

# 2004 FISCAL YEAR TRANSITIONS and TRANSFORMATIONS in the Federal Government

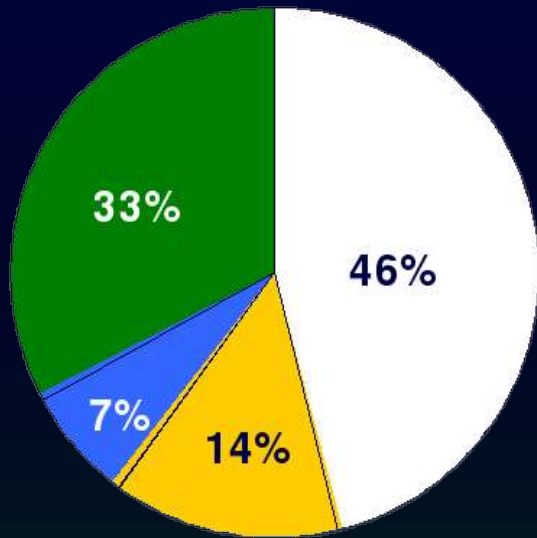
## Department of Defense



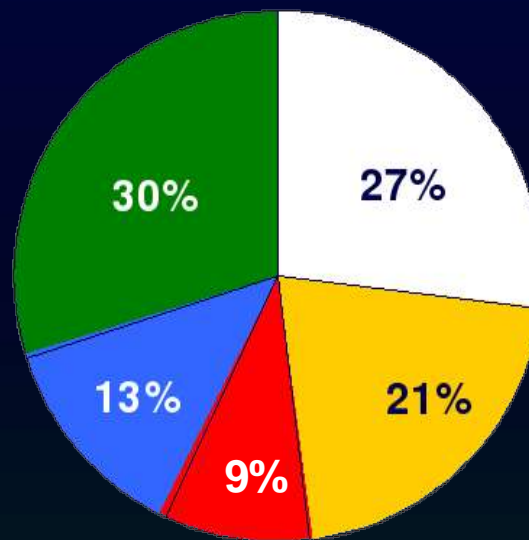
**The Honorable David M. Walker**  
Comptroller General of the United States  
Charlottesville, VA  
July 26, 2004

