



Transforming to Meet
**21ST CENTURY
CHALLENGES**

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

3rd Annual Business Performance
Management Summit
Old Greenwich, CT
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United States Government Accountability Office



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

GAO's High- Risk List

2005

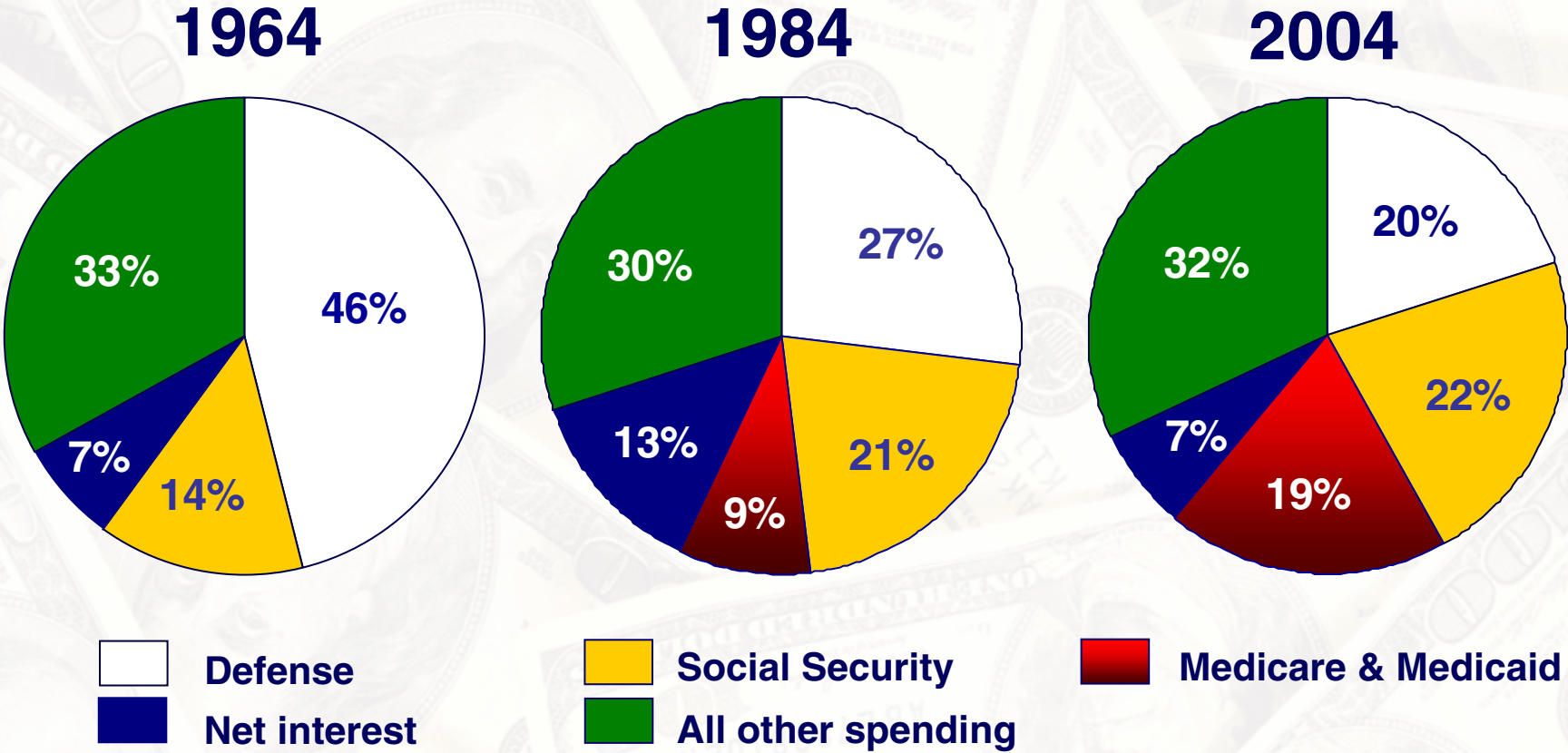
High-Risk Areas	Designated High Risk
Addressing Challenges in Broad-based Transformations	
Protecting the Federal Government's Information Systems and the Nation's Critical Infrastructures	1997
Strategic Human Capital Management ^a	2001
U.S. Postal Service Transformation Efforts and Long-Term Outlook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

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

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

^c The IRS Financial Management high-risk area has been incorporated into this high-risk area.

