officials need to be more familiar with state emergency response plans
- Existing agreement between NORTHCOM and National Guard Bureau needs to be better defined for roles and responsibilities

Public Health System and Pandemic Planning

- An integrated GAO effort intended to help the U.S. prepare for a pandemic in ways that are sustainable over the long-term
- Lessons learned from prior emergencies, such as Hurricanes Andrew and Katrina, Y2K, SARS, and 9/11
- Collaboration and partnership with international and state and local auditors that enhances knowledge in areas such as key intergovernmental issues and relationships

Growing Expectations on the Accountability Profession

To face current and emerging challenges, the accountability profession must:

- Identify problem spots before crises emerge
- Recognize problems often need multiple organizations to work together
- Provide more detailed recommendations
- Add value by providing timely special products
- Cope with constrained resources

Ways to Strengthen the Accountability Profession

- Focusing on strategic planning
- Modernizing professional standards
- Leading the way on fiscal stewardship
- Helping identify needed transformations
- Building audit capacity

The Importance of Collaboration

Strengthen accountability and strategic planning on an international and domestic basis:

- International Organization of Supreme Audit Institutions (INTOSAI)
- National Intergovernmental Audit Forum (NIAF)

INTOSAI Strategic Goals

First ever strategic plan adopted in 2004

- Promoting accountability and professional standards
- Building institutional capacity
- Sharing knowledge and collaborating
- Organizing and governing as a model international organization

INTOSAI: Promoting Professional Standards

PROFESSIONAL STANDARDS COMMITTEE: strives to establish an effective framework for professional standards that correspond to the needs of member SAIs

FINANCIAL AUDIT GUIDELINES SUBCOMMITTEE: develops high quality guidelines that are globally accepted for the audit of financial statements in the public sector

ACCOUNTING AND REPORTING SUBCOMMITTEE: studies issues concerning public sector accounting and financial reporting

INTERNAL CONTROL STANDARDS SUBCOMMITTEE: provides standards and guidance on internal controls to strengthen financial management and accountability in the Public Sector

INTOSAI: Building Capacity

- Building capabilities and professional capacities of SAIs through:
 - Training
 - Technical assistance
 - Other development activities
- Efforts implemented by a main steering committee and 3 sub-committees (includes IDI and current bilateral cooperative projects)
- Potential for a multi-lateral donor trust fund

INTOSAI and IIA Collaboration

- Memorandum of Understanding
 - Important for SAIs to be able to rely on the work of internal auditors
 - IIA representation on the INTOSAI committees
 - INTOSAI representation on IIA's Standards Board and other IIA professional committees
- The IIA is an Associate Member of INTOSAI
 - Participate in INTOSAI events and programs and benefit from INTOSAI's capabilities

NIAF Strategic Goals

- Foster networking, dialogue, and collaboration on current and emerging issues
- Enhance the capability, credibility, capacity, effectiveness, and professionalism of audit organizations
- Improve the Forum's outreach, management, and impact

Illustrative Example: Partnering with the DWG on Pandemic Planning

GAO and other members of the DWG are partnering to enhance the tools of state and local audit offices to evaluate pandemic planning:

- sharing information
- focusing on a set of common audit questions
- reminding auditors that they have an opportunity as well as a responsibility, to make sure that our communities are prepared

GAO's Goals for Establishing Government Auditing Standards

- Develop high quality *Government Auditing Standards* that are well understood, highly regarded, widely used
- Provide leadership in modernizing and transforming the accountability profession
- Encourage the development of consistent, core auditing standards
- Provide a foundation for an accountability profession that is effective, ethical, and prepared for the challenges of the 21st century

Yellow Book Ethical Principles (Chapter 2)

Five principles:

- Public interest
- Integrity
- Objectivity
- Proper use of government information, resources, and position
- Professional behavior

Ethics

Yellow Book

- Ethical Principles
 - Public interest
 - Integrity
 - Objectivity
 - Proper use of government information, resources and position
 - Professional Behavior

*auditors may also be subject to professional ethics of other organizations or governments

IIA

- Code of Ethics (Rules of Conduct)
 - Integrity
 - Objectivity
 - Confidentiality
 - Competency
- Rules of conduct
 - Norms expected of internal auditor

GAO and IIA Working Together

- August 2005 – GAO adds a Certified Internal Auditor to its Yellow Book staff
- October 2007 – *GAP News*: “Yellow Book and Red Books: Working Together for Strong Government Audits.”
- January 2008 – GAO/IIA Webcast: “Integrating IIA and GAO Auditing Standards.”
- February 2008 – GAO presentation to the DC chapter of IIA: “Government Auditing Standards and IIA Standards in Government Audits.”
- GAO and IIA actively comment on the most recent proposed revisions of the other organization’s auditing standards.

GAO's Other Collaborations

Auditing Standards:

- Creating the U.S Auditing Standards Coordinating Forum (i.e., GAO, PCAOB, ASB)
- Providing technical and policy input (e.g., PCAOB, AICPA, IAASB, INTOSAI, IIA, US Intergovernmental Audit Forums)

Enhancing Fiscal Stewardship and Education

Special GAO reports focus on:

- The urgency and importance of fiscal stewardship
- Understanding basic budgeting concepts
- Deciphering the consolidated financial statements

<http://www.gao.gov/financial/fy2007financialreport.html>

Fiscal Outlook

- GAO maintains and updates a long-term simulation of federal budget trends
- The model's results dramatically illustrate the need for action sooner rather than later to address a structural long-term fiscal imbalance

<http://www.gao.gov/special.pubs/longterm/>

High-Risk Program History

- Started in 1990 with focus on fraud, waste and abuse
- Evolved to include broad-based transformations
- Provided impetus for government-wide reform
- Promoted sustained congressional attention
- Influenced Presidents' Management Agenda

Broad-based Transformations

- Providing strategic human capital management
- Protecting the nation's critical infrastructures
- Financing the nation's transportation system
- Ensuring the protection of critical technologies
- Transforming federal oversight of food safety
- Managing federal real property

Financing the Nation's Transportation System

- An efficient transportation infrastructure is vital to our economy and quality of life
- Congestion is increasing while funds are more constrained
- Need to reassess the federal role, revenue streams and funding allocations

Ensuring the Effective Protection of Critical Technologies

- The U.S. spends billions annually on weaponry containing advanced technologies
- Many items are sold overseas and technologies are targets for theft, espionage, reverse engineering, and illegal export
- Existing programs to protect critical technologies, established decades ago, are ill-equipped to weigh competing U.S. interests
- Need for a strategic re-examination of existing programs to identify needed changes and ensure the advancement of U.S. interests

Transforming Federal Oversight of Food Safety

- Overall risks to the economy and to public health and safety
- Current oversight is fragmented— involving 15 agencies, at least 30 laws
- Need for a fundamental re-examination of the system

Examples of GAO/CG Forums on Current and Emerging Challenges

- Trans-national terrorism
- Homeland security risk management
- Global competitiveness and higher education
- Tax gap

Looking Inward: Building GAO's Institutional Capacity

GAO, like other audit entities, must strive to recruit and retain employees with the proper skill mix in order to deal effectively with current and emerging challenges:

- Implementing core leadership training
- Growing faculty from within (“adjuncts”)
- Contracting with the National Academy of Sciences (NAS), when needed
- Hiring a Chief Scientist
- Designing a state of the art computer lab

Key Elements:

- Focus on strategic planning
- Modernize professional standards
- Lead the way on fiscal stewardship
- Help identify needed transformations
- Build audit capacity



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