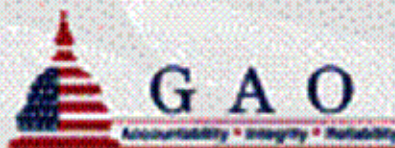


# TRANSFORMATION *Challenges*



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

National Legislative  
Program Evaluation  
Society  
Tallahassee, Florida  
October 28, 2004



# **Trans** *FORMATION*

## **Webster's definition**

**An act, process, or instance of  
change in structure appearance,  
or character**

**A conversion, revolution,  
makeover, alteration, or  
renovation**

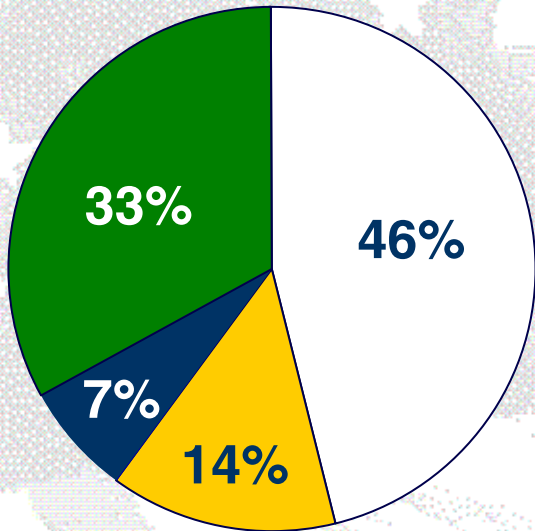
# The Case for Change

- **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 recent terrorism events in the United States
  - Government performance/accountability and high risk challenges, including the lack of effective human capital strategies

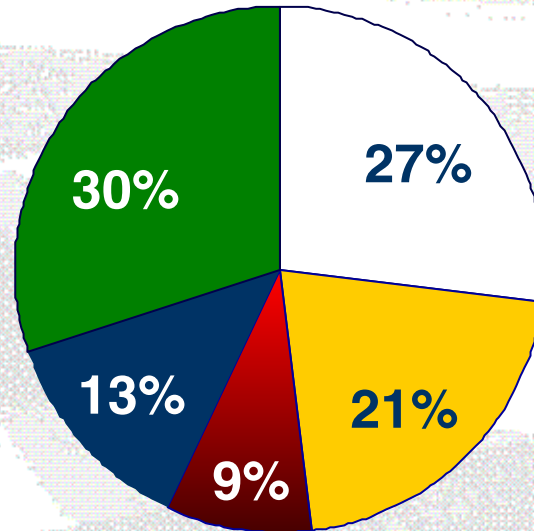


# Composition of Federal Spending

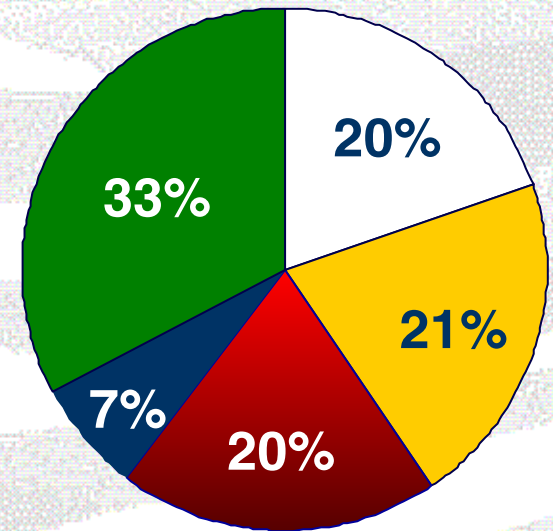
1964



1984



2004\*



\*Current services estimate.

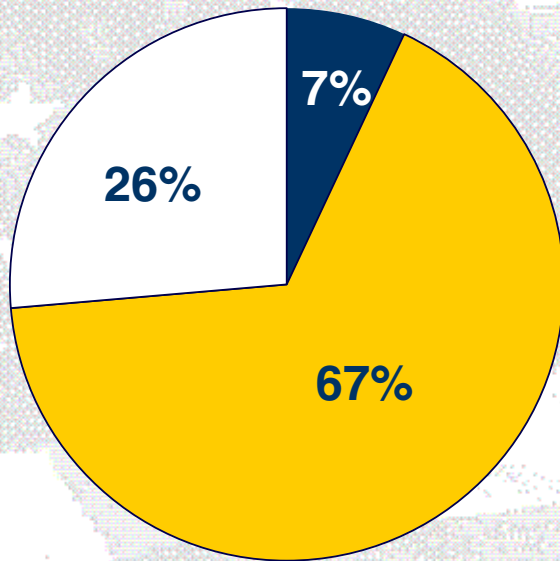
Note: Numbers may not add to 100 percent due to rounding.

Source: *Budget of the United States Government, Fiscal Year 2005* (February 2004) and *Budget of the United States Government, Fiscal Year 2005, Mid-session Review* (July 2004), Office of Management and Budget.