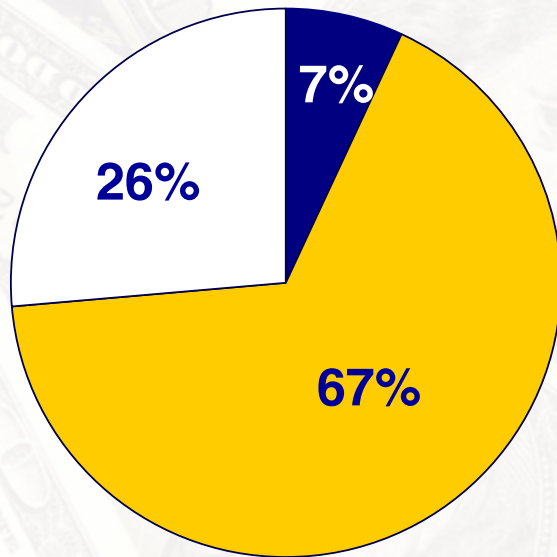
Composition of Federal Spending



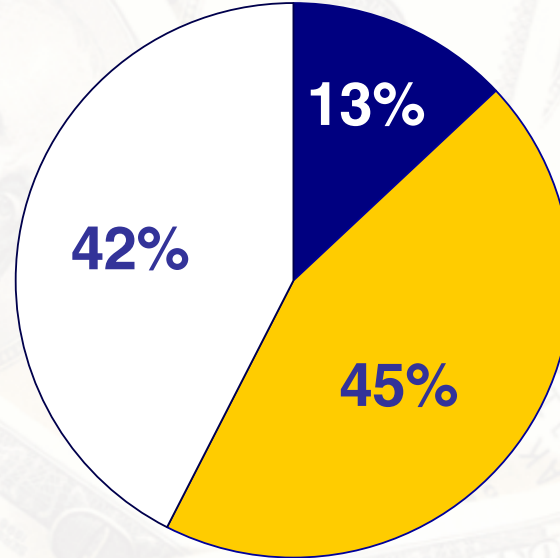
Source: Office of Management and Budget.

Federal Spending for Mandatory and Discretionary Programs

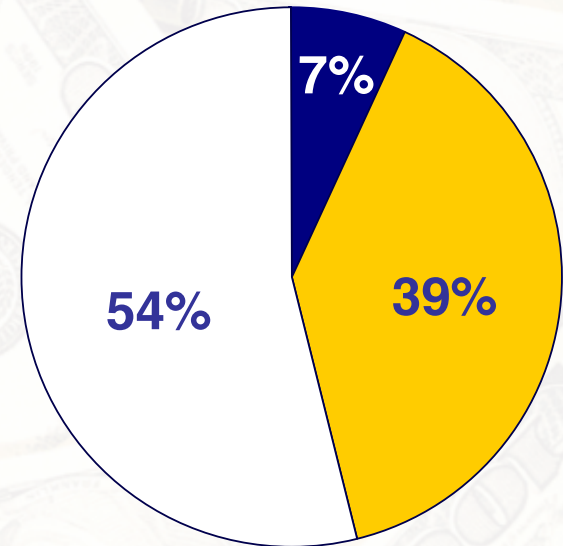
1964



1984



2004



Net Interest

Discretionary

Mandatory

Source: Office of Management and Budget.

