

TRANSFORMING GOVERNMENT ★ AND THE ★ ACCOUNTABILITY PROFESSION

BY DONALD E. TIDRICK, CMA, CPA, CIA

DAVID WALKER is the seventh Comptroller General of the United States in the 84-year history of the GAO, now known as the Government Accountability Office. He was sworn in for a 15-year term in November 1998, following his nomination by President Clinton and confirmation by the U.S. Senate.

A CPA, Walker has held a variety of executive positions in both the private and public sectors. His federal government experience includes serving as the acting executive director of the Pension Benefit Guaranty Corporation in 1985 and as Assistant Secretary of Labor for Pension and Welfare Benefit Programs at the Department of Labor between 1987 and 1989. He also served as one of two public trustees for the U.S. Social Security and Medicare trust funds from 1990 to 1995. Prior to being appointed Comptroller General of the U.S., Walker was a partner and global managing director of Arthur Andersen's human capital services practice.

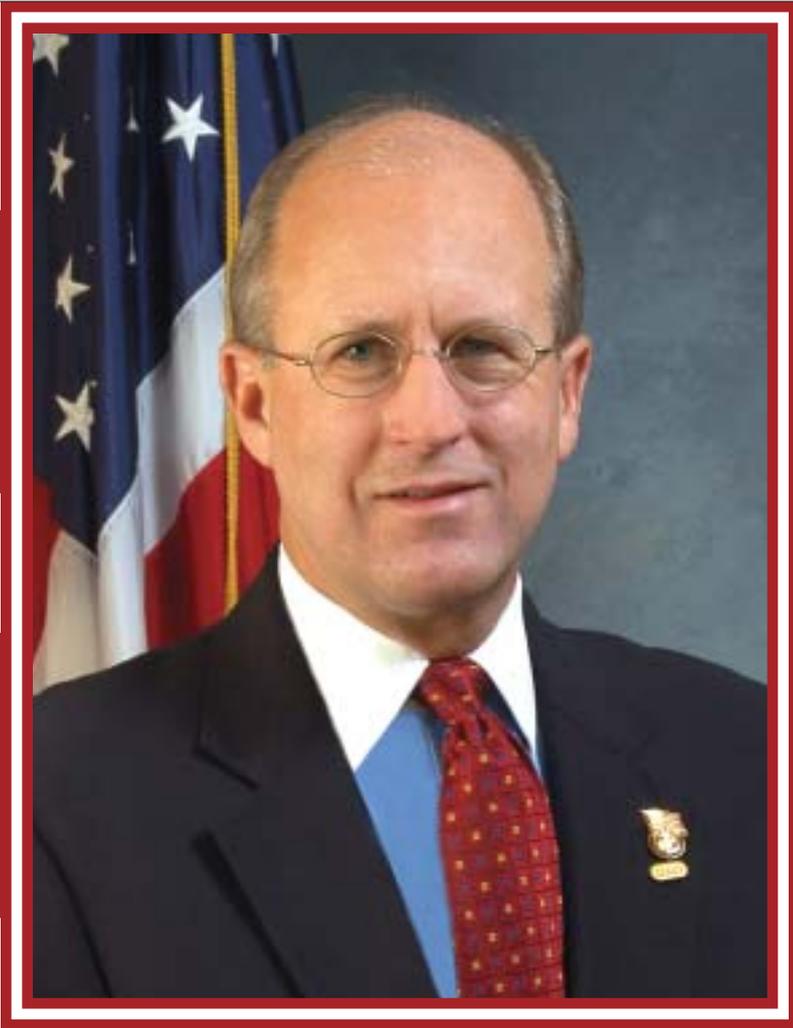
Comptroller General Walker was interviewed in connection with his visit to Northern Illinois University on September 29, 2004, to address accountancy and public administration students and faculty. Additional informa-

tion about the GAO and Comptroller General Walker can be found at www.gao.gov.

Q: Would you give readers a brief historical background about the Government Accountability Office and a description of what GAO consists of today?

A: GAO was established by an act of Congress in 1921, along with the Bureau of Budget, now known as the Office of Management and Budget (OMB) in the executive branch. GAO has evolved rather dramatically since its founding. At one time, GAO was comprised of 15,000 accounting and auditing clerks who approved vouchers before invoices were paid by the federal government. In fact, the term "red tape" actually came from the red tape used by GAO in those days to bind batches of invoices that had been processed for payment. Today we fight red tape, rather than create it!

