

# National Intergovernmental Audit Forum

## *Modernizing Accountability Organizations in Times of Fiscal Constraint*

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

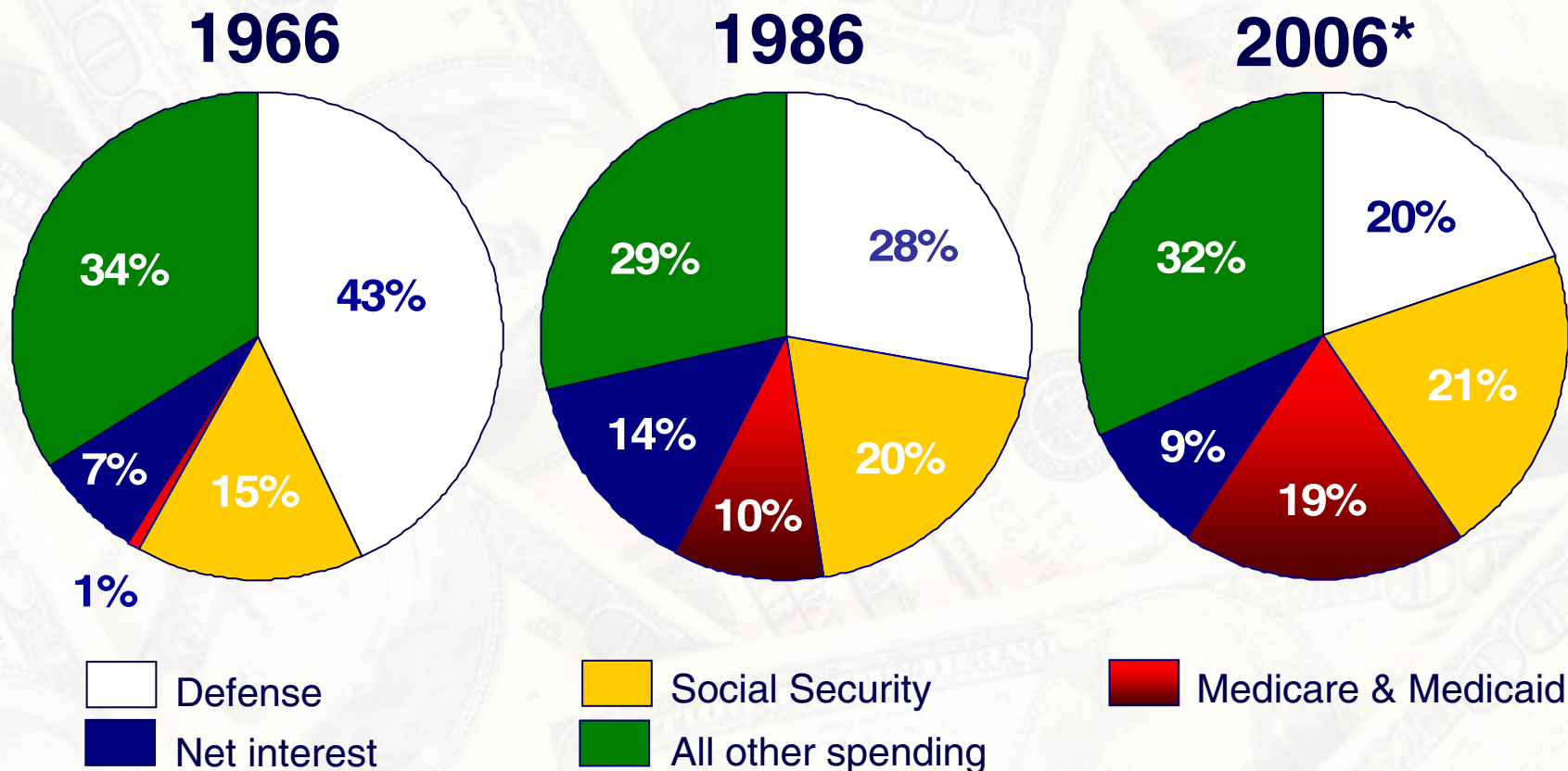
December 1, 2006

# 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- Outdated federal organizational structures, policies, and practices

# Composition of Federal Spending



\*Preliminary.

Source: Office of Management and Budget and the Department of the Treasury.