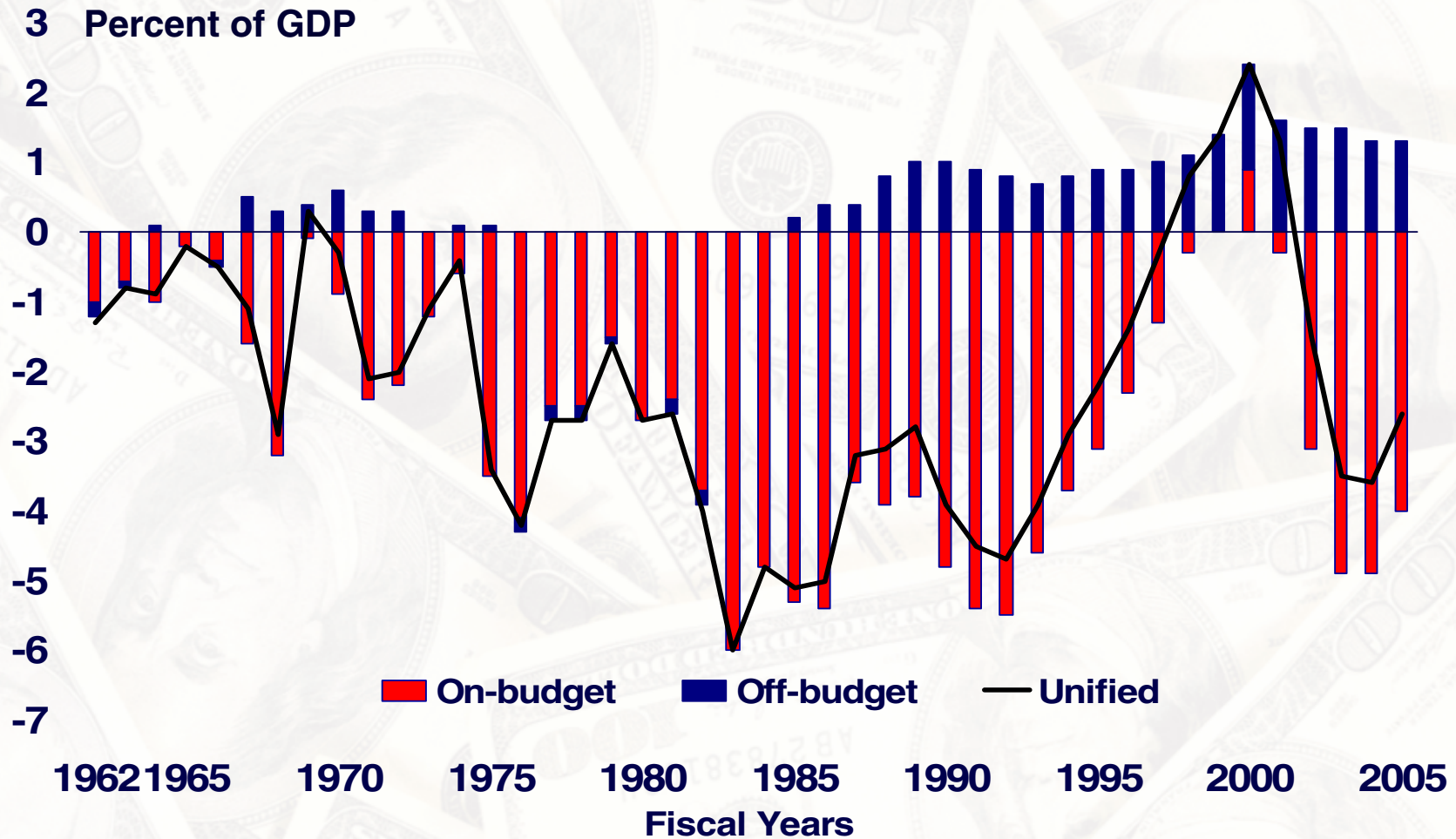
Fiscal Year 2004 and 2005 Deficits

	Fiscal Year 2004		Fiscal Year 2005	
	\$ Billion	% of GDP	\$ Billion	% of GDP
On-Budget Deficit	(567)	(4.9)	(494)	(4.0)
Off-Budget Surplus*	155	1.3	175	1.4
Unified Deficit	(412)	(3.6)	(319)	(2.6)

*Includes \$151 billion in fiscal year 2004 and \$173 billion in fiscal year 2005 in Social Security surpluses and \$4 billion in fiscal year 2004 and \$2 billion in fiscal year 2005 in Postal Service surpluses.

Surplus or Deficit as a Share of GDP

Fiscal Years 1962-2005



Source: Office of Management and Budget and Congressional Budget Office.

Estimated Fiscal Exposures

(in \$ trillions)

	2000	2002	2004
• Explicit liabilities	\$6.9	\$7.8	\$9.1
<ul style="list-style-type: none"> • Publicly held debt • Military & civilian pensions & retiree health • Other 			
• Commitments & Contingencies	0.5	0.8	0.9
<ul style="list-style-type: none"> • E.g., PBGC, undelivered orders 			
• Implicit exposures	13.0	17.8	33.3
<ul style="list-style-type: none"> • Future Social Security benefits 	3.8	4.6	5.2
<ul style="list-style-type: none"> • Future Medicare Part A benefits 	2.7	5.1	8.5
<ul style="list-style-type: none"> • Medicare Part B benefits 	6.5	8.1	11.4
<ul style="list-style-type: none"> • Medicare Part D benefits 	--	--	8.1
Total	\$20.4	\$26.4	\$43.3

Sources: Consolidated Financial Statements.

Note: Estimates for Social Security and Medicare are PV as of January 1 of each year as reported in the Consolidated Financial Statements and all other data are as of September 30. The 2005 Trustees Reports issued in March of this year show that the Social Security and Medicare exposures have increased as follows: Social Security increased to \$5.7 trillion, Medicare Part A increased to \$8.8 trillion, Medicare Part B increased to \$12.4 trillion and Part D increased to \$8.7 trillion. Totals may not add due to rounding.