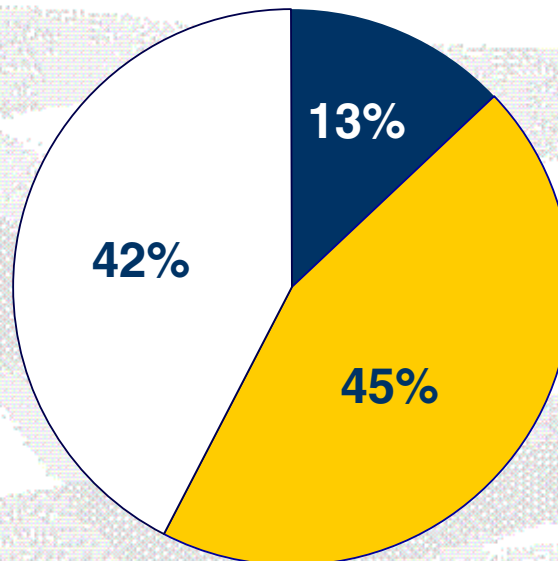


# Federal Spending for Mandatory and Discretionary Programs

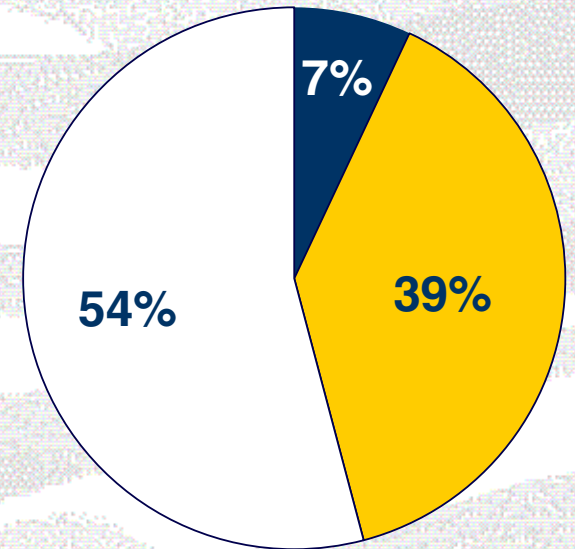
1964



1984



2004\*



Net Interest

Discretionary

Mandatory

\*Current services estimate.

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

Source: *Budget of the United States Government, Fiscal Year 2005* (February 2004) and *Budget of the United States Government, Fiscal Year 2005, Mid-session Review* (July 2004), Office of Management and Budget.



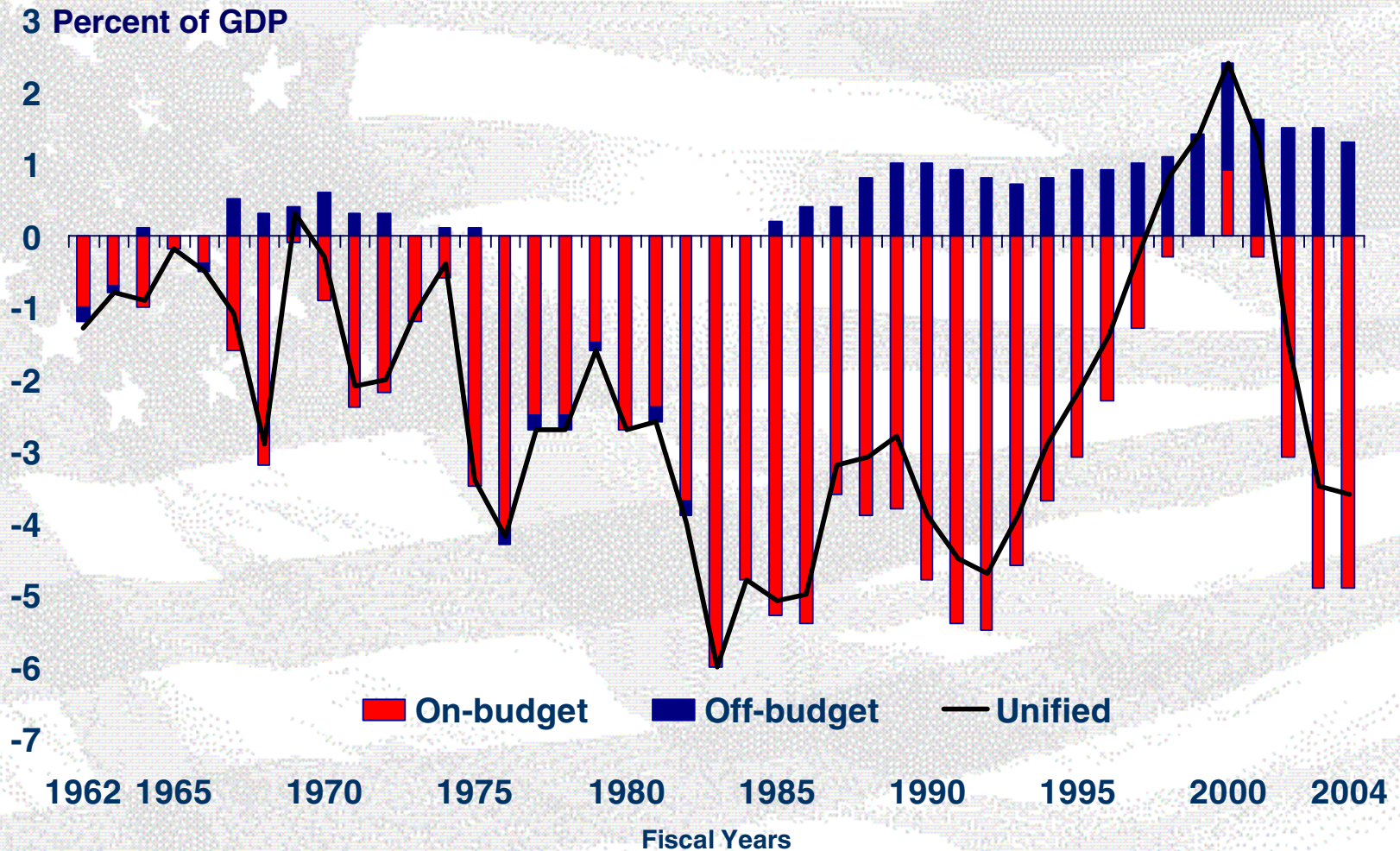
# Fiscal Year 2004 Deficit Numbers

	<b>\$ Billion</b>	<b>% of GDP</b>
On-Budget Deficit	(568)	(4.9)
Social Security Surplus	151	1.3
Unified Deficit	(413)	(3.6)



