

TRANSFORMATION *Challenges*



**The Honorable
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Comptroller General of
the United States

Defense Intelligence
Agency Board of
Directors
Arlington, VA

December 9, 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**

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

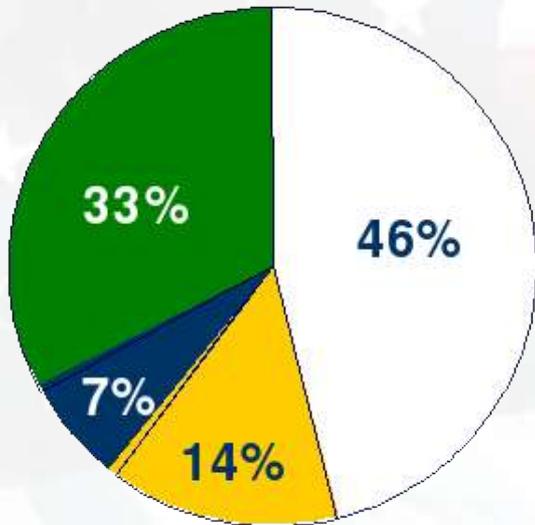
*Additional authorizing legislation is likely to be required as one element of addressing this high risk area.

The Case for Change

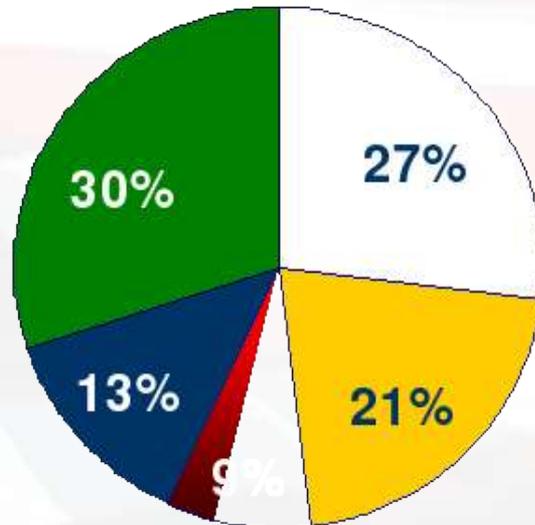
- **Government is on a “burning platform,” and the status quo way of doing business is unacceptable for a variety of reasons, including:**
 - Past fiscal trends and significant long-range challenges
 - Rising public expectations for demonstrable results and enhanced responsiveness
 - Selected trends 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

