

USC Global Leadership Summit

**Financial Accountability and the Need for
Government Transformation**

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Hon. David M. Walker
Former U.S. Comptroller General
Senior Strategic Advisor
PwC Public Sector

Keys to Transformation Success

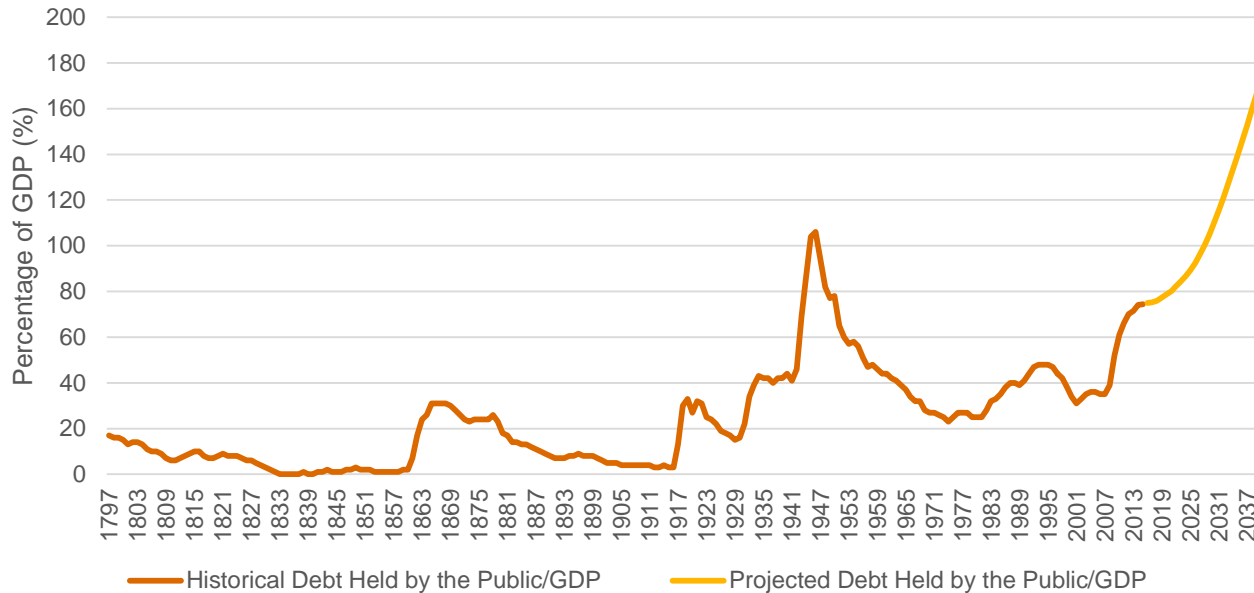
Truth + Transparency + Leadership = Transformation

Common Denominators Between Challenges at Different Levels of Government

- Changing security threats
- Outdated tax systems
- Excessive regulatory burdens
- Unfunded retirement obligations
- Escalating health care costs
- Expensive yet ineffective welfare systems
- Deteriorating critical infrastructure