# Composition of Federal Spending

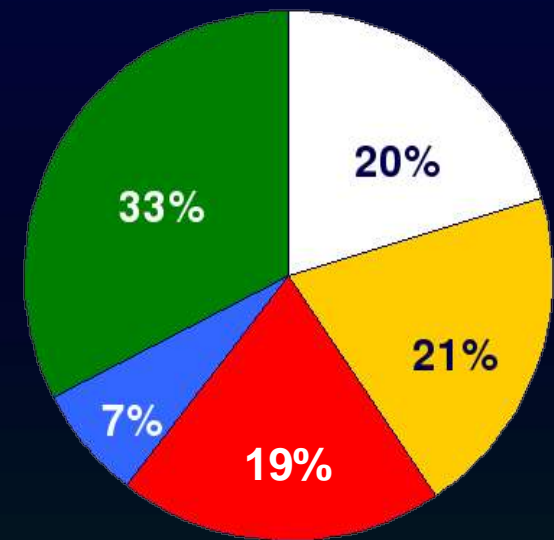
1964



1984



2004\*



■ Defense  
■ Net interest

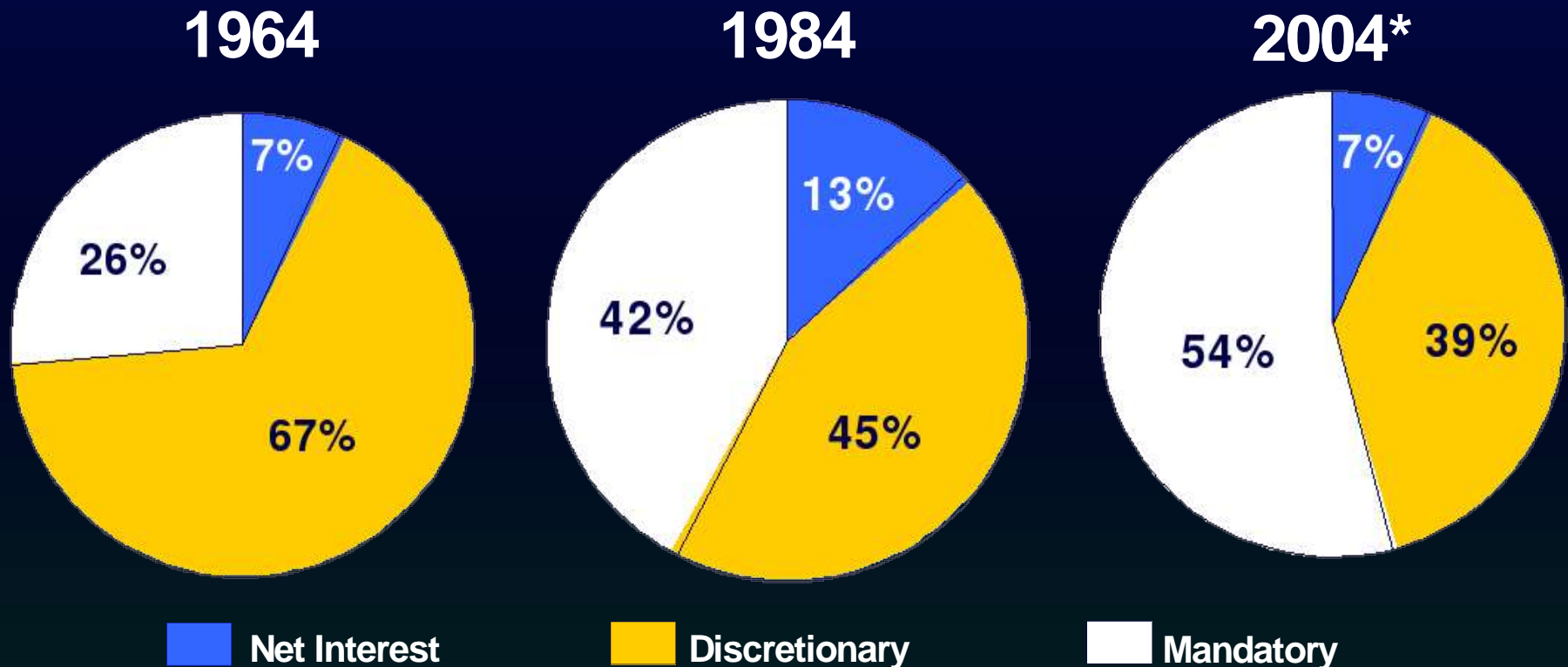
■ Social Security  
■ All other spending

■ Medicare & Medicaid

\*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)<br>Military and civilian pension and post-retirement health (\$2,857)<br>Veterans benefits payable (\$955)<br>Environmental and disposal liabilities (\$250)<br>Loan guarantees (\$35)   |
| Explicit financial commitments  | Undelivered orders (\$596)<br>Long-term leases (\$47)   |
| Financial contingencies   | Unadjudicated claims (\$9)<br>Pension Benefit Guaranty Corporation (\$86)<br>Other national insurance programs (\$7)<br>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) <sup>b</sup><br>Future Social Security benefit payments (\$3,699) <sup>c</sup><br>Future Medicare Part A benefit payments (\$8,236) <sup>c</sup><br>Future Medicare Part B benefit payments (\$11,416) <sup>c</sup><br>Future Medicare Part D benefit payments (\$8,119) <sup>c</sup><br>Life cycle cost including deferred and future maintenance and operating costs (amount unknown)<br>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 \$774 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

