

**AGA'S 54TH ANNUAL PROFESSIONAL DEVELOPMENT CONFERENCE
AMERICA'S NEED FOR LEADERSHIP: RISING TO THE CHALLENGE
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**BY: DAVID M. WALKER, CPA
COMPTROLLER GENERAL OF THE UNITED STATES**

Thank you for that kind introduction. It's a pleasure to be back before the AGA's Annual Professional Development Conference. This year's conference theme is Leadership: Preparing Tomorrow's Accountability Professionals. As a result, I've prepared some related remarks and entitled them – America's Need For Leadership: Rising to the Challenge.

Before I begin, I want to thank each and every one of you for what you do to help improve the performance and assure the accountability of government. The federal government was a "lag indicator" in connection with financial management for many years. Much progress has been made in a relatively short period of time thanks to your and others efforts. We should celebrate our successes while recognizing that a number of formidable challenges remain. We must rise to face those challenges. Working together, we can and will succeed. Now on to my prepared remarks.

The United States currently faces three deficits with significant economic and other implications for our future. The first is our federal budget deficit, a vast majority of which has nothing to do with the current global war against terrorism and incremental homeland security costs. More important than any current and short-term deficits, we face large and growing structural deficits in the future due primarily to known demographic trends, rising health care costs and relatively low federal revenues as a percentage of the economy. The second deficit is our nation's balance-of-payments deficit of which our record trade deficit is a sub-set. The third is our overall savings deficit. The United States has the lowest savings rate of any major industrialized country which means, among others things, that we have to increasingly rely on foreign players to finance our budget deficits and excess consumption.

These three deficits represent a much greater long-term threat to the United States than any country or terrorist group. They also present enormous leadership challenges. Failure to act decisively and in a timely manner to address this "triple threat" may represent the greatest risk to our collective future with significant domestic and international implications. As at the founding of our nation, we need more leaders today who have the vision to see the way forward, the courage to challenge the status quo, and the willingness to take on many vested interests necessary in order to help create a more positive future for our country and all Americans. We need more leaders in government, the private sector and the not-for profit sector who will rise to the challenge in order to help ensure that our best days are ahead of us rather than behind us.

I have and will continue to speak out on our budget, balance-of-payments and savings deficits. However, today I would like to focus my remarks on the federal government's current leadership needs, including the need for accountability professionals to "lead by example." Importantly, the government's overall leadership needs are not partisan in

nature, they are not confined to one branch of government, and they involve elected, appointed and career positions.

In my view, our country is at a critical crossroads in its history. The choices that key policymakers and other key players make, or fail to make, within the next decade will likely have profound implications for the future of our country, children and grandchildren. Key policymakers need to recognize the realities of our current imprudent and unsustainable fiscal path. They also need to heed the key warning signs relating to our education, energy, environmental health care, infrastructure and other important public policy challenges.

One key question is: Will enough leaders emerge in the coming years who recognize the need for us to get back on track and who are dedicated to leading the way in addressing a range of much needed and long overdue public policy and operational issues? If they do emerge and act in a timely and prudent manner, it will help to assure that the United States continues to be a global “superpower” throughout the 21st century. It will also help to ensure that, as has been the case since the beginning of our republic in 1789, our children’s and grandchildren’s opportunities and living standards will be better than those we have enjoyed. On the other hand, if they fail to emerge and act, the United States risks entering a period of decline and the possibility of suffering the same fate as many other great republics throughout history. Fortunately, we have the ability to prevent this from happening and all of us should do what we can to help ensure that a prudent future path is chosen.

21st Century Challenges

In order to help put this issue in context and provide a way forward, the U.S. Government Accountability Office (GAO) recently issued a report entitled – 21st Century Challenges: The Need to Reexamine the Base of the Federal Government. This report provides a clear and compelling case regarding where we are and where we are headed as a nation. It also includes over 200 illustrative questions that need to be asked and answered about the current base of federal spending, tax and other policies in light of key 21st century changes and challenges. As the report makes clear, much of the federal government’s current policies, programs, functions and activities are based on conditions that existed in the United States and the world in the 1950s and 1960s. As a result, many federal entitlement programs, discretionary and mandatory spending practices, tax policies and government operations are outdated, duplicative, ineffective, unaffordable and/or unsustainable. As a result, the “status quo” is unacceptable and we need to review and rationalize the base of the federal government in order to create a more positive future.