How Big is Our Growing Fiscal Burden?

Our total fiscal burden can be translated and compared as follows:

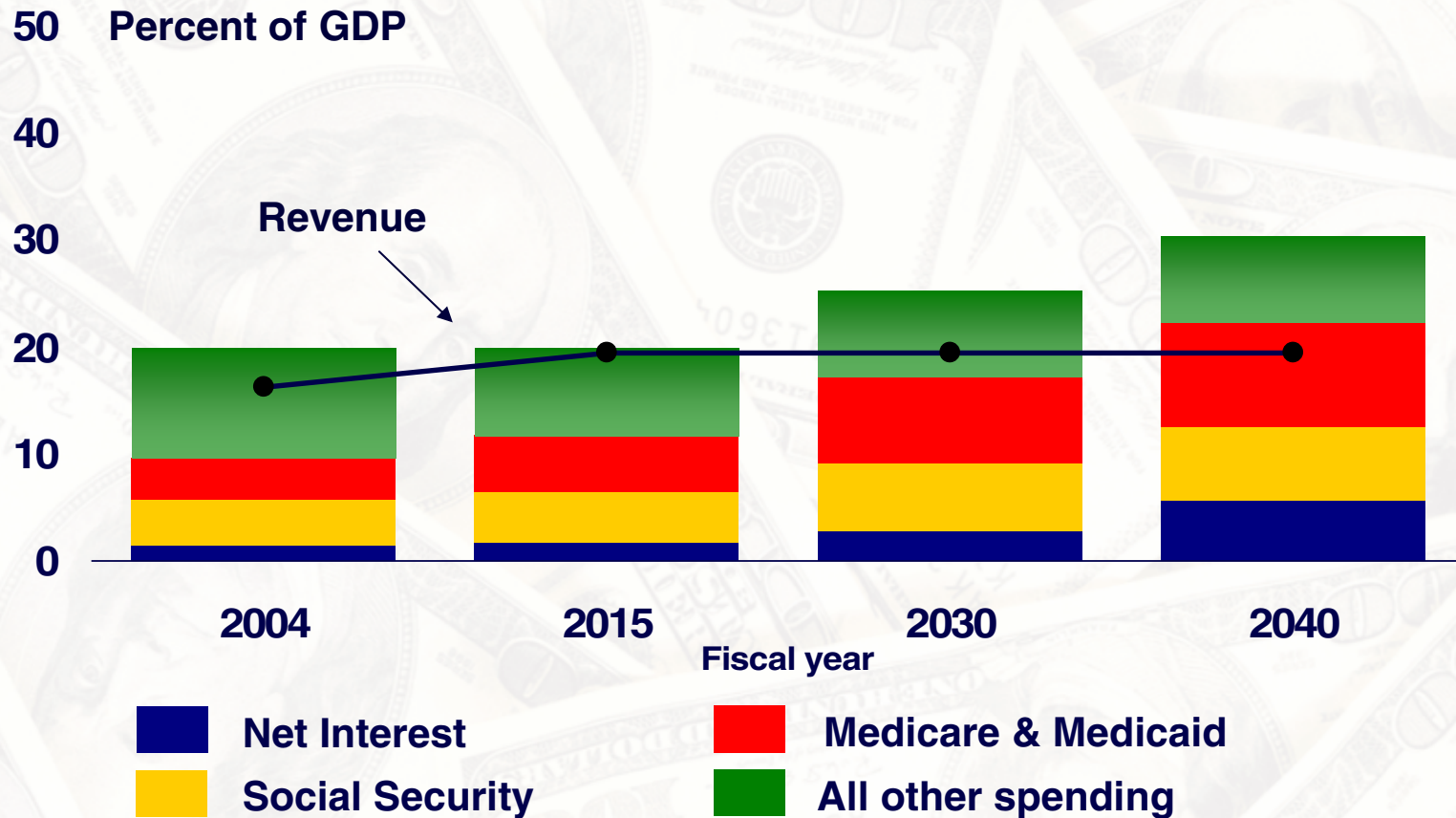
Total fiscal exposures	\$43.3 trillion
Total household net worth	\$48.5 trillion
Burden/Net worth ratio	89 percent
Burden	
Per person	\$147,000
Per full-time worker	\$350,000
Per household	\$383,000
Income	
Median household income	\$44,389
Disposable personal income per capita	\$29,475

Note: Net worth and income data are calendar year 2004 levels.

Sources: Federal Reserve Board for household net worth; Census Bureau for median household income; and the Bureau of Economic Analysis for disposable personal income per capita.

