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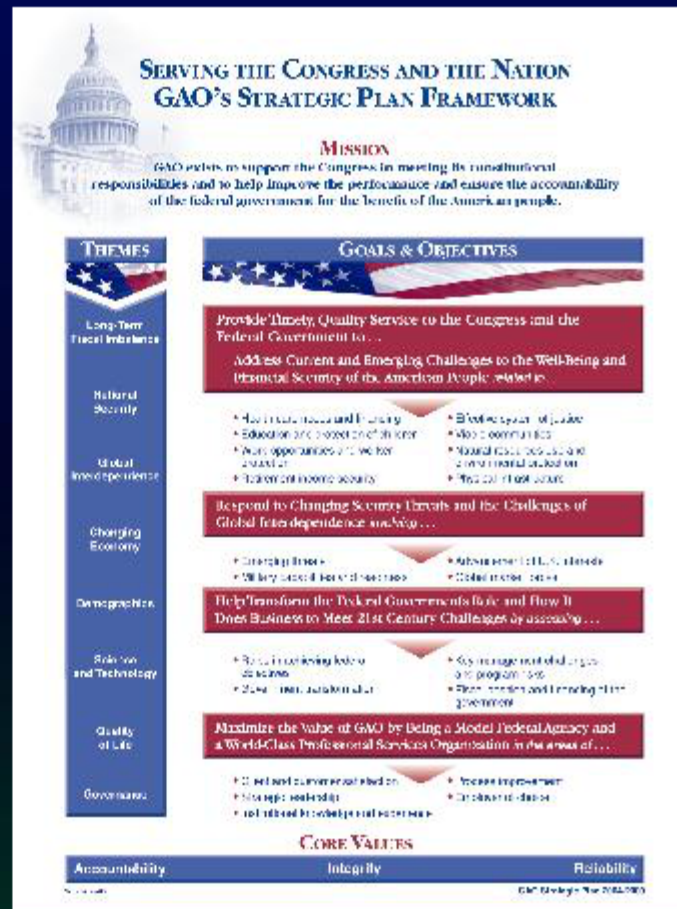
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# GAO's Strategic Plan