It will take many years to address the full range of questions raised in the GAO’s 21st Century Challenges report; however, we need to start now because time is working against us. Why? Because debt on debt is not good and we are currently adding new debt at or near record rates, most of which is being purchased by foreign governments that may not share the same long-term national security, foreign policy and economic interests as the United States. Furthermore, our demographic tidal wave, which is driven

by the retirement of the baby boom generation, is rapidly approaching. If we don't act in a prudent and timely manner, this tidal wave could swamp our ship of state.

Yes, it's true that the United States is the only "superpower" on earth today. It's also true that we are number one in many areas such as military might, economic power, diplomatic impact and cultural influence. However, a close examination of the facts shows that we are not number one in many areas. In addition, we lag many other industrialized nations in a range of key areas that are of critical importance to improving our country, its competitive position, and the quality of life for Americans in the 21st century. This includes our fiscal position, savings rates, K-12 education results, key health care outcomes, energy supplies, infrastructure needs, and sustainable development efforts. Furthermore, while we are a superpower today, we do not have an inalienable right to stay one in the future.

Believe it or not, despite the fact that the federal government spends over \$2.5 trillion a year, provides hundreds of billions in tax preferences a year and publishes thousands of pages of regulations a year, the United States Government still lacks a government-wide strategic plan as well as a set of key national indicators to help assess the nation's position and progress over time and in relation to other countries. Without a plan and key outcome-based indicators, we cannot effectively prioritize and target federal policies and programs, nor can we assess their effectiveness. In addition, in the absence of such outcome-based indicators, many assume that the only way to increase related results is through additional spending or tax preferences. This assumption is both simplistic and wrong.

A set of key national safety, security, economic, social, environmental and other outcome based indicators could help to inform strategic planning, enhance performance and accountability reporting and facilitate the much needed and long-overdue review of the base of the federal government. Other countries have such indicators. It's time that we did as well. Otherwise, we risk flying blind in what will likely be increasingly turbulent skies.

The Leadership Need

The United States Government is arguably the largest, most complex and most important entity on the face of the earth. As a result, we must have top-flight elected, appointed and career civil service leaders to address the many complex and controversial challenges that we face, while capitalizing on related opportunities. If we don't, we are all in trouble. However, a number of actions will be necessary in order to help make sure that this need is effectively addressed in the challenging years that lie ahead. This includes recognizing the many positive things that government does, some of which relate to so-called "greater good" activities that the private sector either cannot, will not, or should not address. It also involves showing appropriate respect for and appreciation of those individuals who have dedicated their careers to public service. Most civil servants are capable and caring people who do a great job; however, they can get trapped in bad systems and may lack capable, inspired and consistent political leadership. Based on my experience in leading three federal agencies, most civil

servants are highly dedicated to the mission of their agency, and are as good as or better than their private sector counterparts.

We also need to renew the call to public service which was so eloquently made by President John Kennedy when he said, “Ask not what your country can do for you - ask what you can do for your country.” Many of those who answered President Kennedy’s call to serve have left or will soon leave government service. We must fill the related gap with a sufficient number of 21st century leaders who possess the vision, energy, commitment and credibility to get the job done.

Leadership vs. Management

Our current leadership serves to prompt a legitimate question: What is leadership? In my view, leadership involves getting things done with and through others. It involves helping to create a more positive future while achieving continuous improvement of existing policies and practices.

Leadership spans elected, appointed and career positions. It involves persons with formal position power as well as individuals who have significant informal influence. With regard to the business and operations of government, leadership is fundamentally different than management. Management is focused mostly on today and is designed to help improve quality, economy and efficiency. Leadership is focused more on the future and involves dealing with uncertainty while helping to improve organizational positioning, visibility and effectiveness.

