

# TRANSFORMATION *Challenges*



**The Honorable  
David M. Walker**  
Comptroller General  
of the United States

National Defense  
Industrial Association  
Munitions Conference  
Hyatt Regency  
Washington, DC  
February 11, 2005

# 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

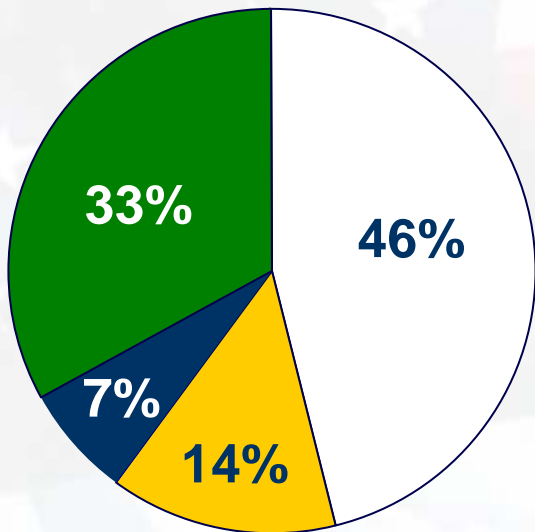
Accountability

Integrity

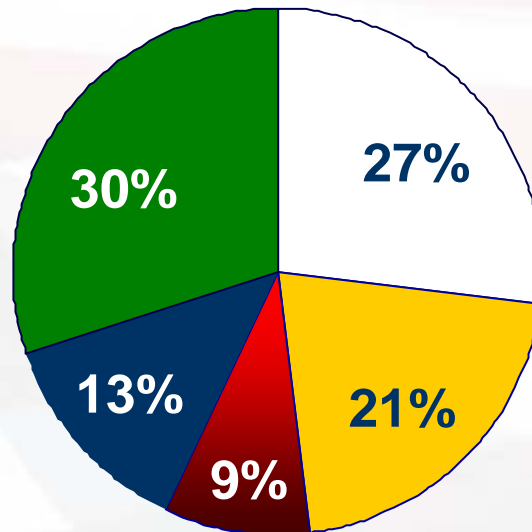
Reliability

# Composition of Federal Spending

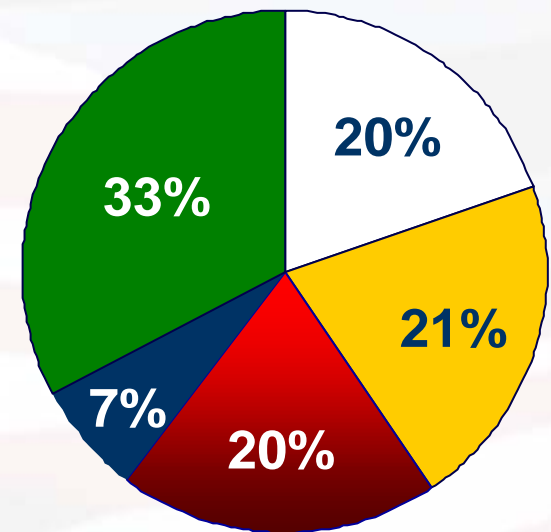
1964



1984



2004\*



Defense  
Net interest

Social Security  
All other spending

Medicare & Medicaid

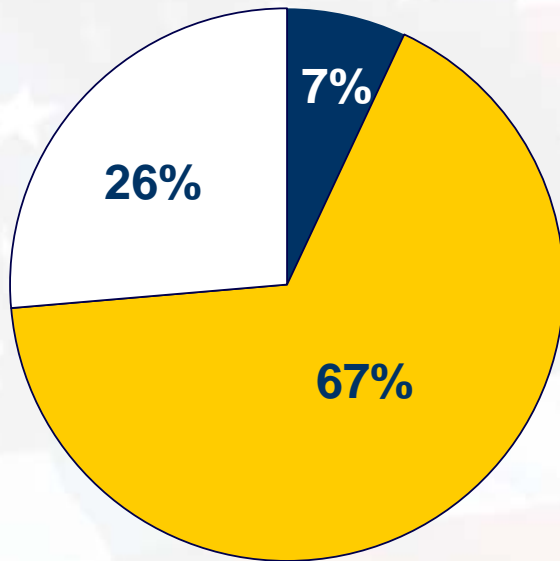
\*Current services estimate.