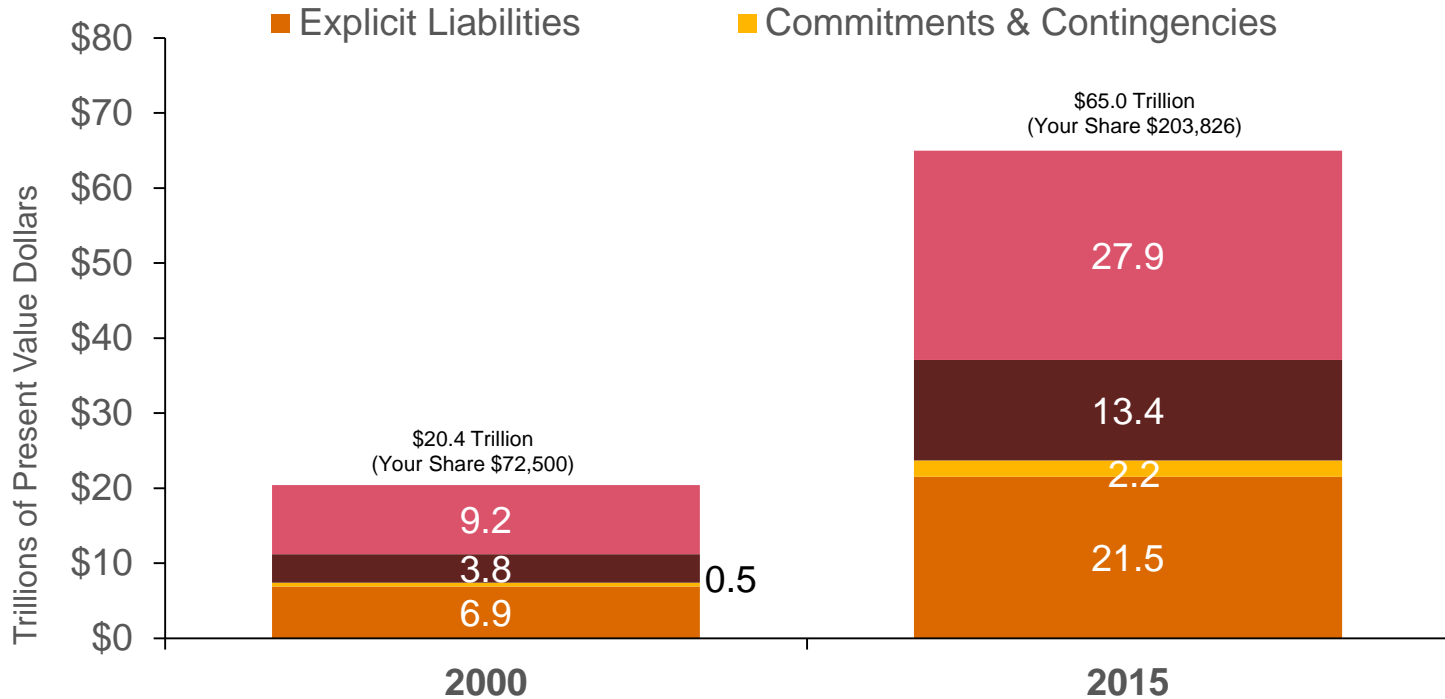
Federal Debt Held by the Public as a Share of GDP

Federal Debt Held by the Public as a Share of GDP (1797-2040)



Source: Government Accountability Office, 2015.

Federal Financial Burden



Source: Data from the Department of Treasury, 2014 Financial Report of the United States Government.

Relative Taxpayer Surplus/Burden by State

1. Alaska (5)	77.3%	18. Nevada (3)	5.4%	35. Vermont (5)	23.6%
2. North Dakota (1)	46.8%	18. Colorado (1)	5.4%	36. Mississippi (5)	25.9%
3. Wyoming (2)	40.6%	20. Missouri (3)	6.0%	37. Pennsylvania (4)	28.3%
4. South Dakota (2)	7.5%	21. New Hampshire (3)	6.4%	38. Delaware (3)	30.2%
5. Utah (1)	6.6%	22. Arizona (3)	6.7%	39. Alabama (4)	31.7%
6. Nebraska (1)	4.9%	23. Wisconsin (2)	7.1%	40. West Virginia (3)	32.9%
7. Idaho (2)	4.5%	23. Ohio (2)	7.1%	41. California (4)	34.6%
8. Oregon (3)	3.6%	25. Georgia (1)	9.1%	42. Michigan (4)	34.8%
9. Tennessee (2)	3.0%	26. Kansas (3)	12.5%	43. Louisiana (4)	35.8%
10. Montana (3)	1.8%	27. Washington (2)	14.4%	44. Hawaii (5)	37.2%
11. Iowa (1)	1.6%	28. Texas (1)	15.4%	45. New York (5)	38.1%
12. Indiana (1)	1.5%	29. Maine (5)	17.0%	46. Massachusetts (3)	43.4%
13. Virginia (1)	2.3%	30. Maryland (4)	17.3%	47. Connecticut (5)	69.3%
14. Florida (2)	2.1%	31. North Carolina	18.0%	48. Kentucky (4)	76.2%
15. Arkansas (4)	3.3%	32. South Carolina (3)	21.6%	49. New Jersey (5)	80.2%
15. Minnesota (2)	3.3%	32. New Mexico (4)	21.8%	50. Illinois (4)	81.9%
17. Oklahoma (2)	4.7%	34. Rhode Island (5)	23.0%		

Source: 2015, PwC State Financial Position Index (SFPI) and Competitiveness Posture Report (% of Median Household Income for the Applicable State)

Numbers in red denote burden per taxpayer, Numbers in black denote a surplus per taxpayer
Relative Competitive Posture By Quintile – (1), (2), (3), (4) and (5)