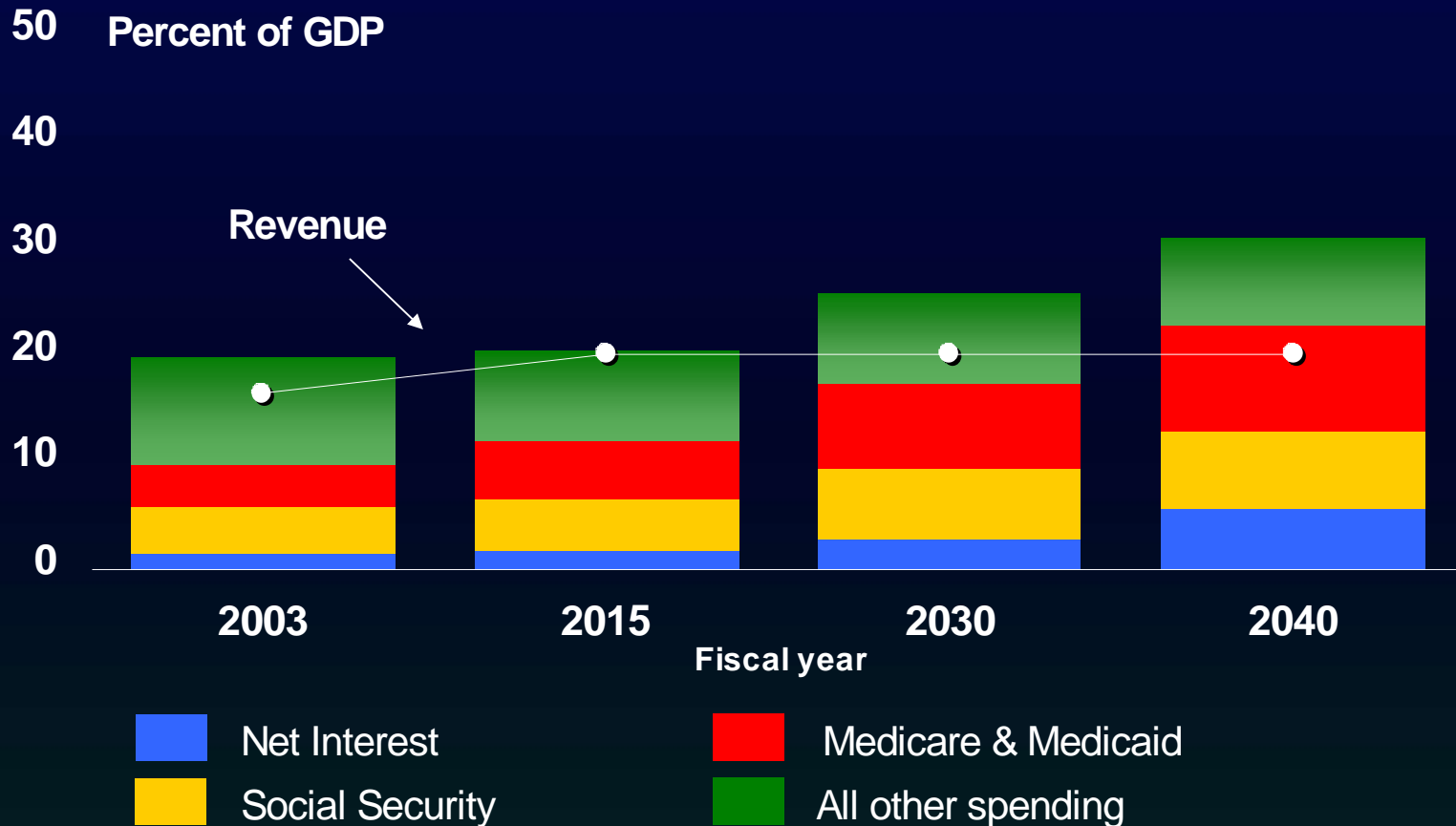
## As of the End of FY 03

- 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

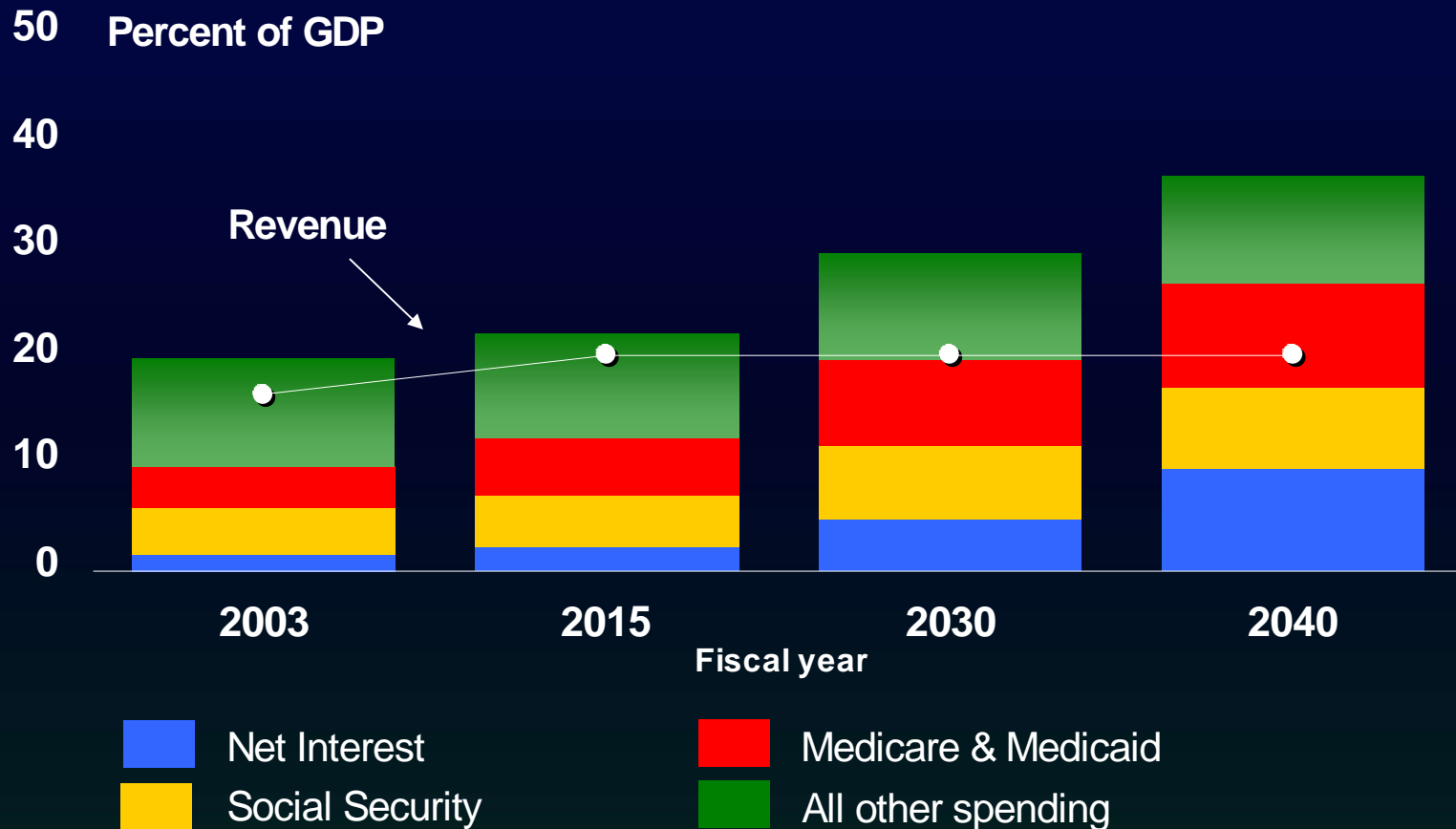


Notes: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2014 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2014, revenue as a share of GDP is held constant.