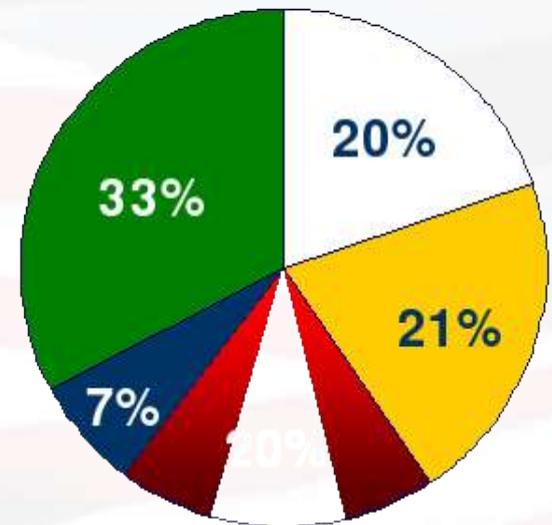
1964



1984



2004*



Defense
Net interest

Social Security
All other spending

Medicare & Medicaid

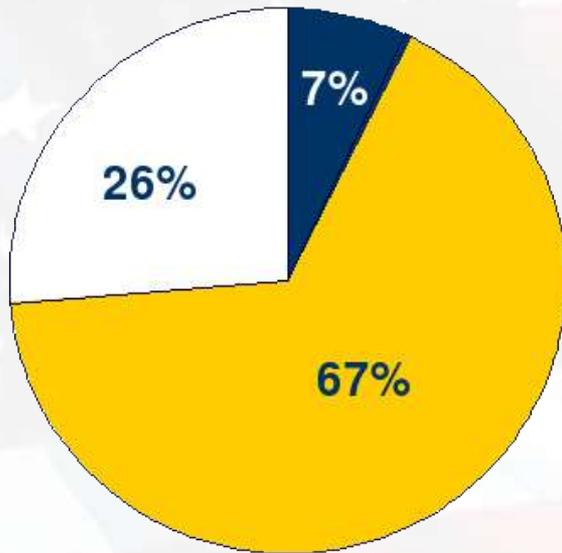
*Current services estimate.

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

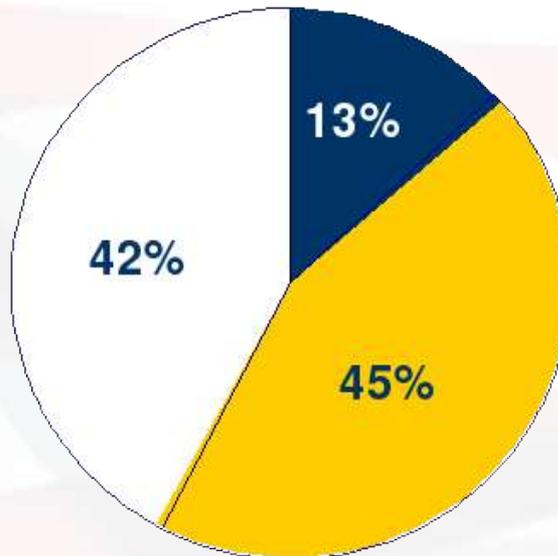
Source: *Budget of the United States Government, Fiscal Year 2005* (February 2004) and *Budget of the United States Government, Fiscal Year 2005, Mid-session Review* (July 2004), Office of Management and Budget.

Federal Spending for Mandatory and Discretionary Programs

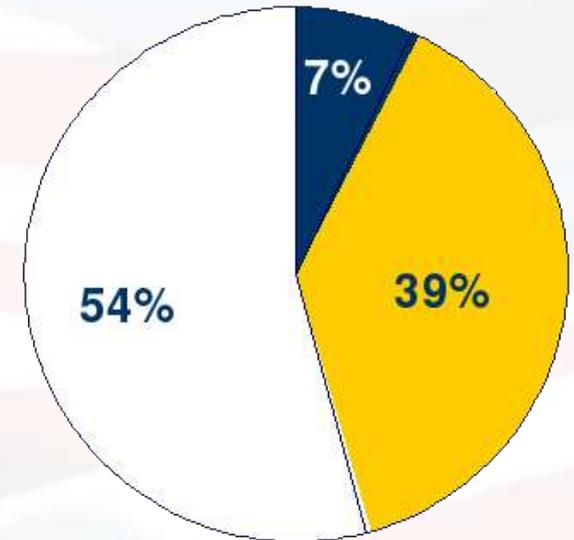
1964



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.

