

GAO & OIG

WORKING TOGETHER ON 21st CENTURY CHALLENGES

The Honorable David M. Walker

Comptroller General of the United States
PCIE/ECIE Conference
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Discussion Topics

- Federal Financial Statement Audits
- Forensic Audits, Special Investigations, and Fraudnet
- GAO's Peer Reviews
- High Risk Areas
- 21st Century Challenges
- Key Accountability Partnerships
- Other

Audit Results for 24 CFO Act Agencies

	2004	2000	1996
Unqualified	18	18	6
Qualified	1	3	4
Disclaimed	5	3	14
Total	24	24	24

Notes: (1) Certain agencies that received unqualified reports in earlier years received other than unqualified opinions in later years. (2) 2004 includes the Department of Homeland Security (DHS), which became a CFO Act agency in FY 2005. FEMA, which became part of DHS, is included in prior years. (3) These results are based on the initial audit reports issued and do not consider subsequently issued restated prior-year financial statements, if any, and related auditors reports. For example, in FY 2004, 11 of the 24 agencies restated their FY 2003 financial statements.

2004 Audit Results for 24 CFO Act Agencies

Unqualified -18 Agencies

Includes:

- Treasury—substantially all federal revenues and debt
- Social Security Administration—benefit payments
- Health and Human Services—Medicare and Medicaid benefit payments

Qualified-Small Business Administration

Disclaimer - 5 Agencies

Includes:

- Defense
- Department of Homeland Security

Note: The Department of Homeland Security became a CFO Act Agency at the beginning of FY 2005.

FY2004 GAO Audit Report— Emphasis of a Matter

“...it seems clear that the nation’s current fiscal path is unsustainable and that tough choices by the President and the Congress will be necessary in order to address the nation’s large and growing fiscal imbalance.”

Selected Federal Government Reporting Challenges

- **Financial Audits**

- appreciate cooperation and commitment
- continued partnerships are critical
- agency restatements
- key remaining audit issues
 - DOD
 - Interagency transactions
 - Government-wide consolidation
- additional coordination will be necessary as we get closer to an opinion on the CFS

- **Selected Financial and Performance Reporting Issues**

- summary annual report
- long-range fiscal challenges (e.g., per capita burden, intergenerational impact)
- “trust funds” and operating results (e.g., restricted vs. unrestricted revenues, intra-governmental obligations)
- performance reporting
- other

Forensic Audit and Special Investigations

- **New GAO Forensic Audit and Special Investigations Unit (FSI)**
 - Designed to provide
 - high quality forensic audits
 - investigations of fraud, waste and abuse
 - evaluations of security vulnerabilities and
 - other investigative services
 - Will bring together staff with a mix of skills from special investigations, forensic auditing, and the Fraudnet hotline
 - Will be proactive in a number of selected areas (e.g., improper payments, security issues, high risk areas)
 - Will be headed by Gregory Kutz and housed in the Financial Management and Assurance Team.

GAO's High-Risk List

2005

High-Risk Areas

Designated High Risk

Addressing Challenges in Broad-based Transformations

Protecting the Federal Government's Information Systems and the Nation's Critical Infrastructures	1997
Strategic Human Capital Management ^a	2001
U.S. Postal Service Transformation Efforts and Long-Term Outlook ^a	2001
Managing Federal Real Property ^a	2003
Implementing and Transforming the Department of Homeland Security	2003
Establishing Appropriate and Effective Information-Sharing Mechanisms to Improve Homeland Security	2005
DOD Approach to Business Transformation ^a	2005
DOD Supply Chain Management (formerly Inventory Management)	1990
DOD Weapon Systems Acquisition	1990
DOD Business Systems Modernization	1995
DOD Financial Management	1995
DOD Support Infrastructure Management	1997
DOD Personnel Security Clearance Program	2005