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

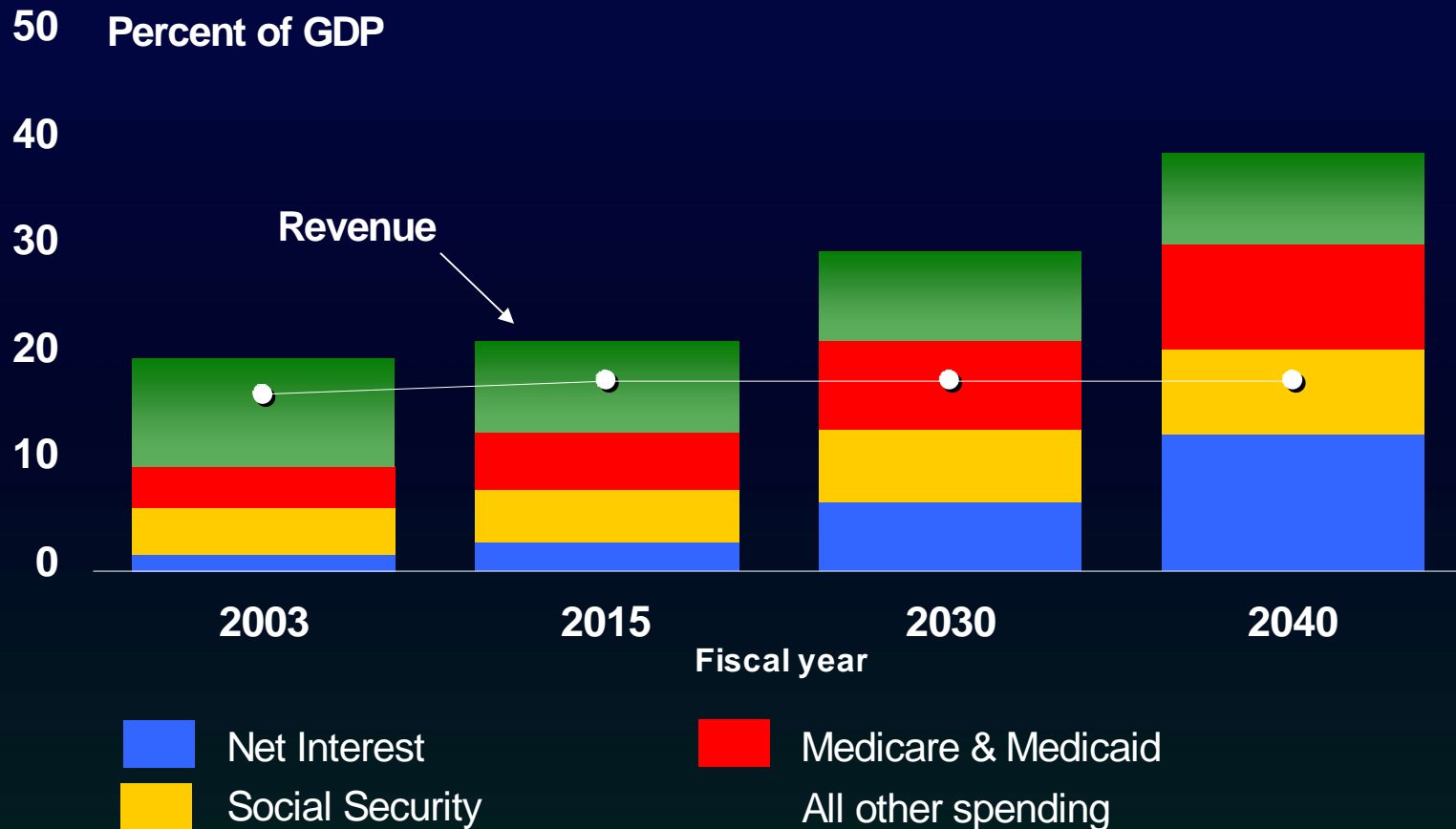


Source: GAO's March 2004 analysis.

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 All Expiring Tax Provisions are Extended