Note: Numbers may not add to 100 percent due to rounding.

# How Big is Our Growing Fiscal Burden?

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

<b>Total fiscal exposures</b>	<b>\$49.9 trillion</b>
<b>Total household net worth<sup>1</sup></b>	<b>\$53.3 trillion</b>
<b>Burden/Net worth ratio</b>	<b>94 percent</b>
<b>Burden<sup>2</sup></b>	
<b>Per person</b>	<b>\$165,000</b>
<b>Per full-time worker</b>	<b>\$395,000</b>
<b>Per household</b>	<b>\$435,000</b>
<b>Income</b>	
<b>Median household income<sup>3</sup></b>	<b>\$46,326</b>
<b>Disposable personal income per capita<sup>4</sup></b>	<b>\$32,392</b>

Notes: (1) Federal Reserve Board, Flow of Funds Accounts, Table B.100, 2006:Q2 (Sept. 19, 2006); (2) Burdens are calculated using estimated total U.S. population as of 9/30/06, from the U.S. Census Bureau; full-time workers reported by the Bureau of Economic Analysis, in NIPA table 6.5D (Aug. 2, 2006); and households reported by the U.S. Census Bureau, in *Income, Poverty, and Health Insurance Coverage in the United States: 2005* (Aug. 2006); (3) U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2005* (Aug. 2006); and (4) Bureau of Economic Analysis, *Personal Income and Outlays: September 2006*, table 2, 2006:Q3, (Oct. 30, 2006).

Sources: GAO 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 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 (i.e., entitlement programs, other spending, and tax policy)**

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

# Selected State and Local Fiscal Challenges

**States have many of their own fiscal challenges, including:**

- Unsustainable Medicaid cost increases
- Unfunded liabilities of state retirement systems (e.g., pensions and health)
- Education funding squeezed by competing demands
- Infrastructure maintenance and expansion needs given unparalleled sprawl and congestion
- Emergency preparedness response and recovery needs (e.g., natural disaster, terrorist incident, pandemic flu)

**GAO has ongoing work examining our total national fiscal exposure (federal, state, and local)**

# Accountability Organization Maturity Model





# Key Oversight Concepts

- **Oversight is a key constitutional responsibility of the Congress**
- **Oversight is critical to providing the necessary checks and balances to maximize the government's performance, assure it's accountability, and prevent the abuse of government power**
- **History shows that oversight decreases with one-party rule**
- **Oversight should be focused on improving performance and assuring accountability**
- **It is essential that oversight be balanced and constructive by highlighting what is working well—including best practices—as well as identifying shortcomings to prevent repetition of mistakes**

# The Oversight Role of the Accountability Community

**The current federal audit oversight structure includes:**

- GAO
- 62 statutory inspector general (IG) offices
- About 6,000 CPA firms that annually perform more than 34,000 audits of entities receiving federal funding (single audits)

**While the Single Audit Act has provided oversight of more than \$300 billion in annual federal grants, questions have been raised about the usefulness and effectiveness of oversight for federal funds**

# Three Suggested Areas of Congressional Oversight

- **Targets for near-term oversight (e.g., reducing the tax gap)**
- **Policies and programs that are in need of fundamental reform and re-engineering (e.g., reviewing U.S. and coalition efforts to stabilize and rebuild Iraq and Afghanistan)**
- **Governance issues that should be addressed to help ensure an economical, efficient, effective, ethical, and equitable federal government capable of responding to the various challenges and capitalizing on related opportunities in the 21st century (e.g., reviewing the effectiveness of the federal audit and accountability community, including the oversight, structure, and division of responsibility)**

# Congressional Oversight Areas Related to the Accountability Community

- **Review the Single Audit Act and propose reforms to ensure continuing effective oversight of the more than \$300 billion in annual federal grants awarded to nonfederal entities**
- **Schedule a series of oversight hearings to deliberate GAO's and the IGs' roles, responsibilities, results, and proposed reforms**

# Congressional Oversight Areas Related to the Accountability Community (cont'd)

- **Establish a government-wide accountability council to establish priorities and develop strategies to address federal accountability issues among GAO, the Office of Management and Budget, the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency, and other oversight organizations**

# The Objective of Transformation

**To create a more positive future by maximizing value and mitigating risk within current and expected resource levels**

# Key Transformation Elements

- **Planning**
- **People**
- **Process**
- **Partnerships**
- **Technology**
- **Environment**