Management ability can largely be taught. However, true leaders are developed by their life experiences. Managers can normally be found at the same venue or venues every day, while leaders tend to show up when and where they are needed. Managers can be seen but you often can sense the presence of a leader. Managers do most of their work with their head while leaders are driven by both their head and their heart. Managers tend to focus more on products, policies and processes, while leaders tend to focus more on people, ideas and values.

Accountability Professionals: Leading By Example

Accountability professionals have a critically important role to play in helping to address the much needed and long overdue review and re-examination of the base of the federal government. This will involve both direct and indirect leadership roles. By direct, I mean discharging our personal responsibilities with our organization, profession and elsewhere, as appropriate. By indirect, I mean efforts designed to educate and influence elected and appointed officials who may have the formal leadership responsibilities and authority in connection with the matter at hand.

In discharging our responsibilities as accountability professionals, we should seek to employ a professional, fact-based and constructive approach while maintaining our independence, as applicable and appropriate. Importantly, irrespective of their role, accountability professionals should seek to “lead by example” in helping to transform the

government, while maximizing value and managing risk within current and expected resource levels.

We should seek to promote a wide-range of performance, transparency and accountability improvements both within and outside our organizations. For example, while progress has been made in connection with federal financial reporting, additional steps are necessary to better reflect our true financial condition and long-term fiscal outlook. In addition, the federal government needs a summary annual financial report that is both readable and read by key policymakers, opinion leaders and other interested parties. The Social Security and Medicare programs have one; it's time the U.S. Government did as well. Furthermore, budget reforms are needed to better assess the long-range affordability and sustainability of various proposals, and to also put us on a more prudent fiscal path. Finally, federal agencies that have to re-state their financial statements do not deserve a "green" for financial management in connection with the President's Management Agenda.

GAO has and will continue to do its part to "lead by example." We have undertaken many initiatives to help transform ourselves so that we can achieve our objective of being a model federal agency and a world class professional services organization. This includes actions related to strategic planning, organizational alignment, financial management, human capital strategy, information management, knowledge management, change management, and external reporting that have received national and international recognition and awards from a number of external organizations. One very recent example was the successful completion of the first ever multi-national peer review of GAO's performance audit practice. This review, which was led by the Office of the Auditor General of Canada and involved seven countries, resulted in a clean opinion on the design and implementation of our quality control systems as well as the identification of a number of "global better practices" for sharing with other national audit institutions around the world.

GAO has also taken a number of steps to help modernize the accountability profession, both in government and the private sector. Recent examples include our efforts to lead the development of first ever strategic plans for the international and domestic accountability communities (i.e., INTOSAI, National Intergovernmental Audit Forum), and our efforts that helped to lead to the creation of the U.S. Auditing Standards Coordinating Forum. Another recent example was our unprecedented decision to include a "broken business model" emphasis paragraph in our 2004 audit report on the consolidated financial statements of the U.S. Government.

We are also dedicated to helping the Congress address the many questions and other key challenges facing the federal government. We expect that our 21st Century Challenges report will serve to help facilitate and frame this effort.

At GAO, we can do well by ourselves but we can do much better if we "partner for progress" with other accountability and "good government" organizations and individuals, both domestically and internationally. We have undertaken a number of related initiatives that have borne fruit through partnering, as appropriate, with OMB,

FASAB, PCAOB, AICPA, INTOSAI, the National Inter-governmental Audit Forum, AGA and others on issues of mutual interest and concern. I can assure you that we at GAO are committed to continuing to “lead by example” and “partnering for progress.” All that I ask is that you do your best to make a real and lasting difference in your organization and for our country.

Transformation in Government

One of the key challenges that federal government leaders will need to address in the years ahead is to determine what the federal government should do, how the government should do business, who should do the government’s business, and how we will pay for it. Given current and emerging challenges and increasing resource constraints, this will also include the need to transform the culture of many federal agencies. This transformation will take years and will require concerted and continuing efforts by elected, appointed and career officials, including accountability professionals.

While some agencies, including GAO, have made great progress in connection with their own transformation efforts, too many federal agencies today are hierarchical, siloed, process-oriented, and inwardly focused in nature. Federal agencies need to become flatter, more matrixed, results-oriented and externally focused organizations. This is of critical importance but will not be an easy task. After all, experience shows that cultural transformations typically take at least seven years to achieve in a sustainable manner.