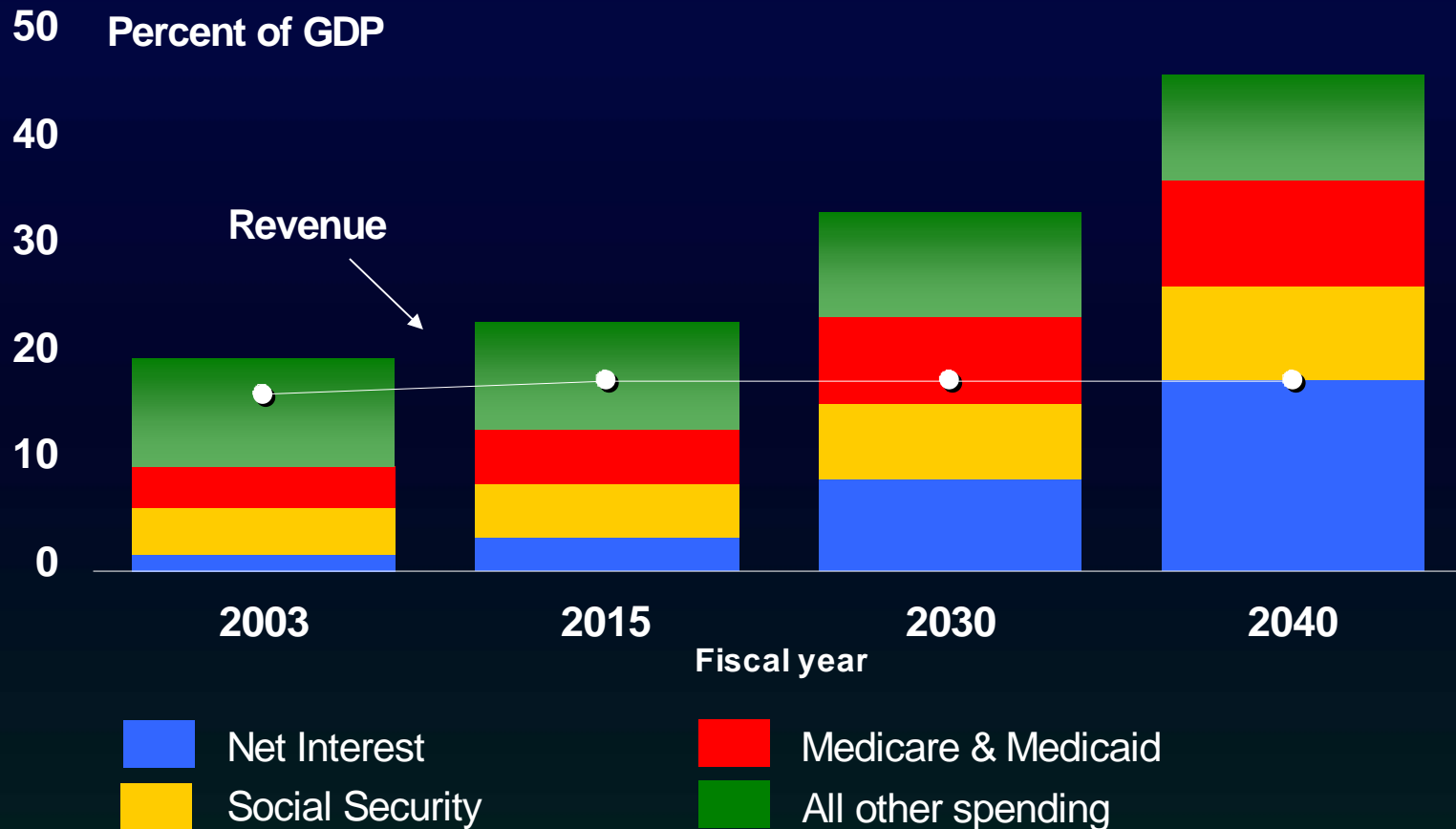
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# Composition of Spending as a Share of GDP

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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

# Selected GAO-Related Activities

- Speeches and Outreach Efforts
- CG Forums
- High Risk Update
- 21<sup>st</sup> Century Challenges
- Financial Literacy Efforts

# 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, when, if ever, will there no longer be a need for a federal role? In addition, 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%?

# 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

## High Risk Areas

## Designated High Risk

### Addressing Challenges in Broad-based Transformations

|   |      |
|---|------|
| Protecting Information Systems Supporting the Federal Government and<br>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 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

# 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.

# Keys to Making Change Happen

- Commitment and sustained leadership
- 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
- 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

**In today's world, organizations that do not change may find themselves headed for extinction. At the same time, every organization should have a set of core values that can stand the test of time.**

# 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

# 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.

# Selected Observations From 2000-2003

- Everybody's for transformation, but nobody knows what it is
- You have to define it before you can do it
- The Army has the most to do from a war-fighting perspective, but it realizes this
- The Air Force is the most out of touch with reality in connection with future resource allocations
- The Navy is focused on business transformation
- Marines make do with what they have
- The Coast Guard is better off in DHS

# Selected Cultural Challenges At DOD

- Past vs. future (e.g., threats)
- Today vs. tomorrow (e.g., budgets)
- Too many players, 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)
- Revise the current approach to resource allocation to the services (i.e., based on a comprehensive threat and risk assessment and a real capabilities-based approach)
- 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)