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



# Three Key Elements for Success

**Incentives**

**Transparency**

**Accountability**



# Transformation: A New Model for Government Organizations

## **Government organizations will need to:**

- Become less hierarchical, process-oriented, stove-piped, and inwardly focused
- Become more partnership-based, results-oriented, integrated, and externally focused
- Achieve a better balance between results, customer, and employee focus
- Work better with other governmental organizations, non-governmental organizations, and the private sector, both domestically and internationally, to achieve results
- Focus on maximizing value, managing risk, and enhancing responsiveness within current and expected resource levels

# Keys to Making Change Happen

- **Commitment and sustained leadership**
- **Demonstrated need for change**
- **Start at the top and with the new people (transformation takes 7+ years)**
- **Process matters - don't fight a two-front war**
- **15-percent rule**
- **Identifiable and measurable progress over time**
- **Communication, communication, communication**
- **Figure out what's right versus what's popular**
- **Patience, persistence, perseverance to pain before you prevail**

# Keys to Making Change Happen (cont'd)

## Several other actions needed:

- Strategic Plan
- Core values
- Organizational alignment
- Recruiting, development, and succession planning strategies
- Modernizing and integrating institutional, unit, and individualized performance measurement and reward systems
- Broad banding and pay-for-performance
- Employee empowerment/effective communication

# GAO's Shared Business Model

GAO Serving Congress and the Nation

Strategic Business  
Architecture  
**Shared Business  
Model**



# Focus on Maximizing Value and Mitigating Risk

- **Identify core services and those that can be outsourced**
- **Determine which functions can be automated and which require people power**
- **Eliminate unnecessary layers, levels, and locations**
- **Streamline job processes**
- **Leverage technology**
- **Modernize human capital policies and practices to make them more market-based and performance oriented**

# Focus on Maximizing Value and Mitigating Risk (cont'd)

- **Matrix internally and partner externally to leverage resources and minimize duplication**
- **Recognize that professional service organizations must continually develop, attract, and retain high-quality staff**
- **Set realistic expectations with your client (e.g., protocols and portfolio management)**
- **Educate your client about long-term, adverse implications of budget cuts**

# GAO: Leading by Example in Connection with Government Transformation

- **Mission and vision clarification**
- **Core values: accountability, integrity, reliability**
- **Strategic planning**
- **Organizational realignment**
- **Definitions of success**
- **Multi-tasking and matrix management**
- **Procurement, contracting, and acquisition**
- **Human capital**
- **Information technology**
- **Knowledge management**
- **Financial management**
- **Client service/external agency relations and protocols**
- **Enhanced products and services**
- **Constructive engagement with agencies**
- **Partnering with other accountability and “good government” organizations**

# Selected Steps GAO Took to Better Manage its Resources

- **Reprioritized work to focus on the highest priority work to our client**
- **Redeployed staff from one team to another**
- **Looked for opportunities to do joint work with the Inspectors General, state auditors, and local auditors (e.g., Katrina)**
- **Coordinated with others to avoid duplication of work (e.g., Katrina and Iraq)**