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

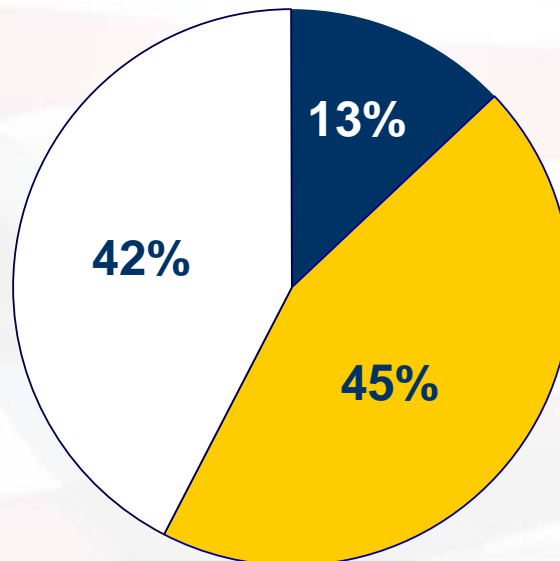
Source: *Budget of the United States Government, Fiscal Year 2005* (February 2004) and *Budget of the United States Government, Fiscal Year 2005, Mid-session Review* (July 2004), Office of Management and Budget.

# Federal Spending for Mandatory and Discretionary Programs

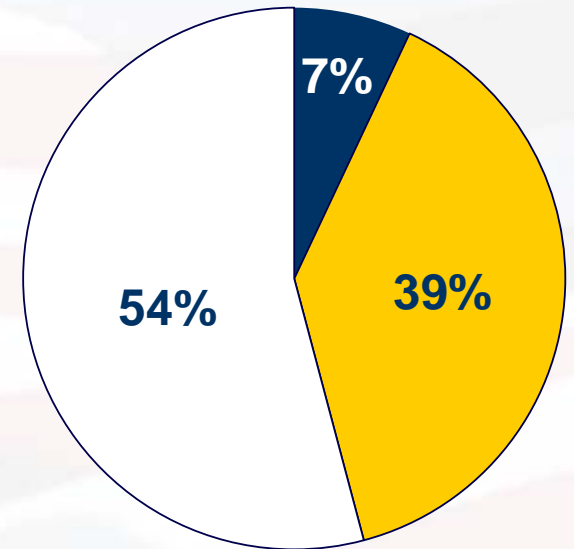
1964



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.