# 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

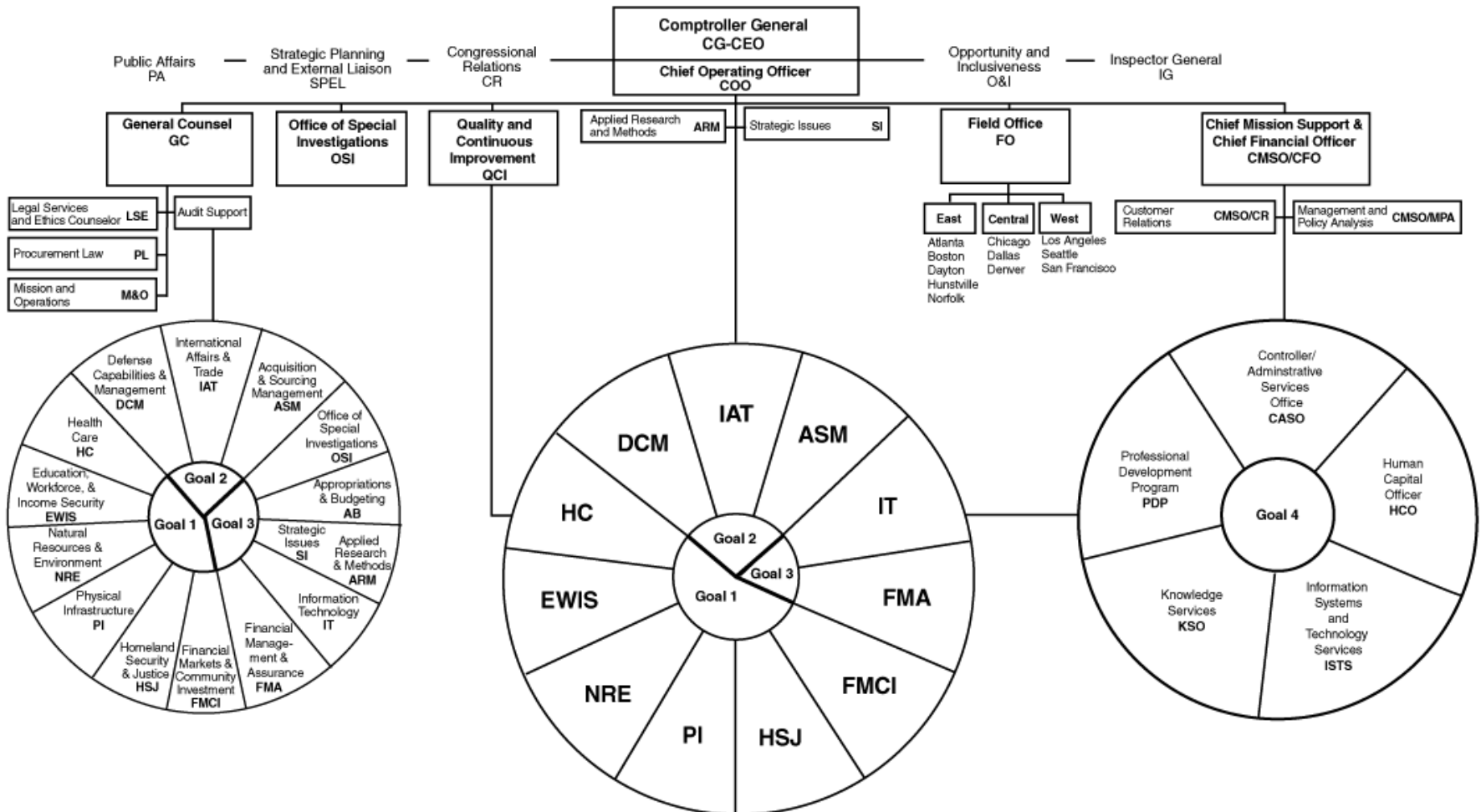
### CORE VALUES

Accountability

Integrity

Reliability

# GAO Organizational Chart





# Selected Success Measures

- Results
- Clients/customers
- People
- Partnerships

# Annual Performance Measures

(1998 and 2003)

| Performance measure                        | Actual  |         |
|--|---------|---------|
|  | FY 1998 | FY 2003 |
| Financial benefits (billions)              | \$19.7  | \$35.4  |
| Other benefits                             | 537     | 1043    |
| Past recommendations implemented           | 69%     | 82%     |
| Return on investment (ROI)                 | 58:1    | 78:1    |
| Financial benefits per employee (millions) | \$6.1   | \$10.8  |
| Timeliness                                 | 93%     | 97%     |

# 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
- 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
- Phased retirement initiative
- Recruiting & college relations
- Training/development
- Recognition & rewards
- Flexitime & flexiplace
- 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
- Classification and compensation review

# 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”

# Three Key Ingredients Needed for These Challenging and Changing Times

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

# 2004 FISCAL YEAR TRANSITIONS and TRANSFORMATIONS in the Federal Government

## Department of Defense



**The Honorable David M. Walker**  
Comptroller General of the United States  
Charlottesville, VA  
July 26, 2004