# Surplus or Deficit as a Share of GDP

## Fiscal Years 1962-2004



Source: Office of Management and Budget and Congressional Budget Office.



# Selected Fiscal Exposures: Sources and Examples

## (End of 2003)<sup>a</sup>

Type	Example (dollars in billions)
Explicit Liabilities	Publicly held debt (\$3,913) Military and civilian pension and post-retirement health (\$2,857) Veterans benefits payable (\$955) Environmental and disposal liabilities (\$250) Loan guarantees (\$35)
Explicit Financial commitments	Undelivered orders (\$596) Long-term leases (\$47)
Financial contingencies	Unadjudicated claims (\$9) Pension Benefit Guaranty Corporation (\$86) Other national insurance programs (\$7) Government corporations e.g., Ginnie Mae
Exposures implied by current policies or the public's expectations about the role of government	Debt held by government accounts (\$2,859) <sup>b</sup> Future Social Security benefit payments (\$3,699) <sup>c</sup> Future Medicare Part A benefit payments (\$8,236) <sup>c</sup> Future Medicare Part B benefit payments (\$11,416) <sup>c</sup> Future Medicare Part D benefit payments (\$8,119) <sup>c</sup> Life cycle cost including deferred and future maintenance and operating costs (amount unknown) Government Sponsored Enterprises e.g., Fannie Mae and Freddie Mac

<sup>a</sup> All figures are for end of fiscal year 2003, except Social Security and Medicare estimates, which are end of calendar year 2003.

<sup>b</sup> This amount includes \$774 billion held by military and civilian pension funds that would offset the explicit liabilities reported by those funds.

<sup>c</sup> Figures for Social Security and Medicare are net of debt held by the trust funds (\$1,531 billion for Social Security, \$256 billion for Medicare Part A, and \$24 billion for Medicare Part B) and represent net present value estimates over a 75-year period. Over an infinite horizon, the estimate for Social Security would be \$10.4 trillion, \$21.8 trillion for Medicare Part A, \$23.2 trillion for Medicare Part B, and \$16.5 trillion for Medicare Part D.

Source: GAO analysis of data from the Department of the Treasury, the Office of the Chief Actuary, Social Security Administration, and the Office of the Actuary, Centers for Medicare and Medicaid Services.

Updated 3/30/04.