Achieving success in transforming government organizations will be very challenging given the historical rigidity of many government agencies and the lack of continuity in certain key political leadership positions within the executive branch. This means that the role of senior career leaders will be of critical importance in helping to ensure that related transformation efforts are serious, sustained and successful. Senior career leaders can play a particularly valuable role in connection with various planning, consultation, coordination and communication efforts that need to be performed in order to achieve meaningful and lasting change within the federal government. As our parents taught us, it’s not just what you do but how you do it that matters. In this regard, leaders need to be concerned with both policies and processes in order to maximize the chance of success.

In order to be successful, the federal government will likely need to implement a Chief Management Officer position in selected departments and agencies that face significant transformation needs and/or involve huge, complex and recurring management challenges. These positions should be at the second level of any organization. In addition, they should have statutory terms (e.g., five to seven years) and qualification requirements, as well as performance contracts for the individuals who are selected. For example, the Department of Defense (DOD) has a clear need for such a position to address its many “high risk” areas; stop wasting of billions of dollars each year; and improve its overall economy, efficiency, transparency and accountability.

Key Transformation Elements and Dimensions

In my view, leaders can facilitate and expedite needed organizational transformations in government by focusing on five key elements – strategic planning, organizational alignment, performance measurement, employee empowerment and effective communications. Modern, effective and credible human capital (or people) strategies will be a critical element of any successful transformation effort. In this regard, integrating institutional, unit and individual performance measurement and reward systems based on clearly defined and consistently applied outcome-based indicators is of particular importance yet rarely done in government.

From GAO's perspective, focusing on key outcome-based organizational performance measures that span four key dimensions has proven successful at GAO and may have broader potential application within government. These four dimensions are results, clients/customers, employees, and external partnerships. Fortunately, our outcomes in connection with all of these key dimensions have been very good and on an upward trend for several years even though we have undertaken many complex and controversial transformation related initiatives.

Effective leaders in any organization should seek to maximize results, manage risks and make progress in each of the four key dimensions I mentioned previously. Each one is important and yet, just as in connection with our constitutional form of government, they serve as checks and balances on each other. In the final analysis, irrespective of your performance measures and metrics, truly effective leaders seek not just to leave their organization better off when they leave than when they came, but also to leave it better positioned for the future. This is what real stewardship is all about! Whether they realize it or not, leaders are stewards, and the CEO of any public, private or not-for-profit organization is the head steward who should "lead by example" and "set the tone at the top." In addition, all true leaders within the organization, both formal and informal, should seek to do the same.

A Way Forward

Successfully addressing the many transformation and other challenges that we face as a nation and as accountability professionals, while capitalizing on related opportunities, will take time and the sustained attention of and commitment from many leaders. It will likely require patience, persistence, perseverance and pain before we prevail, but prevail we must. To be successful, we will need more leaders with the courage, integrity and innovative ability to meet our many current and future challenges. Specifically, we need more leaders who have the courage to state the facts, speak the truth and do the right thing even though it may not be popular. We need more leaders with the integrity to practice what they preach and to lead by example. We need more leaders who have the ability to take charge in re-examining the base of the federal government, can see new ways of addressing old problems and can help others see the way forward.

In conclusion, we live in the greatest country on earth and have the greatest republic in the history of all mankind. We have much to be proud of and much to be thankful for.

Clearly, we have achieved a great deal since the founding of our republic and we have overcome many great threats and challenges. After all, in America, anything is possible in time with capable, caring, and courageous leadership and the support of the people.

While we have achieved much in the past, the time has come to focus on our future. Americans have always risen to great domestic and international challenges in the past. It is time for us to address our three key national deficits before a crisis forces us to. As President George Washington said, the most important personal attribute is courage and the most important institutional attribute is fiscal responsibility. It's time for all true leaders to heed Washington's words of wisdom and do what it takes to create a positive future for both America and Americans. We owe it to our Founding Fathers as well and to our children, grandchildren, and future generations of Americans to rise to the challenge and act. The time to start is now!

Thank you again for everything that you do as well as for your time and attention this morning. I would be happy to answer any questions that you may have.