Composition of Spending as a Share of GDP

Under Baseline Extended

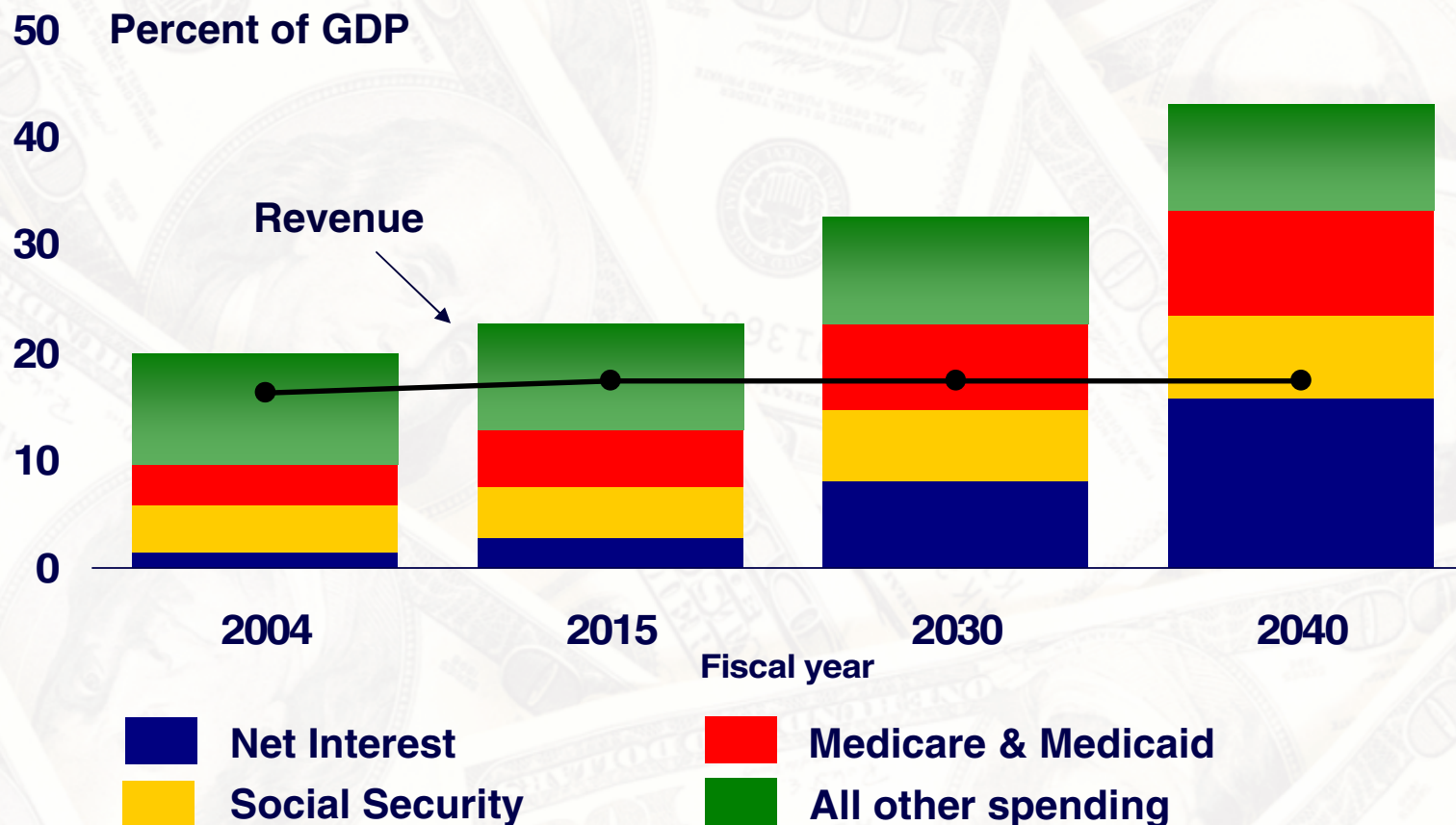


Notes: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2015 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2015, revenue as a share of GDP is held constant.