# Another Way to Think About These Numbers

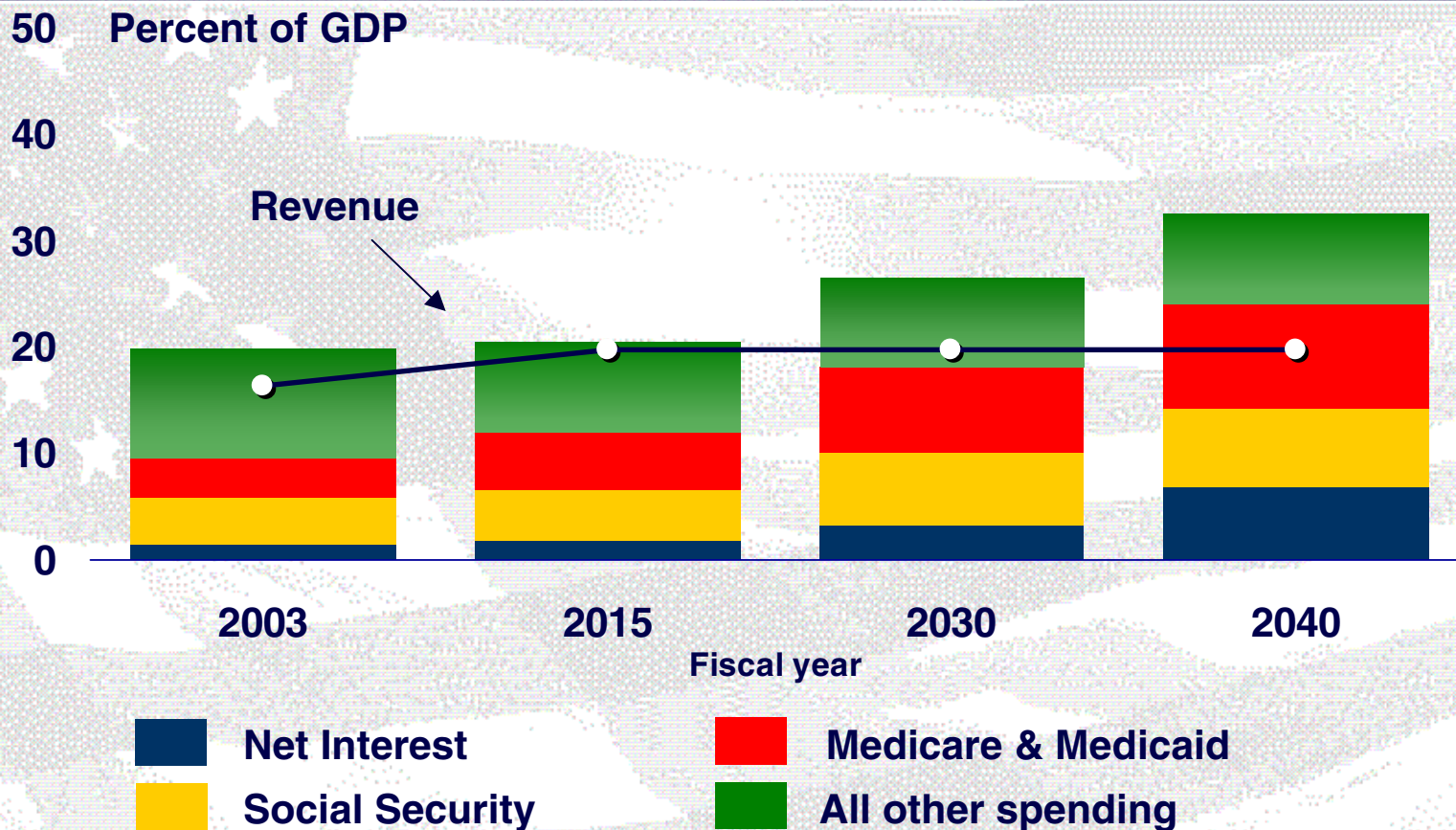
## As of the End of FY 03

- Debt held by the public—\$3.9T
- Trust fund debt—\$2.9T
- Gross debt—\$6.8T
- Gross debt per person—about \$24,000
- If we add everything on the previous slide that is not included in gross debt, the burden per person rises to over \$140,000. Alternatively, it amounts to a total unfunded burden of more than \$40 trillion in current dollars, which is about 18 times the current annual federal budget or more than 3 ½ times the current annual GDP.

Note: The calculations only consider a 75-year horizon for Social Security and Medicare.



# Composition of Spending as a Share of GDP Under Baseline Extended



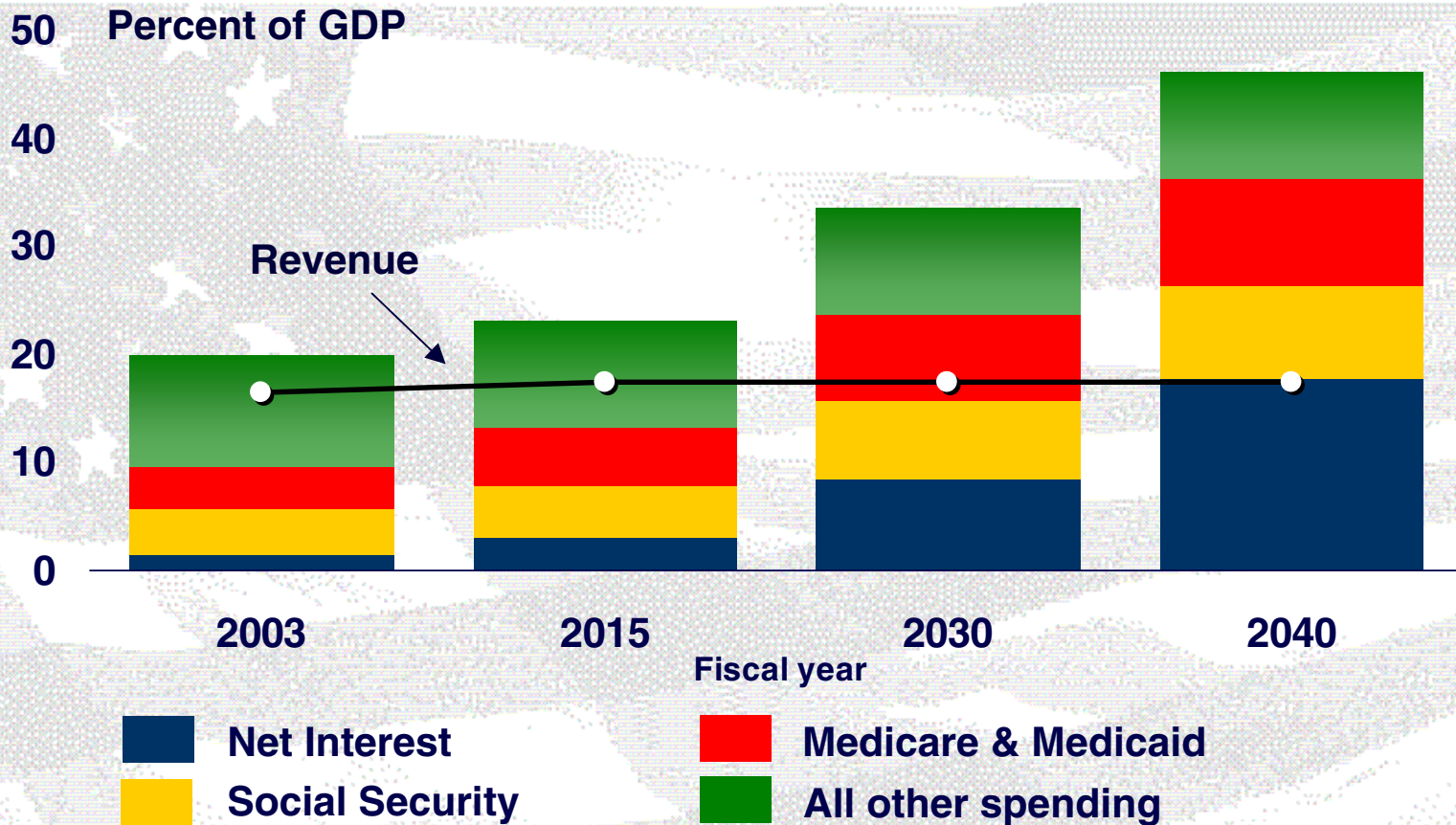
Notes: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2014 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2014, revenue as a share of GDP is held constant. Budgetary effects due to passage of the Working Families Tax Relief Act of 2004 are not reflected in this simulation.