Sovereign Fiscal Responsibility Index

Country	Fiscal Space (% of GDP, 2010)	Fiscal Path (# of years)	Fiscal Governance (pts out of 100)	Overall Rank
Australia	168.2	40+	65.9	1
New Zealand	163.6	38	68.5	2
Estonia	138.1	40+	61.7	3
Sweden	153.7	40+	59	4
China	184.9	40+	49.4	5
Luxembourg	178	22	61.8	6
Chile	193.3	40+	45.9	7
Denmark	153.1	34	54.7	8
United Kingdom	90.8	27	66.4	9
Brazil	102.3	39	56.9	10
Canada	106	39	51.5	11
India	97.3	40+	56.3	12
Poland	94.9	31	58	13
Netherlands	92.7	12	72.3	14
Norway	171.6	22	47.9	15
Slovak Republic	107.7	33	50.9	16
Korea	124.9	40+	27.5	17
Mexico	112.1	30	50.7	18
Israel	113	40+	40.5	19

Source: www.deficitranger.com

Sovereign Fiscal Responsibility Index (cont.)

Country	Fiscal Space (% of GDP, 2010)	Fiscal Path (# of years)	Fiscal Governance (pts out of 100)	Overall Rank
Slovenia	105.2	21.0	54.3	20
Austria	76.4	12.0	67.8	21
Finland	99.2	13.0	57.9	22
France	58.7	15.0	62.8	23
Spain	81.5	12.0	60.7	24
Germany	75.7	18.0	57.4	25
Belgium	42.3	8.0	61.2	26
Italy	17.8	7.0	59.2	27
United States	62.4	16.0	46.0	28
Hungary	53.2	12.0	46.1	29
Ireland	38.1	6.0	48.4	30
Japan*	49.0	5.0	47.2	31
Iceland**	17.1	20.0	20.2	32
Portugal	27.8	5.0	45.1	33
Greece	0.0	0.0	45.0	34

Source: www.deficitranger.com

Major Reasons for Transformation

- Changes in the size and role of the federal government
- Loss of control over federal spending
- Current and projected debt burdens
- Lower global market share and domestic GDP growth
- Known demographic trends and rising health care costs
- Increased demand and dissatisfaction within the public
- Growing gaps between the haves and the have nots
- Changing security threats
- Greater global and local challenges
- Rapid technological changes
- Adverse selection against the federal government
- Outdated tax and welfare systems
- Deteriorating critical infrastructure
- State and local fiscal challenges

Transformation is tougher in government

- Limited to no competition
- Dysfunctional Board and multiple bosses
- Less continuity in key positions
- Greater transparency
- Less flexibility
- Risk averse culture
- Fewer incentives and accountability mechanisms

GAO Key Performance Statistics

Item	Fiscal 1998	Fiscal 2008	Fiscal 2014
Financial Benefits ⁺⁺	\$19.7B	\$58.1B*	\$54.4B
ROI ⁺⁺	53	110*	103
Non-Financial Benefits ⁺⁺	537	1,398	1,288
Products with Recommendations ⁺⁺⁺	33%	66%	64%
Recommendations Implemented ⁺⁺	69%	83%	78%
Testimonies ⁺⁺	256	304*	129
FTE's	3500 est.	3081	2891
Number of Offices	18	12	12
Best Places to Work ⁺⁺	N/A	#2*	#2*
Client Satisfaction ⁺⁺	93%	95%	95%
Net Cost of Operations	\$375M	\$530M	\$527M

*All time record

**All time record achieved while DMW's term in office

***All time record of 68% was in 2009 and consisted of many reports started during DMW's term in office

Proposed Financial/Other Reporting and Auditing Reforms

- Focus on Financial Assets
- Revise Balance Sheet to Recognize Additional Liabilities and Unfunded Obligations
- New Statement of Fiscal Responsibility and Intergenerational Equity
- New Statement of Key Performance Indicators
- Additional Financial Statement Disclosures (e.g., Military Assets, Tax Preferences, Budget Categories, Other Reader Friendly Metrics)
- Need to Expressly Address “Expectation Gaps”, Report on Systems of Internal Controls, and Expand Use of “Emphasis Paragraphs” in Auditor Reports

Selected Elements of a Fundamental Government Transformation

- Size and Role of Government (Privatization; Public/Private Partnerships)
- Size and Nature of the Political and Career Workforce
- Public Compensation and Benefit Programs
- Tax and Revenue Generation Systems
- Regulatory Systems
- Education, Training, Infrastructure and Other Investments
- Welfare and Social Safety Net Programs
- Communication, Communication, Communication

Conclusion

- Governments at all levels are in need of transformation and financial restructuring assistance.
- SAI's plan important roles and should lead by example.
- We need financial reporting and auditing reforms to help facilitate and expedite needed changes.
- Government transformation leaders will need independent, comprehensive, integrated and results oriented advice AND implementation assistance.
- Effective targeting, communication and execution strategies are key.
- PwC can help.