Source: GAO's August 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 August 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 60 percent or
 - Raising federal taxes to 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 reasonable 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 Way Forward: Three Pronged Approach

Impose Budget Controls and Enhance Legislative Process

- Discretionary spending caps
- PAYGO rules on both sides of the ledger
- Mandatory spending triggers
- Automatic present value disclosures for legislative debate on major tax and spending bills
- Provide summaries to Members of every key bill before they vote on it

Improve Accounting and Reporting and Metrics:

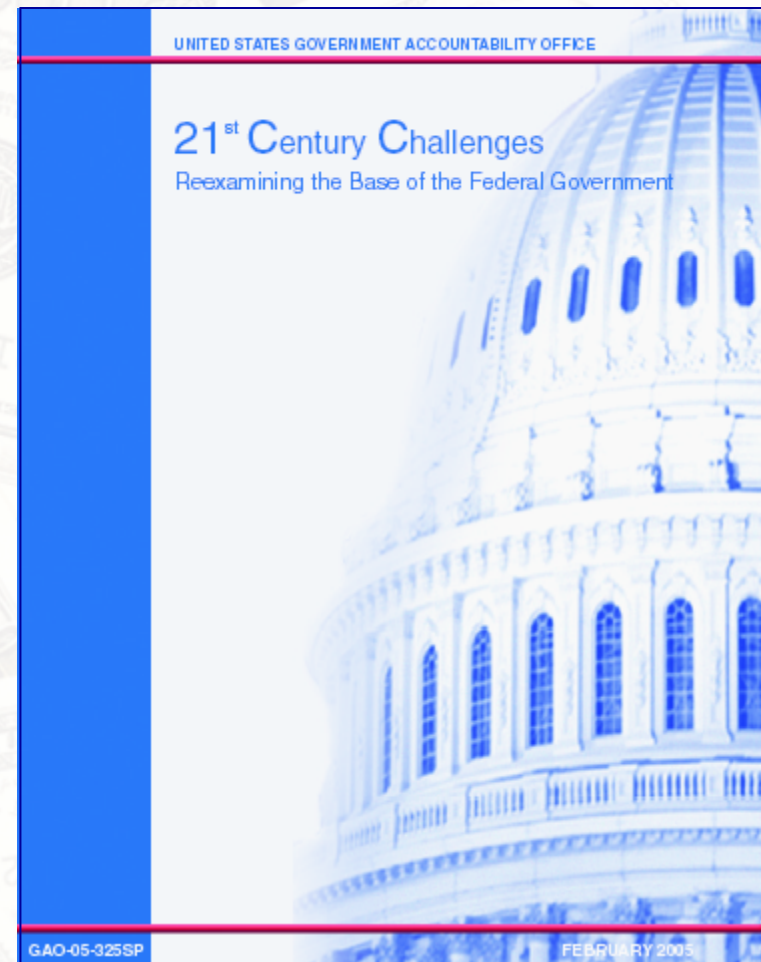
- Enhanced financial statement presentation (e.g. trust fund activity, intergenerational burdens)
- Develop key national (outcome-based) indicators

Re-examine Policies and Programs:

- Restructure existing entitlement programs
- Reexamine the base of discretionary and other spending
- Review and revise existing tax policy, including tax preferences and enforcement programs
- Expand scrutiny of proposed new programs, policies, or activities

21st Century Challenges Report

- Provides background, framework, and questions to assist in reexamining the base
- Covers entitlements & other mandatory spending, discretionary spending, and tax policies and programs
- Based on GAO's work for the Congress



Twelve Reexamination Areas

MISSION AREAS

- Defense
- Education & Employment
- Financial Regulation & Housing
- Health Care
- Homeland Security
- International Affairs
- Natural Resources, Energy & Environment
- Retirement & Disability
- Science & Technology
- Transportation

CROSSCUTTING AREAS

- Improving Governance
- Reexamining the Tax System

Key National Indicators

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

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 Objective of Transformation

To create a more positive future by maximizing value and mitigating risk within current and expected resource levels

Transformation Has Different Dimensions

DOD

DHS

U. S. Postal Service

IRS

DOE

NASA

Information Sharing
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.

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
- 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

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: 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