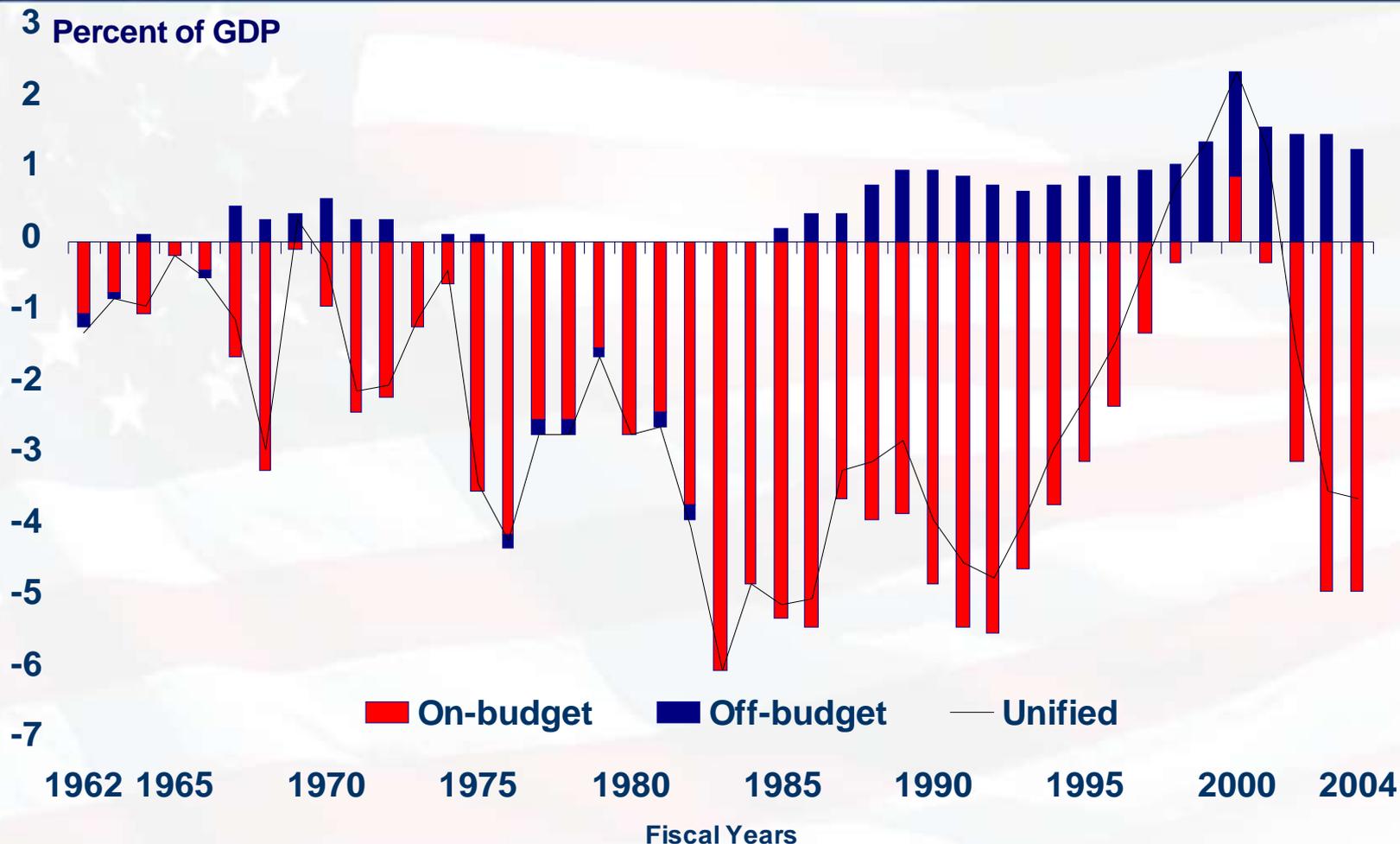
Fiscal Year 2004 Deficit Numbers

	\$ Billion	% of GDP
On-Budget Deficit	(568)	(4.9)
Off-Budget Surplus	155*	1.3
Unified Deficit	(413)	(3.6)

*Includes the \$151 billion Social Security surplus and a \$4 billion surplus for the Postal Service

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)^a

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) ^b
	Future Social Security benefit payments (\$3,699) ^c
	Future Medicare Part A benefit payments (\$8,236) ^c
	Future Medicare Part B benefit payments (\$11,416) ^c
	Future Medicare Part D benefit payments (\$8,119) ^c
	Life cycle cost including deferred and future maintenance and operating costs (amount unknown)
	Government Sponsored Enterprises e.g., Fannie Mae and Freddie Mac

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

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

^c 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.