Source: GAO's September 2004 analysis.



# Composition of Spending as a Share of GDP

Assuming Discretionary Spending Grows with GDP After 2004 and All Expiring Tax Provisions Are Extended



Notes: Although expiring tax provisions are extended, revenue as a share of GDP increases through 2014 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2014, revenue as a share of GDP is held constant.

Source: GAO's September 2004 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 about 60 percent or
    - Raising taxes to about 2.5 times today's level
- **Faster Economic Growth Can Help, but It Cannot Solve the Problem**
  - Closing the current long-term fiscal gap based on responsible 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 Sooner We Get Started, the Better**
  - Less change would be needed, and there would be more time to make adjustments.
  - The miracle of compounding would work with us rather than against us.
  - Our demographic changes will serve to make reform more difficult over time.



# The Way Forward

- Implement new accounting and reporting approaches and new budget control mechanisms for considering the impact of spending and tax policies and decisions over the long term
- Develop new metrics for measuring the impact of policies and decisions over the long term (e.g., key national indicators to measure our Nation's position and progress over time and in relation to other countries)
- Reexamine the base—question existing programs, policies and activities



# Long-term Fiscal Challenges Demand New Metrics, Mechanisms, and Processes

- Accounting and reporting policies for trust funds, Social Security, Medicare, Veterans benefits, among other things, need to be reviewed and revised (e.g., possible fiscal burden statement with per capita and intergenerational figures).
- The current budget time horizon [2-year, 5-year, 10-year] does not capture many long-term costs—e.g. Social Security, Medicare, pension insurance—and other major tax and spending provisions
- Cash and obligations-based budgeting is misleading for insurance and some benefit programs
- Budget controls have expired—and we need to go beyond “holding the line” to “changing the base” in spending and tax policies



# Improved Metrics, Measures and Processes: Some Ideas

- Provide information on long-term costs of major spending and tax proposals before they are voted on, including showing long-term costs even for proposals that sunset
- Establish an OMB annual report on fiscal exposures, including appropriate measures and how to address them
- Consider fiscal targets, triggers, sunset provisions and points of order with focus on limiting growth of long-term commitments
- Move to accrual budgeting for employee pension, retiree health; disclose “risk assumed” [missing premium] for insurance
- Reinstitute budget controls (caps & PAYGO)



# We Need a Multifaceted Approach to Close the Long-Term Fiscal Gap

## **Policy:**

- Restructure existing entitlement programs
- Reexamine the base of discretionary and other spending
- Review and revise our tax policy and enforcement programs

## **Operations:**

- Reassess and revise how the government does business (e.g., management, planning and operational issues)
- Consider who should provide government services (e.g., sourcing strategy)



# Illustrative Generic Re-examination Questions

- Is the program, policy, function or activity a direct result of specific legislation?
- Is the current mission fully consistent with the initial or updated statutory mission (e.g., no significant mission creep or morphing)?
- Does it relate to an issue of nationwide interest? If so, is a federal role warranted based on the likely failure of private markets or state and local governments to address the underlying problem or concern? Does it encourage or discourage these other sectors from investing their own resources to address the problem?
- Have there been significant changes in the country or the world that relate to the reason for initiating it?



# Illustrative Generic Re-examination Questions

- If the answer to the last question is yes, should the activity be changed or terminated, and if so, how? If the answer is unclear as to whether changes make it no longer necessary, then ask, when, if ever, will there no longer be a need for a federal role? In addition, ask, would we enact it the same way if we were starting over today? Has it been subject to a comprehensive review, reassessment and re-prioritization by a qualified and independent entity? If so, when? Have there been significant changes since then? If so, is another review called for?
- How does it measure success? Are the measures reasonable and consistent with the applicable statutory purpose? Are the measures outcome-based, and are all applicable costs and benefits being considered? If not, what is being done to do so?
- If there are outcome-based measures, how successful is it based on these measures?
- Is it well targeted to those with the greatest needs and the least capacity to meet those needs?



# Illustrative Generic Re-examination Questions

- Is it affordable and financially sustainable over the longer term, given known cost trends and future fiscal imbalances?
- Is it using the most cost effective or net beneficial approaches when compared to other tools and program designs?
- If it fares well after considering all of these questions, is the responsible entity employing prevailing best practices to discharging its responsibilities and achieving its mission (e.g., strategic planning, organizational alignment, human capital strategy, financial management, technology management, acquisitions/sourcing strategy, change management, knowledge management, client/customer service)?
- What would be the likely consequences of eliminating the program, policy, function or activity? What would be the likely implications if its total funding was cut by 25%?