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

Selected Success Measures

- Results
- Clients/customers
- People
- Partnerships

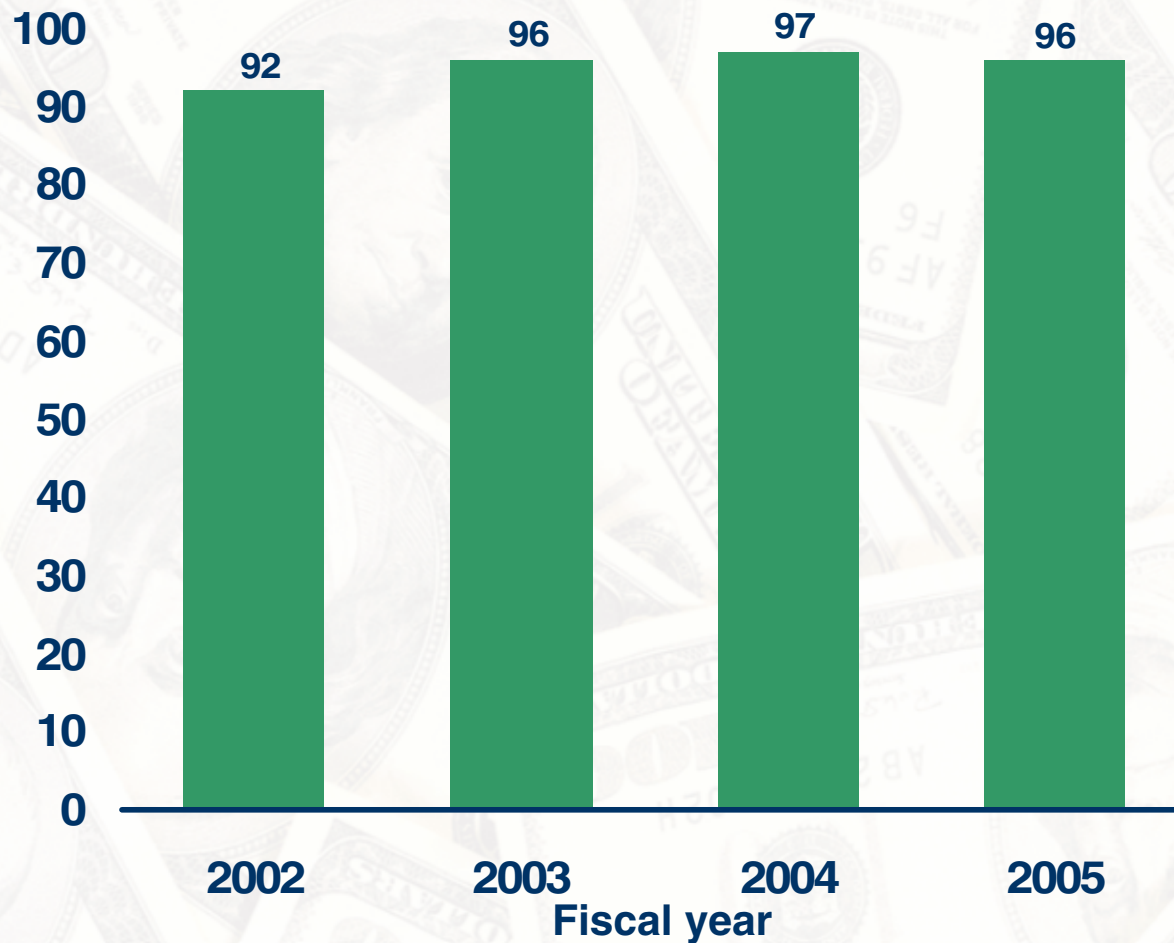
Annual Performance Measures

(1998 and 2005)

Performance measure	Actual	
	FY 1998	FY 2005
Financial benefits (billions)	\$19.7	\$39.6
Other benefits	537	1409
Past recommendations implemented	69%	85%
Return on investment (ROI)	58:1	83:1
Financial benefits per employee (millions)	\$6.1	\$12.4
Timeliness	93%	97%

Client Feedback Fiscal Years 2002-05

Percent Favorable



Response rates were
46% in FY02,
31% in FY03,
34% in FY04, and
30% in FY05

GAO Benchmarking Results for 2005

GAO exceeded the latest private sector and Office of Personnel Management (OPM) benchmark measures in the following four questions, as shown below.

	Benchmarking Results		
	Private Industry 2004	OPM 2004	GAO 2005
Personal Experiences			
I am given a real opportunity to improve my skills in my organization	62%	63%	72%
My job makes good use of my skills and abilities	74%	67%	75%
My work gives me a feeling of personal accomplishment	75%	71%	80%
Considering everything, how satisfied are you with your job?	71%	68%	76%

Source: Federal Human Capital Survey 2004 analysis, and corresponding 2005 GAO figures.

Key GAO Partnerships



Key Transformation Elements

- People
- Process
- Partnerships
- Technology
- Environment

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



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”

GAO Elements of Reform

Modern, Effective, Credible, and Validated Performance Management System



- Focuses on core competencies
- Helps to communicate employee performance expectations
- Creates a “line of site” linking institutional team/unit and individual performance
- Makes meaningful distinctions in employee performance
- Provides for competency-based results automatically and relative peer group standing on request

Modern Classification and Compensation System



- Uses pay bands
- Is market-based
- Is performance-oriented

Safeguards, transparency, and accountability built in



- Provisions for employee participation
- Pre- and post-implementation consultation and communications strategy incorporated
- Internal pre-decisional revenues and reasonable post-decisional transparency
- Avenues for adverse action appeals, both internally and externally