March 2004



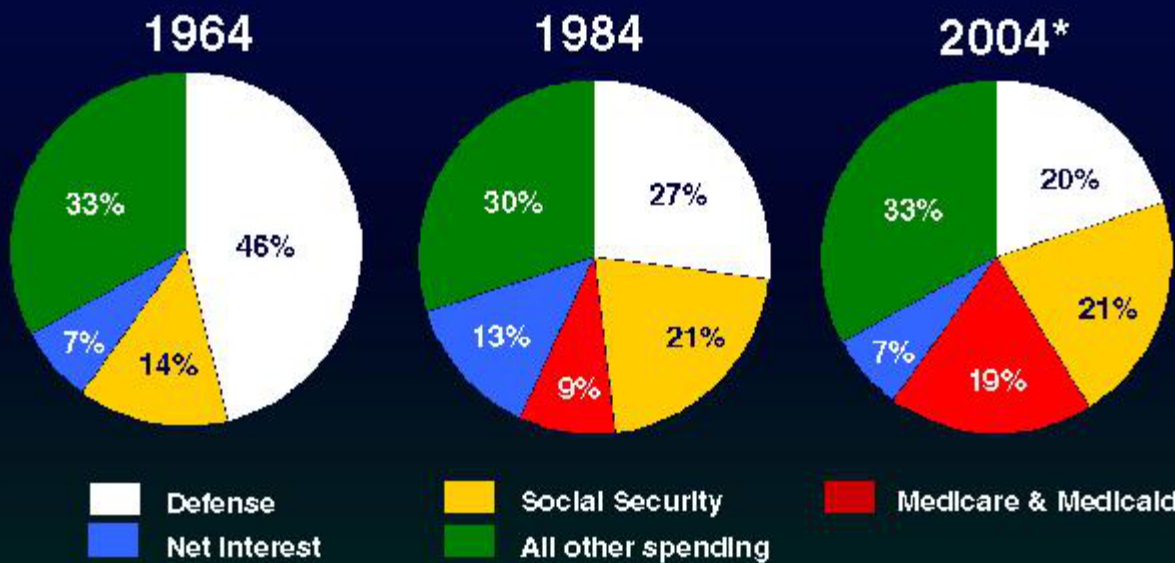
# GAO's High Risk List

High Risk Areas	Designated High Risk
<b>Addressing Challenges in Broad-based Transformations</b>	
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
<b>Ensuring Major Technology Investments Improve Services</b>	
FAA Air Traffic Control Modernization	1995
IRS Business Systems Modernization	1995
DOD Systems Modernization	1995
<b>Providing Basic Financial Accountability</b>	
DOD Financial Management	1995
IRS Financial Management	1995
Forest Service Financial Management	1999
FAA Financial Management	1999
<b>Reducing Inordinate Program Risks</b>	
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
<b>Managing Large Procurement Operations More Efficiently</b>	
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.



# Composition of Federal Spending

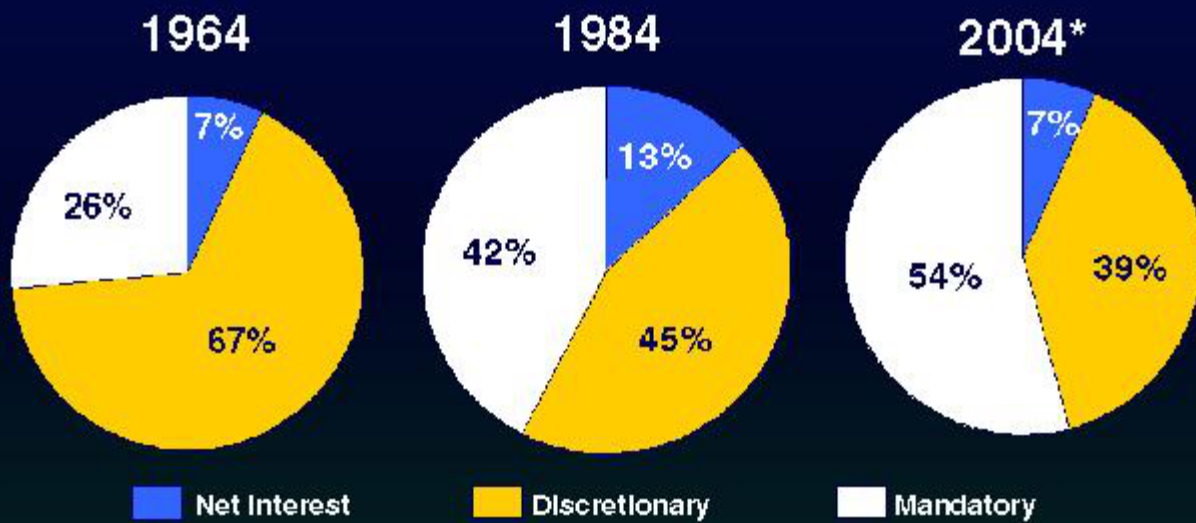


\* Current services estimate.

Source: *Budget of the United States Government, FY 2005*, Office of Management and Budget.



# Federal Spending for Mandatory and Discretionary Programs



\* Current services estimate.

Source: *Budget of the United States Government, FY 2005*, Office of Management and Budget.





## 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)
Explicit financial contingencies	Unadjudicated claims (\$9) Pension Benefit Guaranty Corporation (\$86) Other national insurance programs (\$7) Government corporations e.g., Ginnie Mae
Implicit 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 \$74 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, \$266 billion for Medicare Part A, and \$24 billion for Medicare Part B) and represent the present value estimates over a 75-year period. Over an infinite horizon, the estimate for Social Security would be \$10.4 trillion, \$21.3 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 3/2004.