# Selected 21<sup>st</sup> Century Questions

- Do we need all three elements of the current triad nuclear deterrent strategy and if so, do we need to reconsider the size and nature of each component?
- What opportunities exist to dispose of excess federal facilities or better leverage surplus in private sector capacity to make the federal portfolio more relevant to current mission and less costly?
- How should Social Security be reformed to make it both solvent and sustainable while better aligning it with 21<sup>st</sup> century economic, demographic and fiscal realities?
- Do tax incentives and preferences need to be reconsidered? For example, can adequate health care coverage be achieved at less cost and greater equity through fundamental redesign of the current health tax preferences?



# Selected GAO-Related Activities

- Speeches and Outreach Efforts
- Financial Literacy Efforts
- CG Forums
- High Risk Update Report
- 21<sup>st</sup> Century Challenges Report
- Various Congressional Consultation and Assistance Efforts
- Public Education Assistance
- Constructive engagement efforts (e.g., best practices guides, self assessment tools, benchmarking statistics)
- Leading by example



Transformation is about  
**CREATING** the future rather than  
**PERFECTING** the past.  
Effective **HUMAN CAPITAL**  
strategy is key to any  
**SUCCESSFUL**  
transformation effort



# Transformation: A New Model for Government Organizations

## Government organizations will need to:

- Become less hierarchical, process-oriented, stovepiped, 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.



# Keys to Making Change Happen

- Commitment and sustained leadership
- Demonstrated need for change (i.e., burning platform)
- Start at the top and with the new people (transformation takes 7+ years)
- Process matters (e.g., employee involvement) – 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



# Transformation Has Different Dimensions

**DOD**

**DHS**

**U. S. Postal Service**

**IRS**

**DOE**

**NASA**

**Human Capital Strategy**

**Financial Management**

**Information Technology**

**Sourcing Strategy**

**Disability Programs**

**Real Property Management**

Note: All of the above are on GAO's High Risk List to one extent or the other.



# GAO's High Risk List

## High Risk Areas

## Designated High Risk

### Addressing Challenges in Broad-based Transformations

Protecting Information Systems Supporting the Federal Government and The Nation's Critical Infrastructures	1997
Strategic Human Capital Management*	2001
U.S. Postal Service Transformation Efforts and Long-Term Outlook*	2001
Implementing and Transforming the New Department of Homeland Security	2003
Modernizing Federal Disability Programs*	2003
Federal Real Property*	2003

### Ensuring Major Technology Investments Improve Services

FAA Air Traffic Control Modernization	1995
IRS Business Systems Modernization	1995
DOD Systems Modernization	1995

### Providing Basic Financial Accountability

DOD Financial Management	1995
IRS Financial Management	1995
Forest Service Financial Management	1999
FAA Financial Management	1999

### Reducing Inordinate Program Management Risks

Medicare Program*	1990
Collection of Unpaid Taxes	1990
DOD Inventory Management	1990
Student Financial Aid Programs	1990
HUD Single-Family Mortgage Insurance and Rental Assistance Programs	1994
Earned Income Credit Noncompliance	1995
DOD Support Infrastructure Management	1997
Medicaid Program*	2003
Pension Benefit Guaranty Corporation Single-Employer Insurance Program*	2003

### Managing Large Procurement Operations More Efficiently

DOD Weapon Systems Acquisition	1990
Department of Energy Contract Management	1990
NASA Contract Management	1990
DOD Contract Management	1992

\*Additional authorizing legislation is likely to be required as one element of addressing this high risk area.



# Key Transformation Elements

- People
- Process
- Partnerships
- Technology
- Environment

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





# Keys to Making Change Happen

## 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



# GAO's Strategic Plan

## SERVING THE CONGRESS AND THE NATION GAO'S STRATEGIC PLAN FRAMEWORK

### MISSION

GAO exists to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people.

### THEMES

Long-Term Fiscal Imbalance

National Security

Global Interdependence

Changing Economy

Demographics

Science and Technology

Quality of Life

Governance

### GOALS & OBJECTIVES

Provide Timely, Quality Service to the Congress and the Federal Government to ...

Address Current and Emerging Challenges to the Well-Being and Financial Security of the American People related to ...

- Health care needs and financing
- Education and protection of children
- Work opportunities and worker protection
- Retirement income security
- Effective system of justice
- Viable communities
- Natural resources use and environmental protection
- Physical infrastructure

Respond to Changing Security Threats and the Challenges of Global Interdependence involving ...

- Emerging threats
- Military capabilities and readiness
- Advancement of U.S. interests
- Global market forces

Help Transform the Federal Government's Role and How It Does Business to Meet 21st Century Challenges by assessing ...

- Roles in achieving federal objectives
- Government transformation
- Key management challenges and program risks
- Fiscal position and financing of the government

Maximize the Value of GAO by Being a Model Federal Agency and a World-Class Professional Services Organization in the areas of ...

- Client and customer satisfaction
- Strategic leadership
- Institutional knowledge and experience
- Process improvement
- Employer of choice

### CORE VALUES

Accountability

Integrity

Reliability

Source: GAO

GAO Strategic Plan 2004-2009



# What Kind of Work Does GAO Do?

**Oversight**—designed to determine that government entities are doing what they are supposed to, that funds are being spent for the intended purpose, and that applicable laws and regulations are being complied with.

**Insight**—designed to determine what programs and policies work and those that don't. This involves sharing various best practices and benchmarking information and looking horizontally across the silos of government and vertically between the levels of government.

**Foresight**—designed to identify key trends and emerging challenges before they reach crisis proportions, e.g., challenges of an aging population and the demands of the information age, to changing security threats and fiscal challenges.