The modern GAO is really a professional services organization that is a wholly owned subsidiary of the U.S. Congress. We have approximately 3,300 personnel, about 70% of whom work in our Washington, D.C., headquarters. The rest are in 11 field offices: Atlanta, Boston,



David M. Walker, Comptroller General of the United States, discusses the mission of the Government Accountability Office.

help Congress make timely and informed judgments before issues become crises.

This past July, we changed our name from General Accounting Office to Government Accountability Office because our original name wasn't descriptive of what GAO does. After all, we are in the "government accountability" business, not the "general accounting" business. It was, however, very important that we retain our brand name, which is GAO. Interestingly, I have just returned from China, where I learned that "gao" means "high," as in high

standards, which underscores the appropriateness of our brand name!

Q: How did you become the Comptroller General, and what are your responsibilities?

A: I became Comptroller General in November 1998. It is a rather unusual selection process. First, Congress must compile a list of at least three candidates. Those candidates are determined by a 10-member bipartisan, bicameral commission of congressional leaders, five from the Senate and five from the House. In my case, they started with about 60 candidates, who were asked to complete a questionnaire. Roughly two dozen were interviewed, and the list was narrowed to seven and then further reduced to three. The President selects a nominee from that list of recommended candidates, and the Senate has to confirm the President's selection. It is important that both the President and Congress have a role in the selection process. The Comptroller General is an officer of the United States government and an officer of the Congress. Having support from both the executive and legislative branches enhances the effectiveness of the indi-

Chicago, Dallas, Dayton, Denver, Huntsville, Los Angeles, Norfolk, San Francisco, and Seattle. Our job is to help maximize the performance and ensure the accountability of the federal government for the benefit of the American people. About 15%-20% of our people have financial backgrounds, and the balance is comprised of economists, analysts, actuaries, attorneys, scientists, and physicians, among other specializations. GAO is the most diverse organization in terms of skills and knowledge that I have ever seen.

Fundamentally, we do three types of work spanning three general topics: oversight, insight, and foresight. Our oversight work focuses on determining whether expenditures have been made for their intended purposes, as authorized, and in compliance with applicable laws and regulations. Our insight work involves determining whether programs, policies, and other government functions and activities are effective, including, for example, return on investment and cost-benefit issues. Our foresight work deals with identifying emerging trends and challenges facing the United States' interests at home and around the world and providing useful information to

vidual who holds the position of Comptroller General, as well as GAO as an organization.

As Comptroller General, I am the chief executive officer of GAO and the chief accountability officer of the U.S. government. Among other things, I am the signing partner on the financial audit of the federal government's financial statements and a number of other financial audits that we do. Furthermore, I tend to get involved with a significant number of "high-risk" or "high-value" audits, investigations, policy evaluations, program reviews, and legal opinions that span the broad portfolio of GAO activities. I also hold positions on a variety of boards as a result of being Comptroller General. For example, I am a principal of the Joint Financial Management Improvement Program, I am chairman of the Intergovernmental Audit Forum, and I am on the board of the International Organization of Supreme Audit Institutions, which is composed of auditor generals from around the world.

Q: What would you identify as the primary accomplishments since you were appointed in 1998, and what are your goals going forward?

A: When I started this job, I had three main objectives. First, I wanted the GAO to be a model federal agency and a world-class professional services organization. I feel very comfortable that we have achieved that goal, and now we must remain at that level. Second, I wanted to help Congress and other policymakers engage in a fundamental review and reassessment of the proper role of the federal government, including how the federal government should do business (and who should do that business) in the 21st Century. We have made a lot of progress, but there is much that remains to be done, especially in light of our current financial condition and growing fiscal imbalance. My third goal was to help modernize the accountability profession, not just in government, but also in the private and not-for-profit sectors, both domestically and around the globe.

There is a need to modernize the accounting and reporting model and the attest and assurance model. There is also an opportunity for the government to lead by example and, in fact, we have. GAO promulgated new independence standards on nonaudit services even before the Sarbanes-Oxley Act was passed. For a number of years, we have voluntarily expressed opinions on internal control systems of entities we audit, again before Sarbanes-Oxley required that for audits of public companies. I feel good that we have made progress on all

three of these goals, especially the first one, and I look forward to seeing continued progress on the other two goals over the remaining nine years of my term.