Managing Federal Contracting More Effectively

DOE Contract Management	1990
NASA Contract Management	1990
DOD Contract Management	1992
Management of Interagency Contracting	2005

Assessing the Efficiency and Effectiveness of Tax Law Administration

Enforcement of Tax Laws ^{a, b}	1990
IRS Business Systems Modernization ^c	1995

Modernizing and Safeguarding Insurance and Benefit Programs

Medicare Program ^a	1990
HUD Single-Family Mortgage Insurance and Rental Housing Assistance Programs	1994
Medicaid Program ^a	2003
Modernizing Federal Disability Programs ^a	2003
Pension Benefit Guaranty Corporation Single-Employer Insurance Program ^a	2003

Other

FAA Air Traffic Control Modernization	1995
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^a Legislation is likely to be necessary, as a supplement to actions by the executive branch, in order to effectively address this high-risk area.

^b Two high-risk areas—Collection of Unpaid Taxes and Earned Income Credit Noncompliance—have been consolidated to make this area.

^c The IRS Financial Management high-risk area has been incorporated into this high-risk area.

Changes to the 2005 High-Risk List

- **High-Risk Designation Removed**
 - Student Financial Aid Programs
 - FAA Financial Management
 - Forest Service Financial Management
- **Consolidated High-Risk Areas**
 - Enforcement of Tax Laws
 - IRS Business Systems Modernization
- **Emerging Area**
 - Comprehensive National Threat and Risk Assessments

New High-Risk Areas

- Establishing Appropriate and Effective Information-Sharing Mechanisms to Improve Homeland Security
- DOD Approach to Business Transformation
- DOD Personnel Security Clearance Program
- Management of Interagency Contracting

GAO/OMB Coordination

- OMB initiatives – working with GAO to develop plan to address high risk problem
 - Specific actions
 - Milestone dates
 - Metrics on progress
- Follow through will be key

International Peer Review Team

- Australia
- Mexico
- Norway
- South Africa
- Canada
- Netherlands
- Sweden

Performance Audit Peer Review

- **Clean Opinion**
- **Global Good Practices**
 - Strategic planning process
 - Audit risk assessment
 - Agency Protocols
 - Use of experts
 - E.A.G.L.E
 - Report design
- **Other Observations**
 - Distinguishing between audit and non-audit services
 - Reporting additional details on sources of critical information and methodological choices
 - Reviewing the quality assurance system for further efficiencies
 - Streamlining the documentation requirements
 - Making the inspection program more efficient
- **Report Has Been Made Public**

Financial Audit Peer Review

- Performed by a large, international accounting firm (KPMG LLP) in accordance with AICPA peer review standards and Government Auditing Standards
- Clean opinion – fourth straight time
- Reviewers cited numerous good practices:
 - Major issues and significant consultations well documented
 - Internal inspection and peer review taken seriously
 - Comprehensive sampling plans used
 - Good use of tracking sheets and routing slips
- Reviewers also suggested clarifying policies and procedures for documenting references to prior year testing and the assessment of management's internal control evaluation process
- Similar to the performance audit peer review, the financial audit peer review has been made public