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

Collaborating with Others

Presenting Information Orally

Presenting Information in Writing

Leading Others

Recruitment

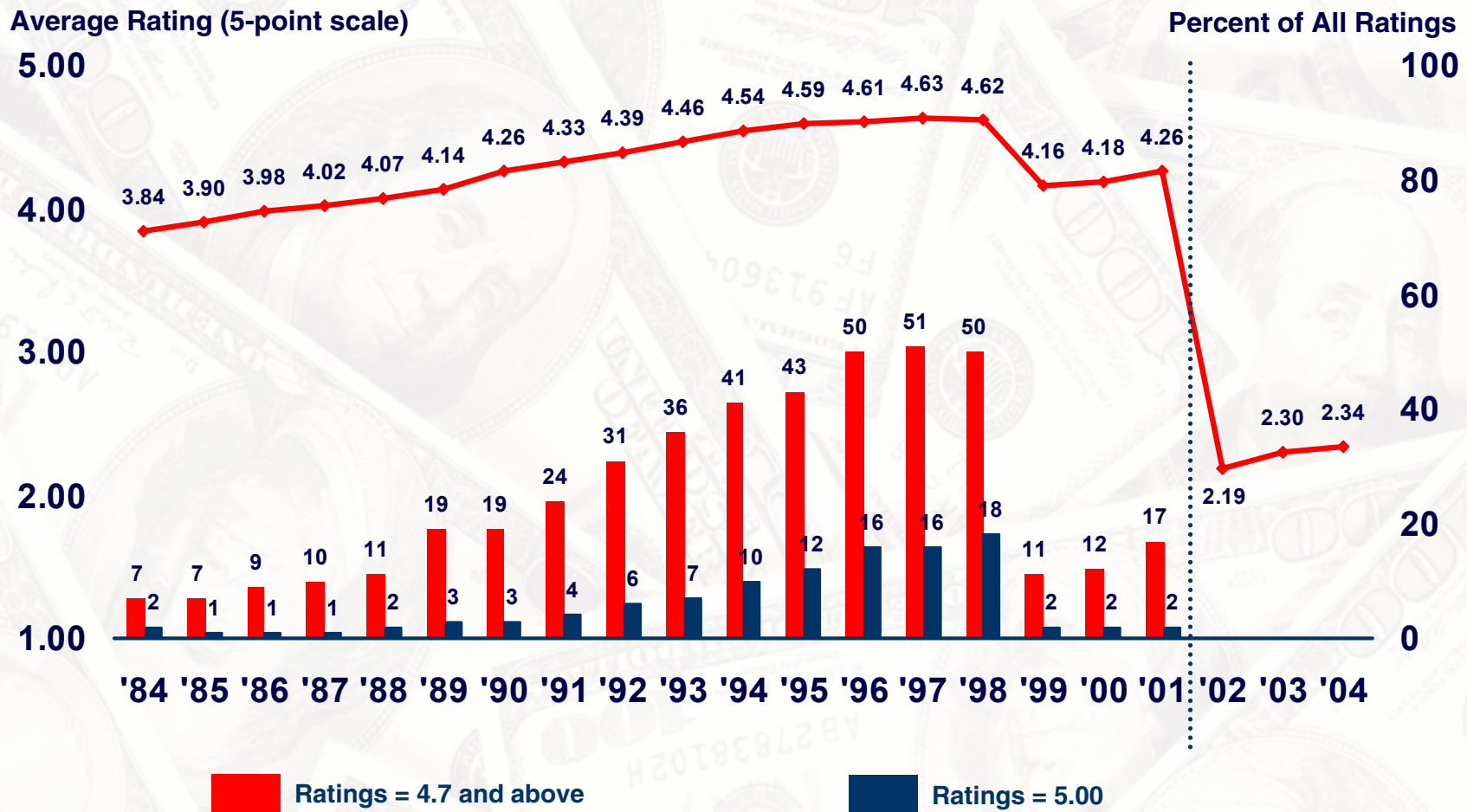
**Career
Planning**

**Work
Assignments**

**Pay
Decisions**

**Performance
Management**

Analyst/Specialist Appraisal Scores (1984-2004)



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, FY03, or FY04.

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 reflective of the roles and responsibilities that we expect GAO staff to perform
- Be reasonable; competitive; performance-oriented; and based on skills, knowledge, and role
- Be affordable and sustainable based on current and expected resources levels
- Be in conformity with applicable statutory limits
- Try to assure a reasonable consistency in ratings and related compensation results within and between teams

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

Three Key Ingredients Needed for These Challenging and Changing Times

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



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