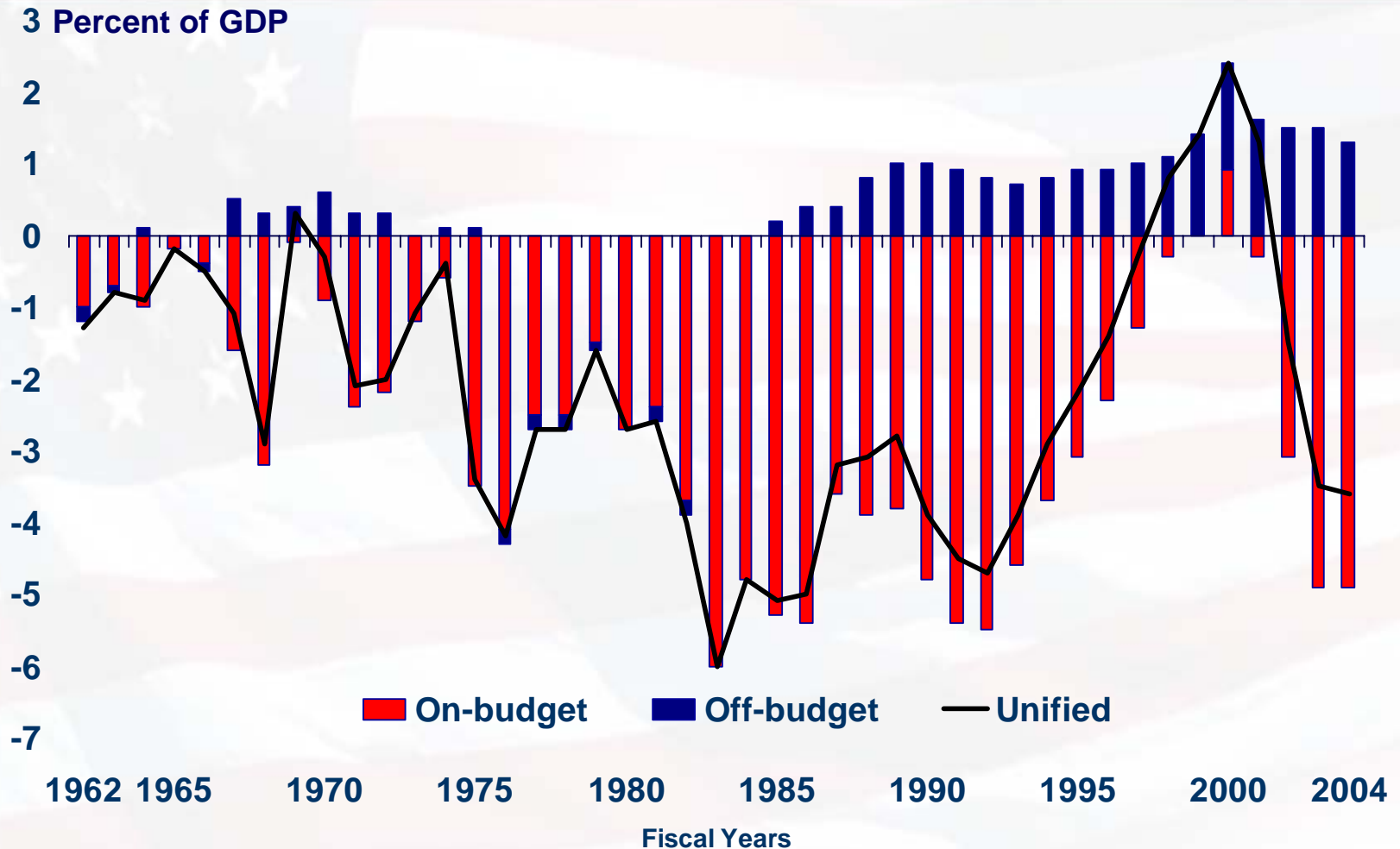
# Fiscal Year 2004 Deficit Numbers

	\$ 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 2004<sup>a</sup>

Type	Example (dollars in billions)
Explicit liabilities	Publicly held debt (\$4,297) Military and civilian pension and post-retirement health (\$3,059) Veterans benefits payable (\$925) Environmental and disposal liabilities (\$249) Loan guarantees (\$43)
Explicit financial commitments	Undelivered orders (\$596) Long-term leases (\$39)
Financial contingencies	Unadjudicated claims (\$4) Pension Benefit Guaranty Corporation (\$96) Other national insurance programs (\$1) 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 (\$3,071) <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 2004, except Social Security and Medicare estimates, which are as of January 1, 2004.

<sup>b</sup> This amount includes \$845 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, \$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.