Peer Review in the 21st Century Should

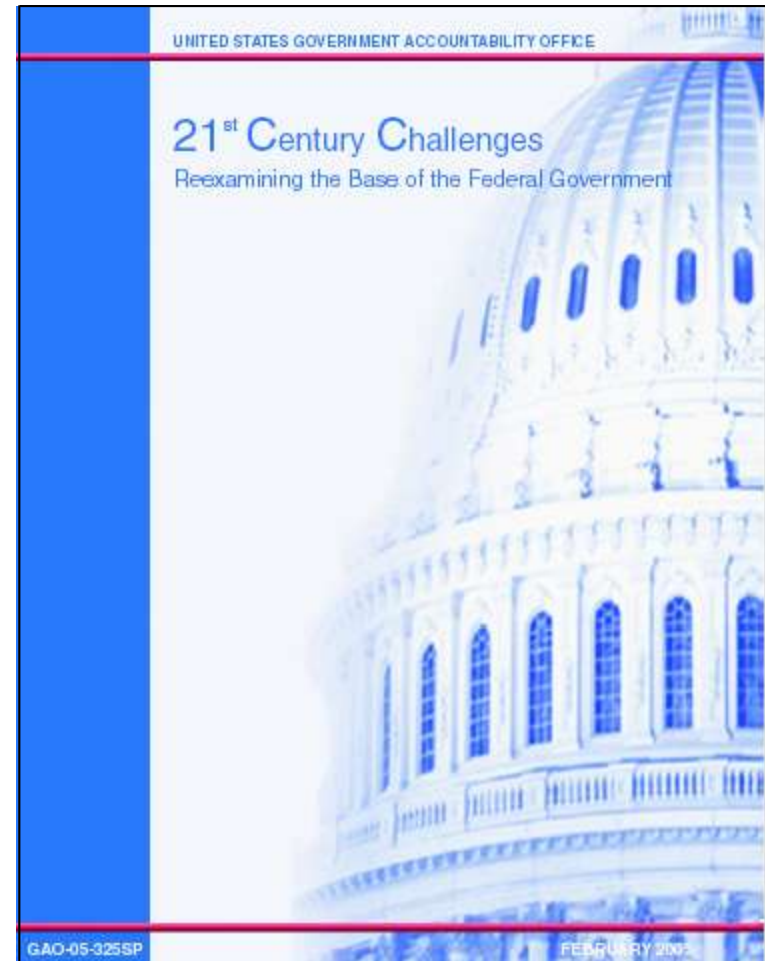
- Serve the public interest
- Evolve to meet changing circumstances (e.g., PCAOB inspections)
- Be principle based, not rule based
- Be based on value and risk considerations
- Be integrated with other quality assurance considerations
- Allow peer reviewer judgment

Things To Consider Going Forward

- Continue collaboration among AICPA, GAO, IIA, PCAOB and others
- Avoid conflicts among peer review standards (unless appropriate)
- Identify meaningful measure of quality
- Strengthen requirements for internal inspection programs
- Improve transparency of peer review results
- Require reviewers to consider organization's culture, reward structure and tone at the top
- Provide that frequency of peer reviews be based on prior results and current risks

21st Century Challenges Report

- Issued February 16, 2005
- Based on GAO's work for the Congress
- Provides background, framework, and questions to assist in reexamining the base
- Covers entitlements & other mandatory spending, discretionary spending, and tax policies and programs



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?

Illustrative 21st Century Questions

- How should the historical allocation of resources across services and programs be changed to reflect the results of a forward-looking comprehensive threat/risk assessment as part of DOD's capabilities-based approach to determining defense needs?
- How can the United States better develop a world-class technical and scientific domestic workforce that is not as dependent on large inflows of international students and researchers? For example, are different educational tools or targeted funding strategies needed to enhance U.S. student achievement in math and science?
- To what extent are federal energy policies and incentive structures adequately preparing the nation to satisfy its energy needs over the long term?
- How can industry standards for acceptable care be established and payment reforms be designed to bring about reductions in unwarranted medical practice variation?
- Which tax incentives need to be reconsidered because they fail to achieve the objectives intended by the Congress, their costs outweigh their benefits, they duplicate other programs, or other more cost-effective means exist for achieving their objectives?

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 Accountability Partnerships

- National Intergovernmental Audit Forum
- Domestic Working Group
- INTOSAI
- Global Working Group

NIAF Strategic Plan



NATIONAL INTERGOVERNMENTAL AUDIT FORUM

Strategic Plan 2005 – 2010

Mission

The National Intergovernmental Audit Forum (National Forum) is an association of audit executives from federal, state, and local governments. It exists to improve coordination, communication, and cooperation among its members, private sector firms, and other accountability organizations in order to address common challenges; enhance government performance, accountability, and transparency; and increase public trust.