Q: Would you comment on the GAO's efforts to develop "key national performance indicators" applicable to governmental entities?

A: We're in the performance and accountability business, yet the GAO's first strategic plan was developed in the year 2000. In my view, an entity without a strategic plan is going nowhere fast. In other words, any road will lead you to where you're going since you don't know where you're going! So we developed our first strategic plan, which focused on serving the needs of Congress, and frankly our plan is the closest thing there is to a strategic plan for Congress and the U.S. government.

Unfortunately, the executive branch does not have a strategic plan. A number of departments and agencies do, but OMB has never prepared a comprehensive and integrated strategic plan for that branch of government. Moreover, we do not have an identified set of key national performance indicators—economic, social, safety, security, environmental, etc.—to try to assess the nation's position and progress over time and relative to other countries. I became aware of this over the past several years and have, in partnership with other organizations and people, endeavored to take steps to address this situation. For example, we have partnered with the National Academy of Sciences, and we held a forum within the last couple of years on this issue, which generated a tremendous amount of interest both domestically and internationally.

A lot of progress has been made within and outside of the U.S. The Organization for Economic Cooperation and Development (OECD) sponsored a global conference in November 2004 in Italy at which I gave a keynote speech and several GAO personnel participated. This is very important! If a set of outcome-based measures can be determined, that set can be used in connection with all the strategic planning efforts of all the different departments and agencies within the U.S. government and the governments of the various OECD nations. Those measures can also be used to communicate a better and more balanced scorecard on the performance of government. Right now, we have a situation where whoever is in power talks about what is going well, and whoever is out of power talks about what is not going well. What we need is a balanced scorecard of outcome-based results, whereby an educated public can make up their own minds about how things in

government and the country are going. I am cautiously optimistic that by continuing to work with others, both in the U.S. and around the world, we will have a set of key national indicators before the end of my term.

Q: How have the war on terrorism and the nation's focus on homeland security issues impacted the workload and priorities of GAO?

A: We have been affected, of course, but we were really ahead of the curve on homeland security issues. Our strategic plan in early 2000 identified a set of themes representing a range of current and emerging trends and challenges that the country faced, both domestically and internationally. One of those themes was the changing nature of security threats in a post-Cold War environment. Because of that, we had already issued more than 100 reports and testimonies related to the broad topic of homeland security before September 11, 2001. In fact, we had recommended to the President the creation of a separate coordinating office related to homeland security, among other things, prior to September 11. Subsequently, we have done a huge amount of work at the request of Congress. Most recently, we provided support to the 9/11 Commission, and we have commented on which of the 9/11 Commission's recommendations require legislation, which ones can be implemented by executive order, and our thoughts on challenges facing the intelligence community. Frankly, I find that the intelligence community, like many other entities, tends to view its business as more unique than it really is. Part of their business is covert, but much of it is not—in fact, GAO's biggest competitor for talent today is the CIA because they hire analysts just like we do. The challenges facing the intelligence community are similar to those facing other departments and agencies: lack of effective strategic planning, organizational alignment, human capital strategy, information technology, knowledge sharing, and change-management practices. These are areas where GAO already has tremendous expertise that can benefit the intelligence community, Congress, and the country.

Q: What concerns do you have about the nation's financial circumstances?

A: Our financial condition is worse than advertised. We face a large and growing structural deficit due in large part to known demographic trends and rising healthcare costs. It has gotten a lot worse just in the past year. Our current unfunded commitments have increased by more than \$10 trillion in the last year alone and most of that is

attributable to Medicare. The addition of a new prescription drug benefit to the Medicare program has itself added \$8.1 trillion to our existing unfunded commitments. These are serious numbers! Based on total outstanding debt and unfunded commitments on an accrual basis, the burden is now approximately \$140,000 for every man, woman, and child in the United States. Put another way, that's about \$330,000 for every full-time worker in the U.S. And it is getting bigger daily for several reasons: (1) We are still operating in a period of significant deficits; (2) increasing commitments are being added to existing entitlement programs; and (3) commitments of major entitlement programs, such as Social Security and Medicare, are based on the estimated present value of the unfunded liability for the next 75 years, but every year a relatively good year drops off and a progressively bad year is added to that 75-year horizon due to demographic changes. As a result, even if we were balancing the budget and not making any new commitments, the situation would still be getting worse. Unfortunately, we have all three of these factors currently working against us. This is a serious problem for our country, for our children, and our grandchildren, and it cries out for action.