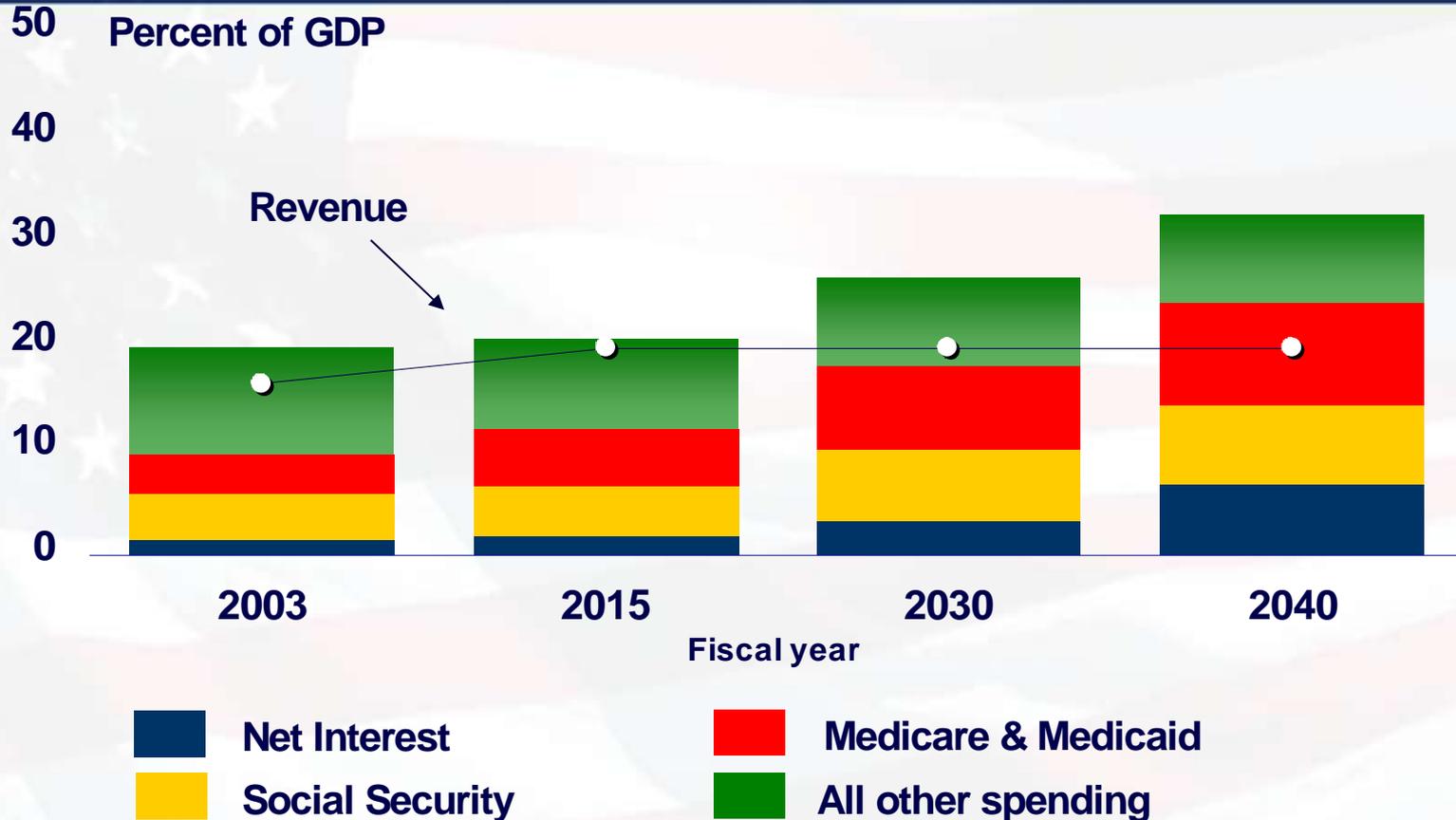
Updated 3/30/04.