# Selected Success Measures

- Results
- Clients/customers
- People
- Partnerships



# Annual Performance Measures

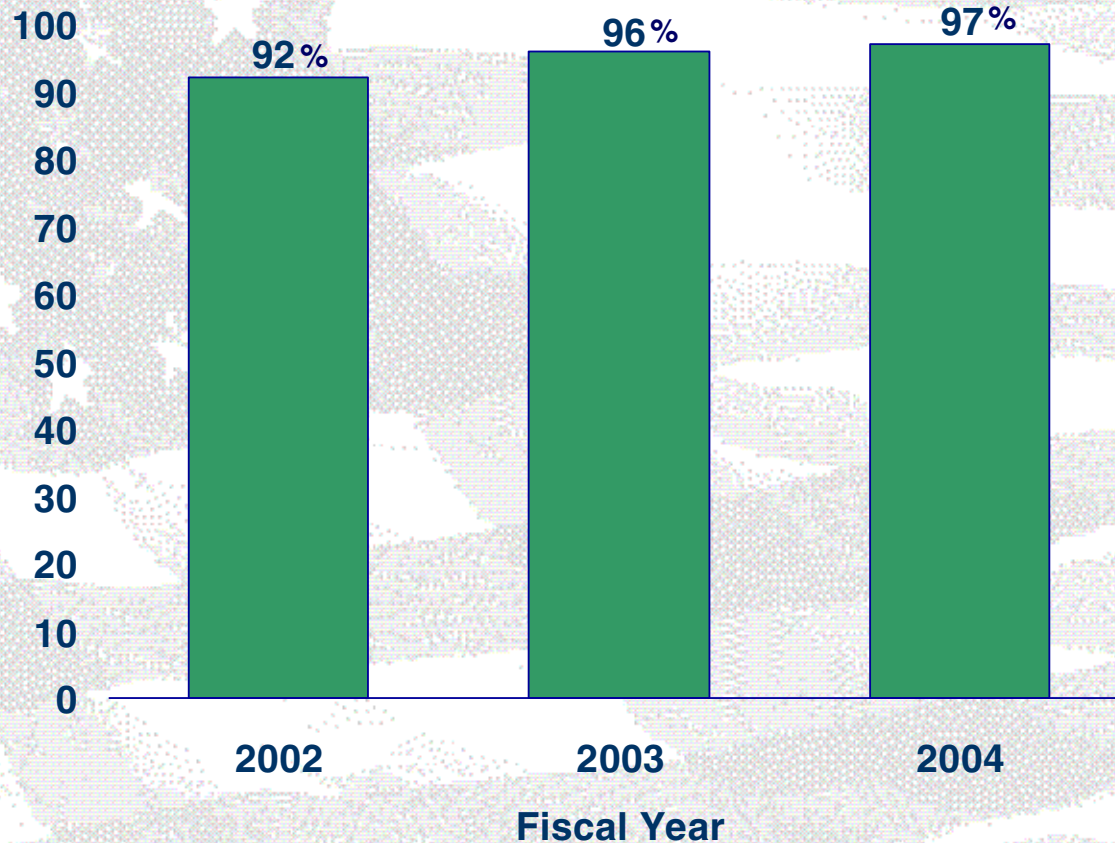
(1998 and 2004)

Performance measure	Actual	
	FY 1998	FY 2004
Financial benefits (billions)	\$19.7	\$44
Other benefits	537	1197
Past recommendations implemented	69%	83%
Return on investment (ROI)	58:1	95:1
Financial benefits per employee (millions)	\$6.1	\$13.7
Timeliness	93%	97%



# Client Feedback FY02-04 (through June 2004)

Percent Favorable



Response rates were 46% in FY02, 31% in FY03, and 34% in FY04 to date



# GAO Benchmarking Results for 2004

- GAO exceeded the government-wide average in 9 of 11 OPM benchmark questions, and it exceeded the private sector benchmark in all 4 questions, as shown below.

<b>Personal Experiences</b>	<b>Benchmarking Results</b>		
	<b>Private Industry 1999-2000</b>	<b>OPM 2002</b>	<b>GAO 2004</b>
I am given a real opportunity to improve my skills in my organization	59%	57%	70%
My job makes good use of my skills and abilities	70%	64%	71%
My work gives me a feeling of personal accomplishment	68%	70%	79%
Considering everything, how satisfied are you with your job?	67%	68%	76%

Source: Federal Human Capital Survey 2003 analysis, excluding GAO column.



# Key GAO Partnerships





# GAO: Leading by Example

*(Change, Performance, and Human Capital Management)*

- 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



# How GAO Has Addressed Its Human Capital Challenges

## Administrative

- HQ realignment & field office restructuring
- Self-assessment checklist
- Human capital profile
- Workforce & succession planning
- Employee feedback survey & suggestion program
- Employee Advisory Council
- Enhanced employee communications & participation
- Skills & knowledge inventory
- Employee preference survey
- Frequent flyer miles
- Student loan repayment
- Recruitment & college relations
- Phased retirement initiative
- Training/development
- Recognition & rewards
- Business casual dress & business cards
- Enabling technologies
- Opportunity/inclusiveness
- Mentor/buddy programs
- Commuting subsidy
- Competency-based employee appraisal system
- Human Capital Officer
- Office of Opportunity & Inclusiveness
- Flexitime and telework
- Total compensation communications
- Classification and compensation review
- Human Capital Strategic Plan



# Legislation Addressing GAO's Human Capital Challenges

## Past

- Broad-banding system for mission staff
- Expedited hiring authority (e.g., internship program)
- Special pay rates
- Senior level for technical staff
- Targeted early out and buyout authority (3 years)
- Revised RIF rules

## Recent

- Targeted early out and buyout authority (permanent)
- Annual pay adjustment rates
- Pay retention provisions
- Relocation benefits
- Increased annual leave for upper level employees
- Executive exchange program
- Re-designation of “General Accounting Office” to “Government Accountability Office”



**GAO will continue to**

**LEAD**

**by example and pursue  
benchmark opportunities with  
entities in both the**

**Public and Private Sectors.**



# GAO's Work to Modernize the Accountability Profession

GAO is actively working to modernize and transform the accountability profession in government and the private sector—and to lead by example in this area.