Q: Are you seeing a response to these concerns at the congressional level?

A: There is an increasing awareness as to the nature and magnitude of this imbalance. People have known for some time that we have a "long-range" problem, but it has not been conveyed in the past in ways that were easily understood. By using discounted present-value concepts, by illustrating the magnitude of the challenge in understandable ways (such as those just mentioned), federal government officials are increasingly recognizing the significance of the problem. First, we have to stop the bleeding and then figure out how to best deal with this imbalance. Ultimately, it will take the combined efforts of many parties over many years—perhaps even a generation—to make the necessary changes.

Q: Addressing entitlement reforms, such as Social Security and Medicare, seems inherently politically charged. Is GAO protected from partisan political forces when dealing with sensitive issues?

A: We are in the "fact" business, and the facts are non-partisan. Everyone should be entitled to their own opinion but not their own facts. When we are dealing with "policy-oriented" issues, we try to get the facts and provide profes-

AS FAR AS CONGRESS IS CONCERNED, THE ACCOUNTING PROFESSION IS STILL “ON PROBATION.”

sional, nonpartisan, nonideological analysis as a framework for decision making. We may develop policy options, and, if we do, we typically discuss pros and cons of the various options, but we do not make specific recommendations as to what policy should be adopted. In contrast, when we are dealing with government “operations” involving efficiency and effectiveness, we are aggressive about making specific recommendations. In fact, we measure success by the extent to which our recommendations are adopted, whether money is saved or freed up for other higher priorities, whether safety and security are improved, whether privacy is enhanced, and so forth.

In order to help us stay the course and navigate the troubled Washington waters, I believe it is important to have a small set of core values to guide our institutional and individual actions. GAO has three essential core values: *accountability, integrity, and reliability*. Accountability describes what we do—we do audits, investigations, policy analysis, program evaluations, legal research, and so forth. Integrity is how we do our work—professional, objective, fact-based, nonpartisan, nonideological, fair, and balanced. Reliability is how we want our work to be received—timely, accurate, useful, clear, and candid. These core values are an integral part of avoiding or mitigating political pressures.

Q: Would you describe the protocols that determine whether GAO is obligated to take on a requested project at the behest of U.S. representatives or senators.

A: About 25% of the work that we do in a given year is based on statutory action by Congress, including legislation and committee reports that require action by GAO. We also have a responsibility to serve congressional committees as it relates to matters within their jurisdiction and within our competence. We receive a significant number of requests each year from these committees and from individual members of Congress, who may or may not be members of relevant committees of jurisdiction. Our highest priority is the statutory mandate; our second priority is a request from committee leadership, including chairs, ranking members, or senior leadership of the House or the Senate; and our third priority is individual members. We also reserve about 10% of our resources, which may vary somewhat from year to year, for what we call “research and development” for GAO-initiated projects. Understandably,

Congress is focused more on short-term issues, and committees are primarily focused on issues within their jurisdiction. So we need to be able to allocate some of our resources to look across the various silos and over a longer time horizon to address issues more comprehensively and more strategically before they become crises.

We do not need to allocate much more than 10% of our resources for such purposes since we will receive many additional requests for follow-up work from committees of jurisdiction if our R&D is worthwhile. There are some things that GAO always wants to have ownership of, such as our “high-risk” list. In addition, we want to retain ownership of our forthcoming report on “Twenty-First Century Challenges,” which looks at the base of government, and we do not want anyone else to own the work that we do regarding the long-range fiscal imbalance. GAO ownership of such projects maximizes the likelihood that the message will be heard without partisan bias.

Our primary client is the institution of the Congress, but our beneficial client is the American people. We calculate how much in financial benefits GAO achieves in a given year relative to GAO’s budget for that year. For the fiscal year ended September 30, 2004, we generated \$44 billion in financial benefits for American citizens, which was a return on investment of 95-to-1 relative to our annual appropriations.