Another Way to Think About These Numbers

- 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 rises to more than \$140,000, or about \$330,000 per full-time worker. 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

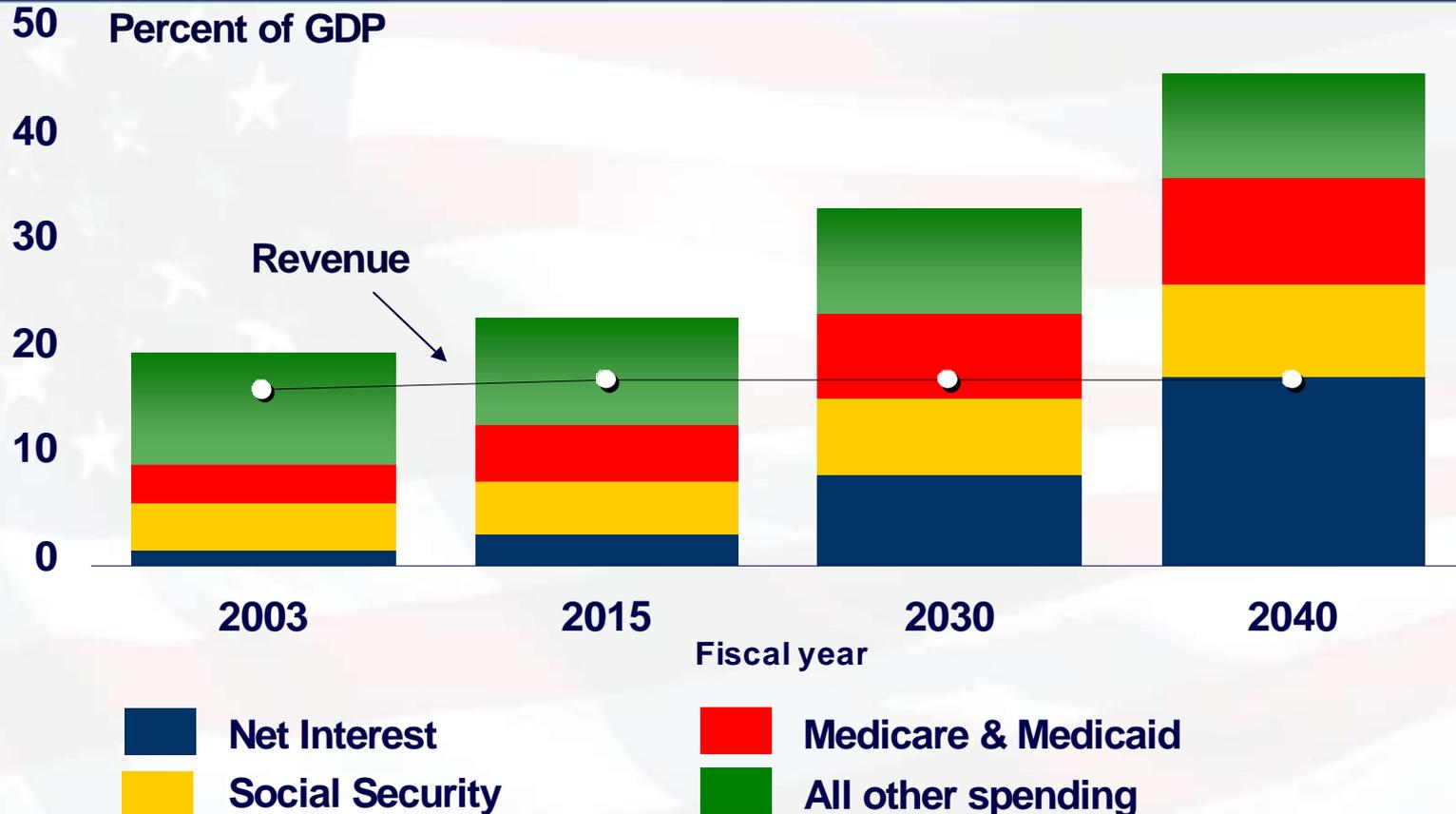


Notes: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2014 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2014, revenue as a share of GDP is held constant. Budgetary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

Selected 21st 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 21st 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?