## Another Way to Think About These Numbers

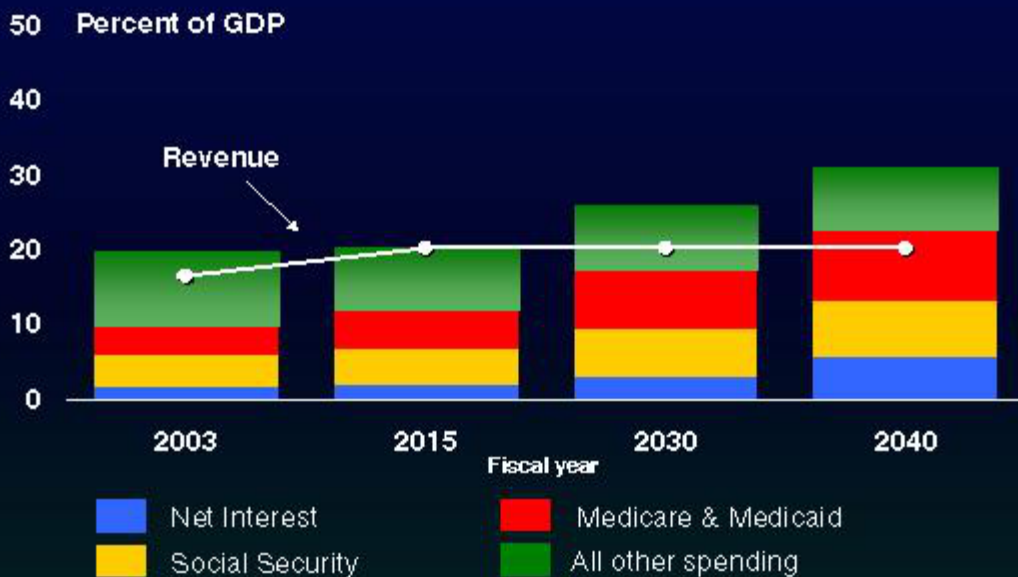
### As of the End of FY 03

- 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.

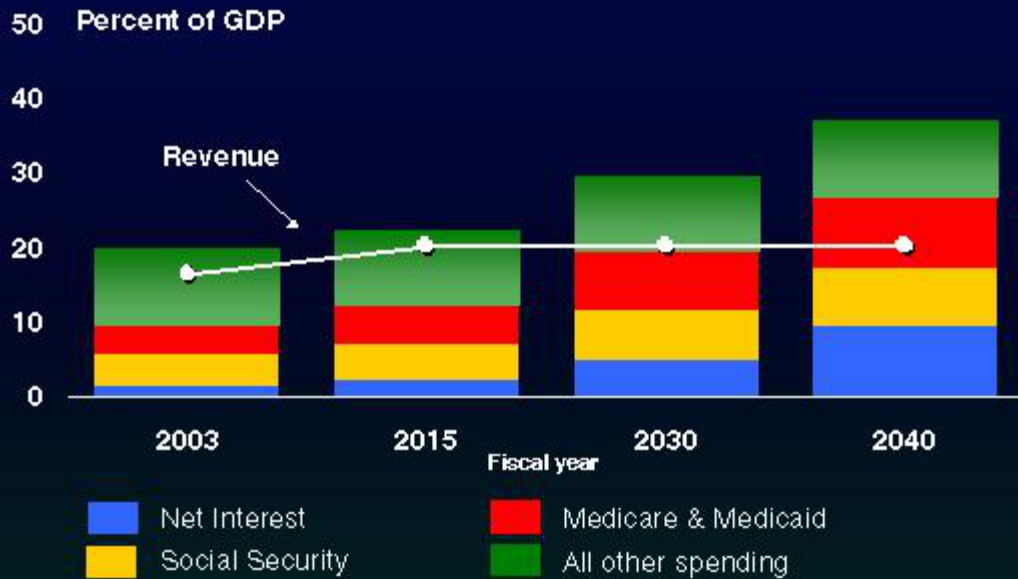
Source: GAO's March 2004 analysis.