# Performance Measurement

## Key Dimensions

- Results
- Clients/Customers
- People
- Partnerships

## Context

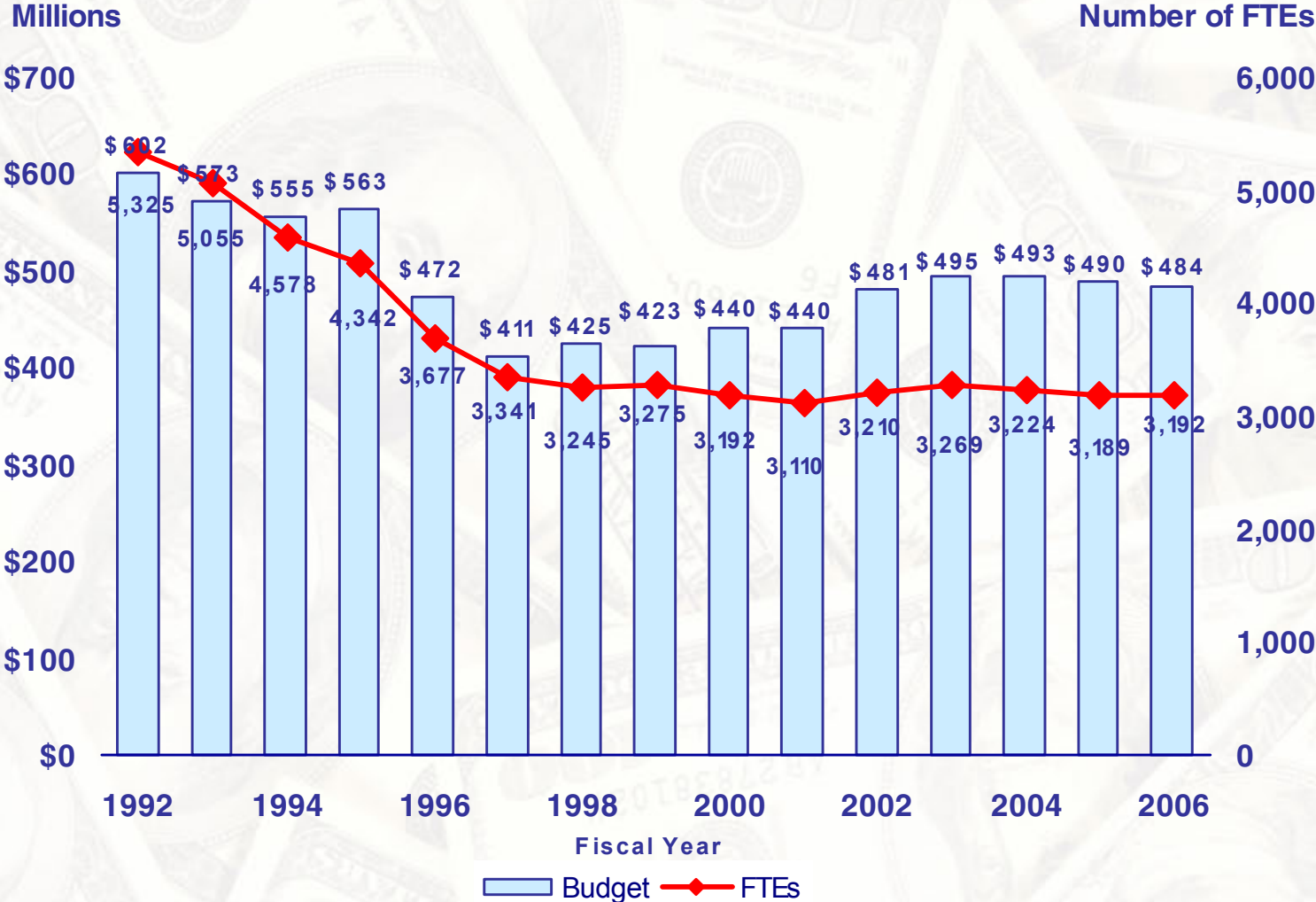
- Absolute
- Trend
- Compared to Peers

# GAO's Annual Performance Measures

<b>Performance measure</b>	<b>FY 98</b>	<b>FY 06</b>
Financial benefits (billions)	\$19.7	\$51
Non-financial benefits (number)	537	1342
Past recommendations implemented	69%	82%
New products with recommendations	33%	65%
Timeliness (percent on time) *	93%	97%
Return on investment (ROI)	\$56	\$105