Key National Indicators

- **WHAT:** A portfolio of economic, social, environmental and security related outcome-based statistics that could be used to help assess the nation's and other governmental jurisdictions' position and progress
- **WHO:** Many countries and several states and localities have already undertaken related initiatives (e.g., Australia, New Zealand, Canada, United Kingdom, Oregon, Washington, and Charlotte)
- **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 led by the National Academies domestically and related OECD efforts internationally

Selected GAO-Related Activities

- Speeches and Outreach Efforts
- Financial Literacy Efforts
- CG Forums
- High Risk Update Report
- 21st 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

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 protect our national security and nation's interests while maintaining our position as the world's preeminent military power within current and expected resource levels.

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)

Defense Intelligence Legislation

- This week the Senate and the House approved the Intelligence Reform and Terrorism Prevention Act of 2004. The President is expected to sign the bill shortly, and the law will take effect not later than six months after date of enactment of the Act.
- As a result, the intelligence community will be undergoing the most far-reaching overhaul of U.S. intelligence gathering and coordination since the passage of the National Security Act in 1947.
- Irrespective of these changes, the Intelligence community needs to undergo a transformation effort, crossing all the various entities and comprising all levels and locations within such entities. While the Intelligence community is in a different line of business, its business transformation challenges are very similar to those being faced by all federal agencies and professional service organizations, including GAO.

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.
- Focus on maximizing value, managing risk and enhancing responsiveness within current and expected resource

Keys to Making Change Happen

- Commitment and sustained leadership (e.g., “leading by example” and “tone at the top”)
- 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

Key Transformation Elements

- People
- Process
- Partnerships
- Technology
- Environment

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



Transformation is about **CREATING**
the future rather than **PERFECTING**
the past.

Effective **HUMAN CAPITAL** strategy
is key to any **SUCCESSFUL**
transformation effort

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
- Employee empowerment and effective communications