Themes

- Governance
- Fiscal constraints
- Human capital
- Homeland security
- Technology
- Interdependence
- Quality of life issues

Strategic Goals

- Foster networking, dialogue, and collaboration on current and emerging issues of common interest within the accountability community
- Enhance the capability, credibility, capacity, effectiveness, and professionalism of audit organizations by advancing audit standards, sharing best practices, and emphasizing the importance of accountability within government and the audit profession
- Improve the Forum's outreach, management, and impact to assist members in transforming government operations

Core Values

Collaboration

Professionalism

Integrity

National Audit Forum Strategic Plan Committees

- Emerging Issues – Kenneth Mead
- Standards Liaison – Jerry Heer
- Communications and Outreach – Beryl Davis
- Knowledge Sharing – David Sundstrom
- Charter Review Work Group – Barry Snyder

Domestic Working Group

- Established by GAO in 2001
- Currently comprised of 6 IGs, 7 state auditors, and 6 local auditors
- Meets annually to:
 - Discuss mutual challenges
 - Share experiences
 - Identify opportunities for collaboration with each other
 - Hurricane Katrina?

Domestic Working Group Current Projects

- Grants Management – Nikki Tinsley
- Access to Records – Glenn Fine
- Governance – Jerry Heer
- Long-Term Fiscal Challenges – Ernest Almonte

Domestic Working Group Planned Projects

- Establishing Effective Information Sharing Mechanisms to Improve Homeland Security—
Glenn Fine
- Tax Gap – Russell George
- Errors in the Scoring of State Assessments –
Jack Higgins

INTOSAI's Strategic Plan



INTOSAI STRATEGIC PLAN FRAMEWORK 2005 - 2010

MISSION

INTOSAI is an autonomous, independent, professional, and nonpolitical organization established to provide mutual support; foster the exchange of ideas, knowledge, and experiences; act as a recognized voice of supreme audit institutions (SAIs) within the international community; and promote continuous improvement among diverse member SAIs.

VISION

Promote good government by enabling SAIs to help their respective governments improve performance, enhance transparency, ensure accountability, maintain credibility, fight corruption, promote public trust, and foster the efficient and effective receipt and use of public resources for the benefit of their peoples.

STRATEGIC GOALS

■ **Goal 1: Accountability and Professional Standards**

Promote strong, independent, and multidisciplinary SAIs by (1) encouraging SAIs to lead by example and (2) contributing to the development and adoption of appropriate and effective professional standards.

■ **Goal 2: Institutional Capacity Building**

Build the capabilities and professional capacities of SAIs through training, technical assistance, and other development activities.

■ **Goal 3: Knowledge Sharing and Knowledge Services**

Encourage SAI cooperation, collaboration, and continuous improvement through knowledge sharing, including providing benchmarks, conducting best practice studies, and performing research on issues of mutual interest and concern.

■ **Goal 4: Model International Organization**

Organize and govern INTOSAI in ways which promote economical, efficient, and effective working practices, timely decision-making, and effective governance practices while maintaining due regard for regional balance and the different models and approaches of member SAIs

CORE VALUES

INDEPENDENCE INTEGRITY PROFESSIONALISM CREDIBILITY
INCLUSIVENESS COOPERATION INNOVATION

Auditors General Global Working Group

- Global Working Group member countries
 - Australia, Canada, Denmark, France, Germany, India, Ireland, Italy, Japan, Mexico, Morocco, Netherlands, New Zealand, Norway, South Africa, Sweden, United Kingdom, United States
- Informal forum to:
 - discuss common issues and challenges
 - identify and share knowledge and best practices
 - learn from each other
 - leverage knowledge and expertise to benefit the broader INTOSAI community

Three Key Ingredients Needed for These Challenging and Changing Times

- ***Courage***
- ***Integrity***
- ***Innovation***

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