Q: Would you comment on any recently completed or ongoing GAO investigations of the accounting profession in light of the well-documented financial reporting scandals over the past several years that resulted in the Sarbanes-Oxley Act. How is the accounting profession currently viewed on Capitol Hill?

A: GAO has done a significant amount of work in connection with the passage and implementation of Sarbanes-Oxley, and I expect that will continue. Our focus includes audits of governmental and not-for-profit entities in addition to issues involving public companies. There were a number of prominent accountability failures in recent years, primarily in the private sector and in the U.S., but not exclusively. The auditors bear some responsibility for those failures, but there are a variety of other responsible parties as well. GAO has continued to speak out, both domestically and internationally, about changes that are necessary to enhance confidence in the

profession, the business community, and the capital markets. There is a real lesson in Arthur Andersen, which was a 90-year-old firm that was viewed as the global gold standard, even by its competitors. They went from global gold standard to gone in less than two years. Trust is the foundation of our profession. It is easy to lose and very hard to regain. We need to be vigilant and do what we can to modernize the accounting and reporting model and the attest and assurance model in order to enhance the trust and confidence in our profession. The profession is making progress, but there is more that remains to be done. As far as Congress is concerned, the accounting profession is still “on probation.”

Q: Congress enacted the Chief Financial Officers Act in 1990 and the Federal Financial Management Act of 1994, which mandated that federal agencies have audited financial statements. Yet the most recent consolidated financial statements of the U.S. government continue to be called “unauditable.” How would you describe the progress to date and the work that remains?

A: The primary obstacle to issuance of an opinion on the consolidated financial statements of the U.S. government continues to be the Department of Defense. The DoD annually receives over \$400 billion of taxpayers’ money. Our military is clearly an “A” in terms of effectiveness (fighting and winning conflicts). No other nation is even close, but the DoD is just as clearly a “D” at best in terms of economy, efficiency, transparency, and accountability. Frankly, until recently, financial management has not been a priority at DoD, and there has not been a meaningful consequence for that mentality. That is beginning to change, however. With large and growing budget deficits, our country cannot afford to waste resources, much less billions of dollars each year.

Secretary of Defense Rumsfeld and his leadership team have spent a lot of time and effort to address this issue, and Congress is increasingly demanding action. Although progress is being made, I believe it will take several more years before DoD will be auditable, which may then permit issuance of a qualified opinion on the government’s consolidated financial statements. I hope to see an unqualified opinion before I complete my term, but I can assure Americans that the federal government will not receive an unqualified opinion until it earns one.

Q: Has it been difficult for GAO to hire the talented professionals having a public service mind-set that it needs in a rather tight market for skilled professionals?

A: As a professional services organization, we are a knowledge-based organization, and we are only as good as our people. We have aggressive recruiting, development, and retention programs. We try to hire the best and brightest and keep them at GAO. I am pleased to say that there are a lot more people who want to work at GAO than we have available positions. We have very low turnover, which reflects our commitment to making GAO a world-class professional services organization. We try to empower our employees and get their feedback as to how we can make a great organization even better. For the last four consecutive years, our annual employee feedback survey results have gone up every year. We are now ranked #1 in the federal government, and we are ranked higher than comparable private-sector surveys for employee satisfaction.

GAO represents a window to the future for human capital strategies for the federal government. We are clearly a leader in transforming all of our human capital policies, which includes our compensation and classification systems, and the rest of government and many in the private sector are watching very closely. As long as we remain focused on delivering a great return on investment for the American people, as long as we work closely with our client, and as long as we value our employees, I believe GAO will be recognized as an outstanding career opportunity by the talented people we seek.

Q: In closing, do you have any advice for IMA members in light of the recent scandals and changes in the regulatory environment that have impacted accounting and business professionals?

A: We are living in a time of transition, transformation, and rapid change in which geo-political boundaries are increasingly becoming less significant. The recent accountability failures in the private sector should be taken as a wake-up call by all of us. We must work together to learn the lessons of those failures and make the necessary changes, whether in corporate governance, accounting and reporting, or in attest and assurance practices. One thing is certain: We are going global—and the sooner, the better. ■

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David Walker is a speaker at IMA’s Annual Conference June 18-22. For details, visit www.imanet.org/boston.