# Another Way to Think About These Numbers

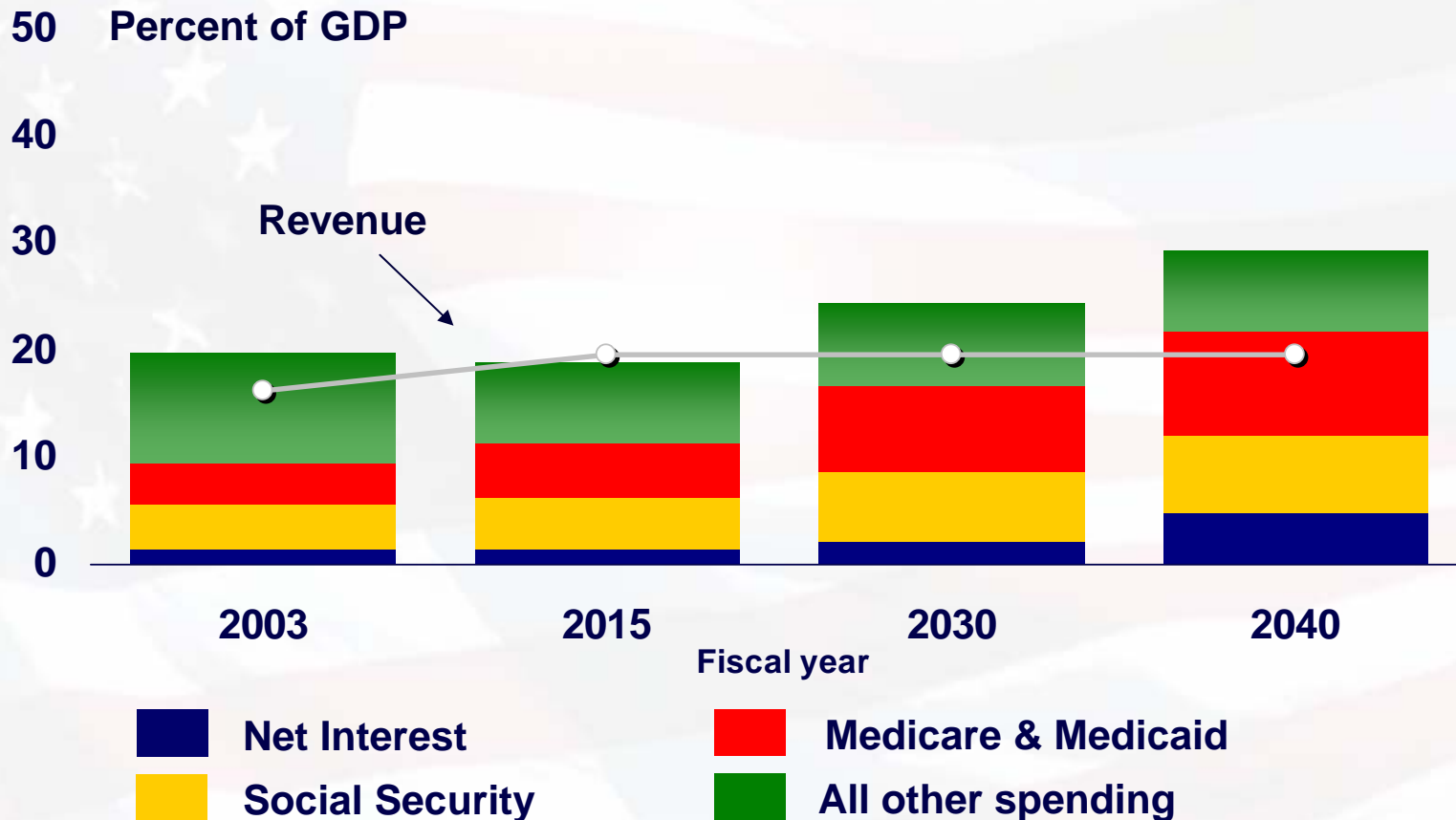
- Debt held by the public—\$3.9T
- Trust fund debt—\$2.9T
- Gross debt—\$6.8T
- Gross debt per person—about \$24,000
- If we add everything on the previous slide that is not included in gross debt, the burden rises to more than \$140,000, or about \$330,000 per full-time worker. Alternatively, it amounts 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