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

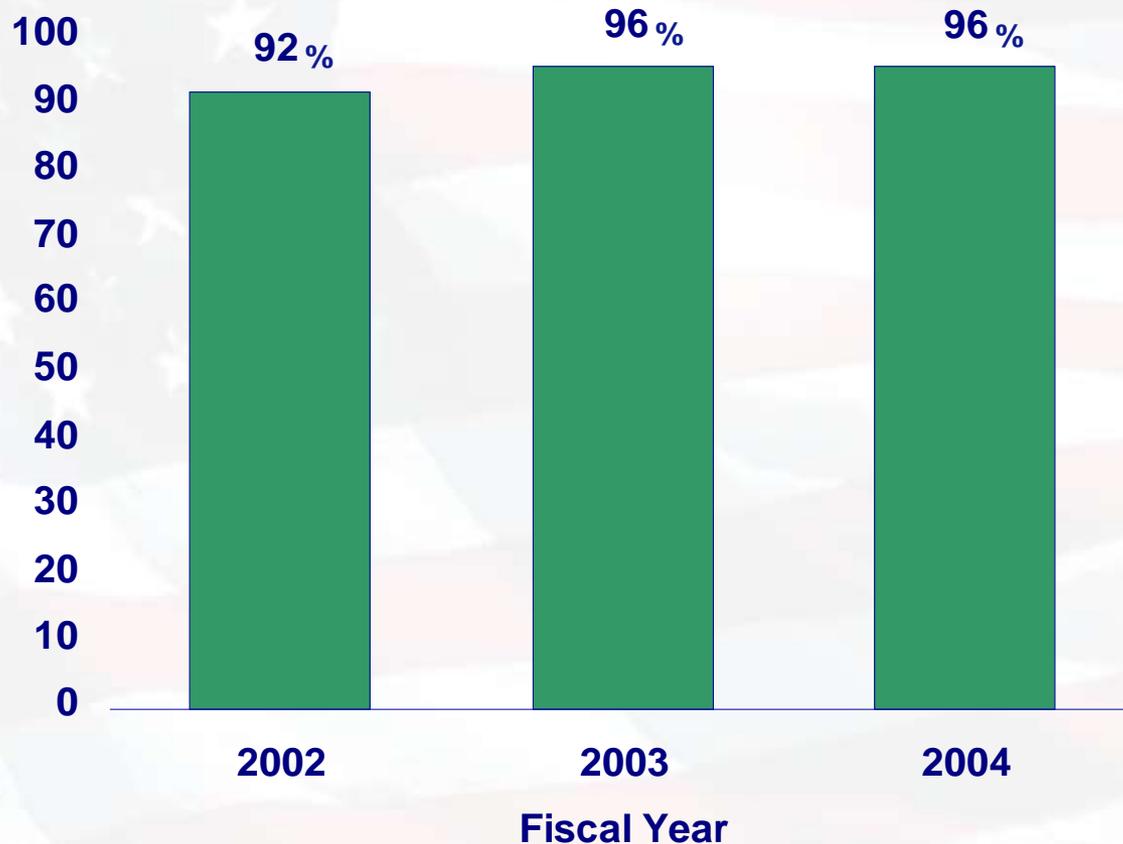
Annual Performance Measures

(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 Fiscal Years 2002 - 2004

Percent Favorable



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

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.

	Benchmarking Results		
	Private Industry 1999-2000	OPM 2002	GAO 2004
Personal Experiences			
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”

Competency-Based Performance Appraisal

Objective of new system are to provide a:

- Clear link to our strategic plan, professional standards, protocols and core values
- Fair, honest, accurate and non-discriminatory assessment of performance based on standards that are valid, properly applied, and transparent to employees
- A sound basis for enhancing the performance capacity of all staff, rewarding high-performing staff, and dealing with “below expected” performers