- independence standards issued in 2002
- assistance to the Congress in evaluating accountability profession issues and needed reforms prior to the Sarbanes-Oxley Act
- monitoring implementation of the Sarbanes-Oxley Act
- 2003 revision of *Government Auditing Standards*
- continually modernizing Yellow Book standards
- enhancing federal financial management, reporting, and accountability
- expanding the definition of success in financial management: clean opinion, no major weaknesses in controls or compliance, and financial systems that produce timely, accurate, and useful information for management
- coordination with accountability organizations around the world (e.g., INTOSAI, IFAC, IAASB)
- promoting modernization of accounting/reporting and attest/assurance practices both domestically and globally
- creation of the U.S. Auditing Standards Coordinating Forum



# The Future Financial Reporting Model

In modernizing financial reporting, we need to

- review and revise the existing accounting and financial reporting model to reflect several dimensions:
  - meaningful financial reporting that is useful, timely, and relevant
  - generic provisions
  - industry information
  - entity-specific information (i.e., value and risk)
- recognize the difference between certain types of financial and other information:
  - historical cost
  - readily marketable assets
  - non-readily marketable assets
  - Projection information (e.g., burden, fiscal, and intergenerational)
  - performance information (e.g., key national indicators)



# The Future Audit Model

In modernizing audit reporting we need to

- determine whether “generally accepted” is the appropriate framework versus “authoritative accounting principles” that could be used when the “generally accepted” framework may not provide a full and fair representation in the view of the auditor
- review and revise the existing audit reporting model to accomplish at least two 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 promulgated by FASB, FASAB, IFAC, and others, applied on a consistent basis
  - 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
- ultimately go global in connection with all major accounting and audit matters
- coordinate U.S. and domestic efforts in the interim



# U.S. Auditing Standards Coordinating Forum

- Composed of PCAOB, GAO, ASB (AICPA)
- Seeks to
  - maximize complementary standards-setting agendas
  - minimize duplicative or competing efforts
  - identify any significant gaps not being addressed by the standards setters
  - assure consistency, where appropriate, in core auditing standards in the U.S.
  - develop strategies for overcoming challenges and avoid unintended barriers to movement between the sectors
  - modernize the accounting profession in the U.S.
  - explore opportunities for international harmonization



# How Do We Move Forward?

- Good governance and accountability are critical
  - in the private sector to promote efficiency and effectiveness in the capital and credit markets, and overall economic growth, both domestically and internationally
  - in the public sector for the effective and credible functioning of a healthy democracy, and in fulfilling the government's responsibility to citizens and taxpayers
  - in both sectors to support a healthy economy that provides economic opportunities and benefits to citizens
- Sorting out the needs and effective and appropriate governance and accountability mechanisms for different sectors and types of organizations and on an international scale will be critical.



# Rebuilding Public Trust

For any system to work, it must address three fundamental issues.

- First, provide incentives for people to do the right thing.
- Second, provide transparency to help assure that people do the right thing.
- Finally, have effective accountability mechanisms if people don't do the right thing.

Restoring public trust will require that every participant in the corporate reporting supply chain embrace and live by the following core concepts\*

1. A spirit of transparency—stop playing games with financial and performance data. Use full disclosure.
2. A culture of accountability—management, staff, boards, auditors, and stakeholders. High quality, unbiased information to support decision-making.
3. People of integrity—commitment to individual integrity.

\*Excerpts from *Building Public Trust: The Future of Corporate Reporting*,



# Key Concepts in the Accountability Profession

- Public trust vs. personal interests
- Recognizing the difference between the floor (e.g., rules, regulations, laws, accounting standards) and the ceiling (e.g., principles, values)
- Doing what is right vs. what is acceptable
- Economic substance vs. legal form
- Being concerned with both fact and appearance (e.g., independence)
- Using judgment vs. completing checklists
- Recognizing that continuing improvement in today's rapidly changing world is essential
- Remember that trust is hard to earn, but easy to lose



# IN TODAY'S WORLD...

- Individuals,
- Organizations
- and Professions

that do not change may find themselves headed for **EXTINCTION.**

# AT THE SAME...

each should have a set of **CORE VALUES** that can stand the...**TEST OF TIME.**

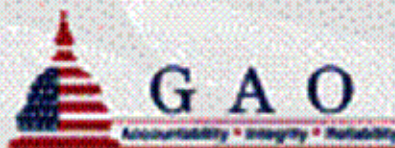


# Three Key Ingredients Needed for These Challenging and Changing Times

- *Leadership*
- *Integrity*
- *Innovation*



# TRANSFORMATION *Challenges*



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

National Legislative  
Program Evaluation  
Society  
Tallahassee, Florida  
October 28, 2004