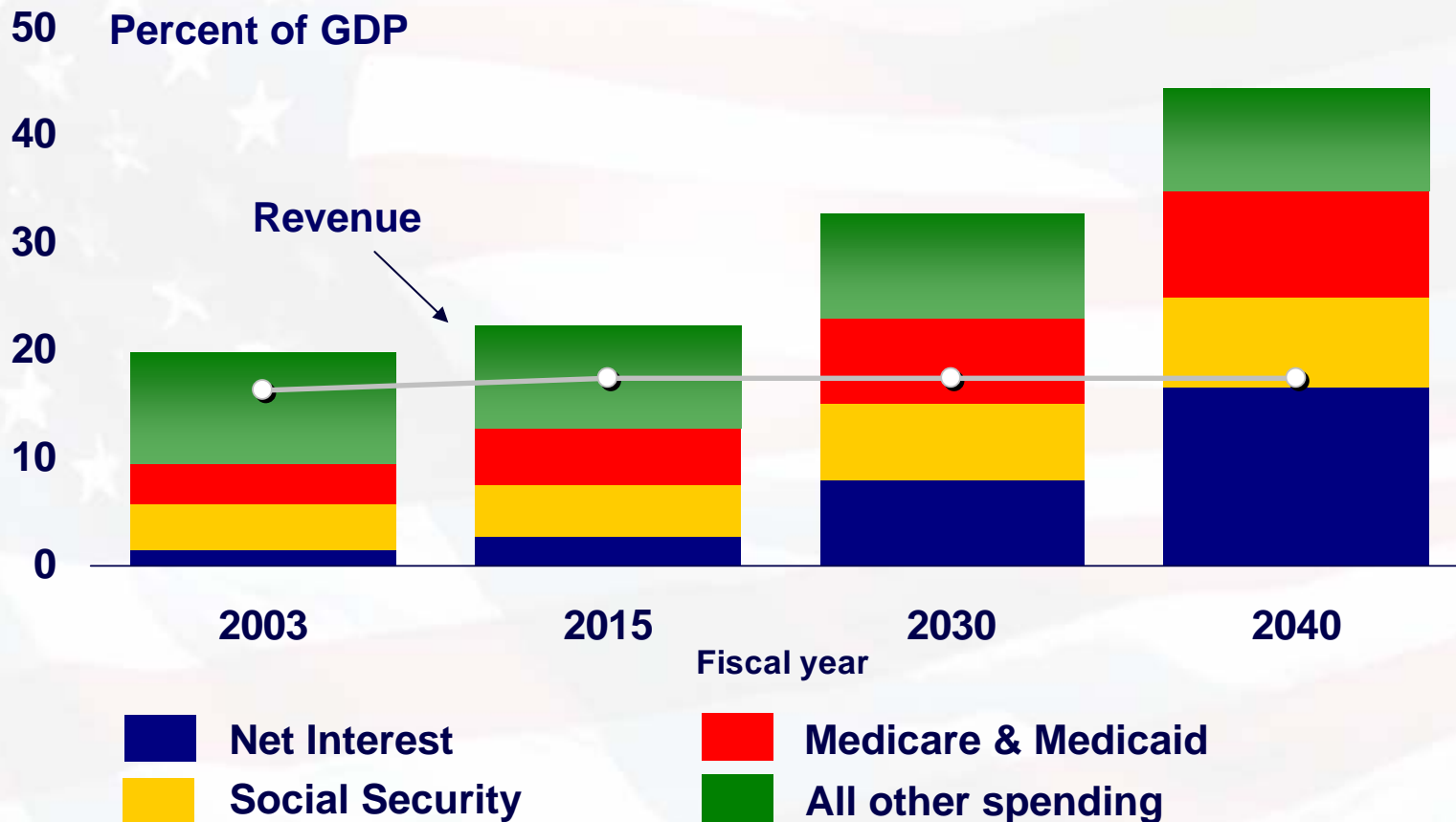


Notes: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2015 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2015, revenue as a share of GDP is held constant.

Source: GAO's January 2005 analysis.

# Composition of Spending as a Share of GDP

Assuming Discretionary Spending Grows with GDP after 2005 and All Expiring Tax Provisions are Extended



Notes: Although expiring tax provisions are extended, revenue as a share of GDP increases through 2015 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2015, revenue as a share of GDP is held constant.

Source: GAO's January 2005 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 21<sup>st</sup> 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 21<sup>st</sup> 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?

# **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

2005

High-Risk Areas	Designated High Risk
<b>Addressing Challenges in Broad-based Transformations</b>	
Protecting the Federal Government's Information Systems and the Nation's Critical Infrastructures	1997
Strategic Human Capital Management <sup>a</sup>	2001
U.S. Postal Service Transformation Efforts and Long-Term Outlook <sup>a</sup>	2001
Managing Federal Real Property <sup>a</sup>	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 <sup>a</sup>	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
<b>Managing Federal Contracting More Effectively</b>	
DOE Contract Management	1990
NASA Contract Management	1990
DOD Contract Management	1992
Management of Interagency Contracting	2005
<b>Assessing the Efficiency and Effectiveness of Tax Law Administration</b>	
Enforcement of Tax Laws <sup>a, b</sup>	1990
IRS Business Systems Modernization <sup>c</sup>	1995
<b>Modernizing and Safeguarding Insurance and Benefit Programs</b>	
Medicare Program <sup>a</sup>	1990
HUD Single-Family Mortgage Insurance and Rental Housing Assistance Programs	1994
Medicaid Program <sup>a</sup>	2003
Modernizing Federal Disability Programs <sup>a</sup>	2003
Pension Benefit Guaranty Corporation Single-Employer Insurance Program <sup>a</sup>	2003
<b>Other</b>	
FAA Air Traffic Control Modernization	1995

<sup>a</sup> Legislation is likely to be necessary, as a supplement to actions by the executive branch, in order to effectively address this high-risk area.

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

<sup>c</sup> The IRS Financial Management high-risk area has been incorporated into 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



# 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 levels.

# 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

# What Is DOD Transformation?

Creating the future of warfare and national defense while improving how the department, including all of its various component parts, does business in order to protect our national security and the 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)

# Key Leadership Attributes For Success

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

# TRANSFORMATION *Challenges*



**The Honorable  
David M. Walker**  
Comptroller General  
of the United States

National Defense  
Industrial Association  
Munitions Conference  
Hyatt Regency  
Washington, DC  
February 11, 2005