Succession Planning

Training

Promotions

Competency Model

Achieving Results

Maintaining Client and Customer Focus

Developing People

Thinking Critically

Improving Professional Competence

Collaborating with Others

Presenting Information Orally

Presenting Information in Writing

Facilitating and Implementing Change

Representing GAO

Investing Resources

Leading Others

Recruitment

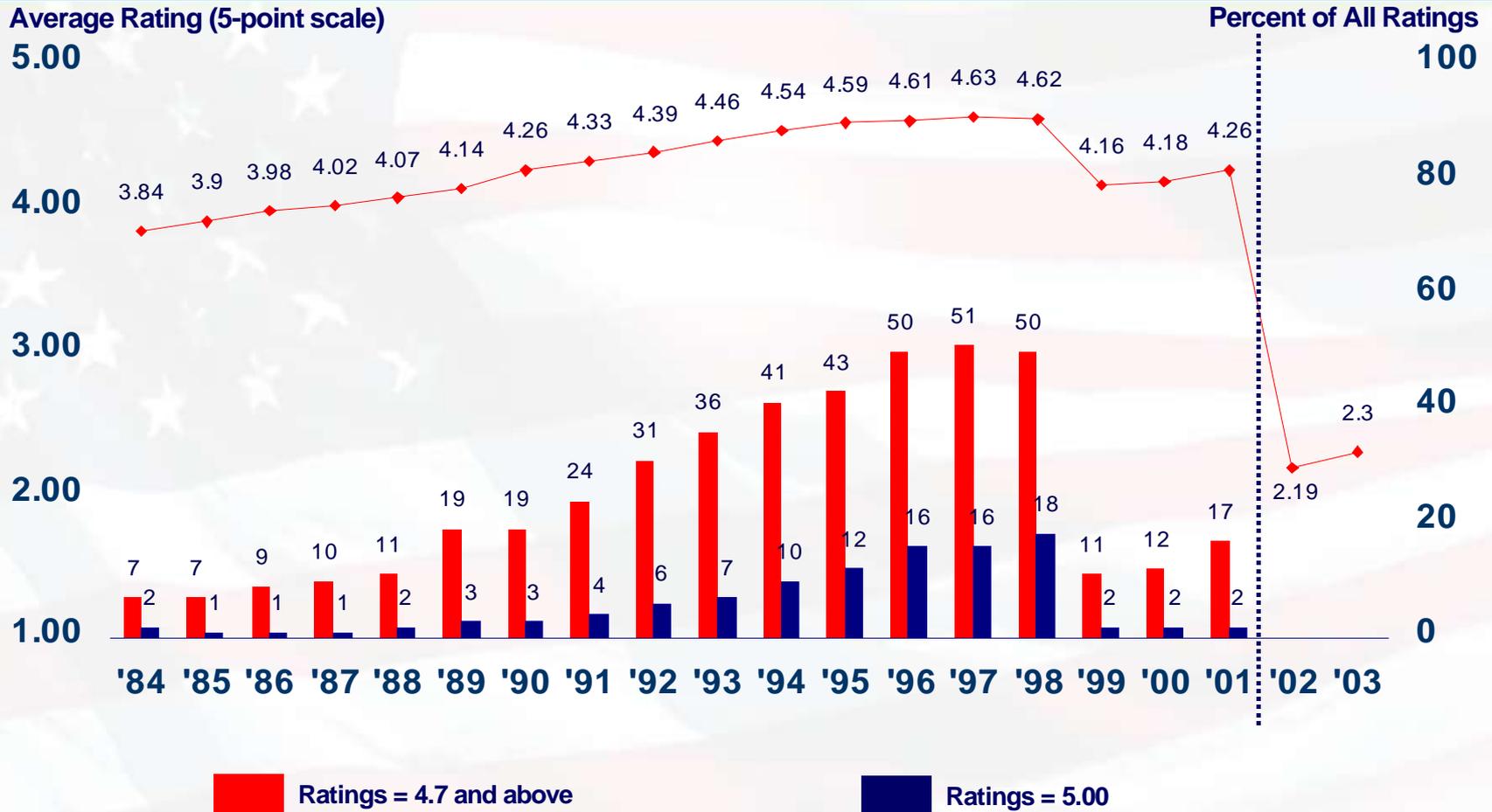
Career
Planning

Pay
Decisions

Work
Assignments

Performance
Management

Analyst/Specialist Appraisal Scores (1984-2003)



Note: GAO's new competency-based performance management system was implemented in January 2002. There were no individual appraisal averages as high as 4.7 in FY02 or FY03.

Classification and Compensation System: Key Guiding Principles

- Enable GAO to attract and retain top talent
- Result in equal pay for work of equal value over time
- Be reasonable, reflective of the roles and responsibilities that we expect GAO staff to perform
- Be reasonable, competitive and skills, knowledge, role, and performance-oriented
- Be affordable and sustainable based on current and expected resources levels
- Be in conformity with applicable statutory limits

CCR Approach – Best Practices

- Hired an experienced and top quality firm—Watson Wyatt
- Followed an industry best practices process and methodology
 - Early involvement of Career Stream Focal Points (including Employee Advisory Council representatives) to provide:
 - Knowledge and expertise on job content
 - Insight regarding attraction and retention issues including turnover, recruitment sources, and mid-career hiring
 - Hands-on review and confirmation of GAO job matches and 18 selected published survey sources

CCR Approach (continued)

- Multiple authoritative surveys used for determining competitive compensation data
- Widely recognized local labor market data index used for local market categories
- Extensive involvement throughout the study by the Executive Committee to:
 - Provide strategic guidance and input
 - Confirm and approve job matches from selected published survey sources after consideration of recommendations from Career Stream Focal Points and Watson Wyatt

Pay Philosophy: Performance-Oriented and Market-Based

Historically

- Pay ranges followed the GS schedule
- Everyone could advance to the pay cap irrespective of their performance —not a matter of if, but when

New Approach

- Pay ranges set to be competitive with the labor markets in which GAO competes for talent
- Everyone can advance to the pay cap—but they must have performance in excess of a certain level to advance beyond a certain point of the pay range (e.g., 75th percentile)
- Pay ranges may overlap in upper part of band pay range to adequately reward expertise, leadership, and performance

Key Leadership Attributes For Success

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