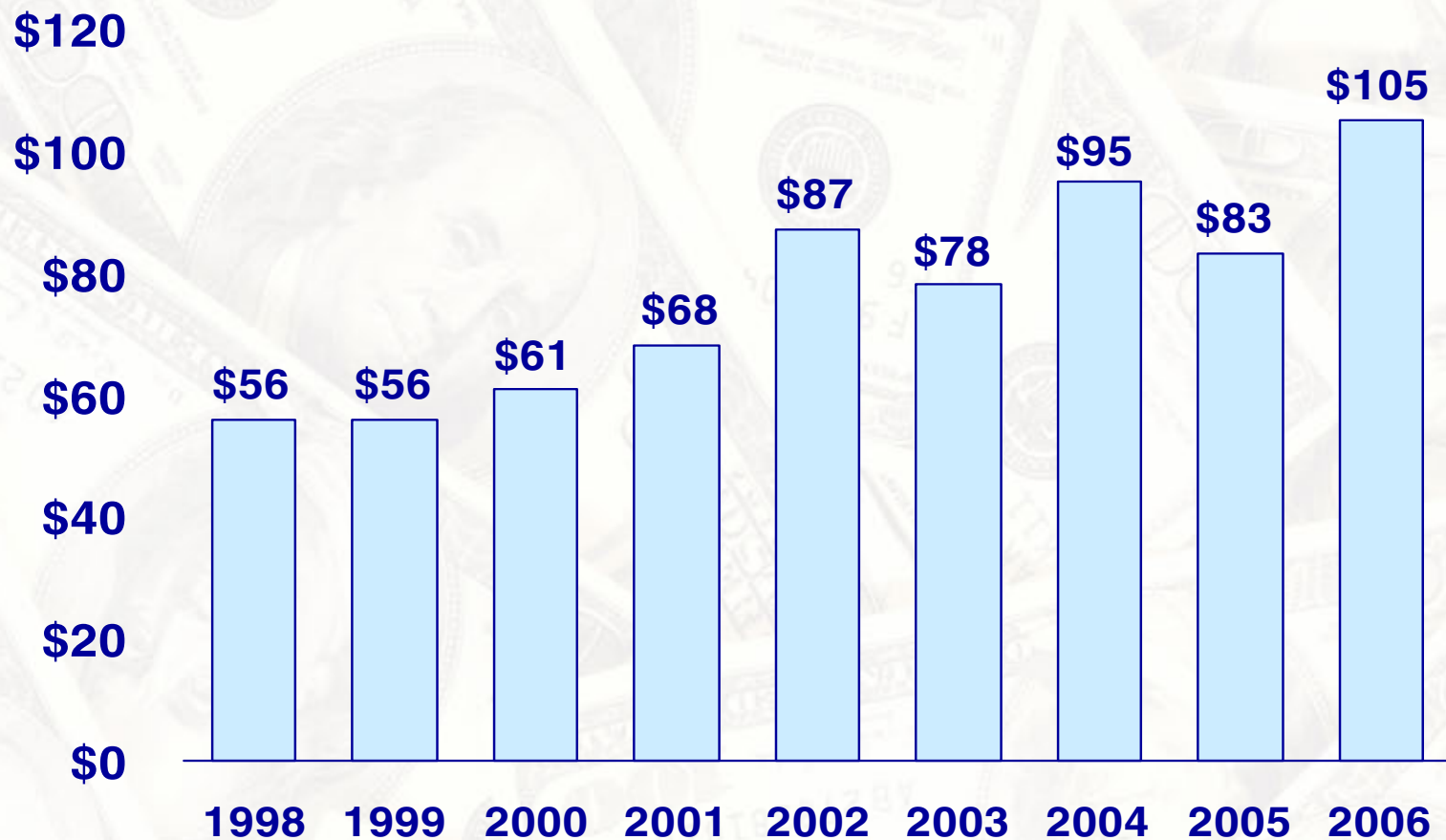
\*Calculated differently in FY '06

# GAO's Budget Authority and FTE Usage FY 1992 – 2006 in FY 2006 Dollars



# GAO's Return on Investment

## FY 1998 – 2006 in FY 2006 Dollars



# Cost Savings Actions all Professional Service Organizations Should Consider

**Given tight budgets, reduce non-essential agency activities and initiatives first, then consider:**

- Limiting additional pay increases for staff in excess of market-based pay caps
- Limiting non-performance based compensation awards for all staff
- Reducing hiring beyond half of the planned level
- Reducing travel funds lower than the prior year's level
- Limiting annual pay increases for all staff
- Limiting promotions of qualified people
- Conducting unpaid furloughs
- Reducing force size

# Key Leadership Attributes Needed for Challenging and Changing Times

**Courage**

**Integrity**

**Creativity**

**Stewardship**

# National Intergovernmental Audit Forum

## *Modernizing Accountability Organizations in Times of Fiscal Constraint*

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

December 1, 2006

---

## On the Web

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

---

## Contact

Paul Anderson, Managing Director, Public Affairs  
[AndersonP1@gao.gov](mailto:AndersonP1@gao.gov) (202) 512-4800  
U.S. Government Accountability Office  
441 G Street NW, Room 7149  
Washington, D.C. 20548

---

## Copyright

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.