# Composition of Spending as a Share of GDP

## Assuming Discretionary Spending Grows with GDP After 2004 and All Tax Cut Provisions Expire



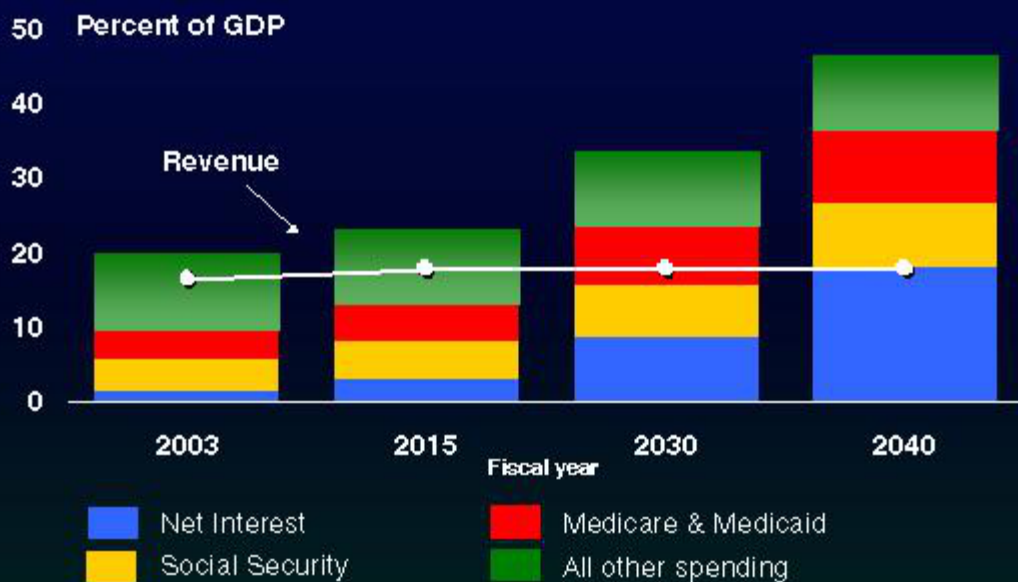
Source: GAO's March 2004 analysis.

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.



# 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 March 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 on 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.



## We Need a 3-Pronged Approach to Close the Long-term Fiscal Gap

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





## 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 this policy, program, function or activity?





## 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, 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 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 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%?



# **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





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





# What Is DOD Transformation?

Creating the future of warfare while improving how the department, including all of its various component parts, does business in order to support and sustain our position as the world's preeminent military power within current and expected resource limits.



# 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.



# Selected Cultural Challenges At DOD

- Past vs. future (e.g., threats)
- Today vs. tomorrow (e.g., budgets)
- Too many silos and layers
- Get the money and spend the money (e.g., use it or lose it)
- Plug-and-pray approach to weapons acquisitions
- Me vs. we (e.g., services)
- Approve vs. inform (e.g., deployments)



## The Way Forward

# Selected Potential DOD Related Actions

- ♦ Revise the current approach to developing national military strategy (e.g., order, integration)
- ♦ Take a longer range approach to program planning and budget integration (e.g., life cycles, opportunity costs)
- ♦ Employ a total force management approach to planning and execution (e.g., military, civilian, contractors)
- ♦ Revise the process for developing and communicating key changes (e.g., DOD transformation, NSPS legislative proposal)
- ♦ Reduce the number of layers, silos and footprints
- ♦ Strengthen emphasis on horizontal and external activities (e.g., partnerships)
- ♦ Differentiate between war fighting and business systems development, implementation and maintenance (e.g., resource control, project approval)
- ♦ Make it okay to pull the plug or reduce quantities of weapon systems when the facts and circumstances warrant it



## The Way Forward Selected Potential DOD Related Actions (cont.)

- ♦ Recognize the difference between approving and informing
- ♦ Create a Chief Management Officer to drive the business transformation process
- ♦ Get the design and implementation of the NSPS right, including modernizing and integrating the DOD, Service, domain, unit and individual performance measurement and reward systems
- ♦ Employ a more targeted and market based approach to compensation and other key human capital strategies
- ♦ Streamline yet strengthen current commercial contracts (e.g., incentives, transparency and accountability mechanisms)
- ♦ Provide for longer tours of duty in connection with key acquisitions and operations positions (e.g., responsibility and accountability)
- ♦ Focus on achieving real success in connection with financial management efforts (e.g., systems, controls, information, compliance and opinions)





# Key Transformation Elements

- People
- Process
- Partnerships
- Technology
- Environment

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





# Selected Success Measures

- Results
- Clients/customers
- People
- Partnerships



## Three Key Ingredients Needed for These Challenging and Changing Times

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



# 2004 FISCAL YEAR TRANSITIONS and TRANSFORMATIONS in the Federal Government

## Army Materiel Command's Executive Seminar



**The Honorable David M. Walker**  
Comptroller General of the United States  
Atlanta, Georgia  
April 20, 2004