

UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE

IMPROVING

PERFORMANCE • ACCOUNTABILITY • TRANSPARENCY
IN THE FEDERAL GOVERNMENT



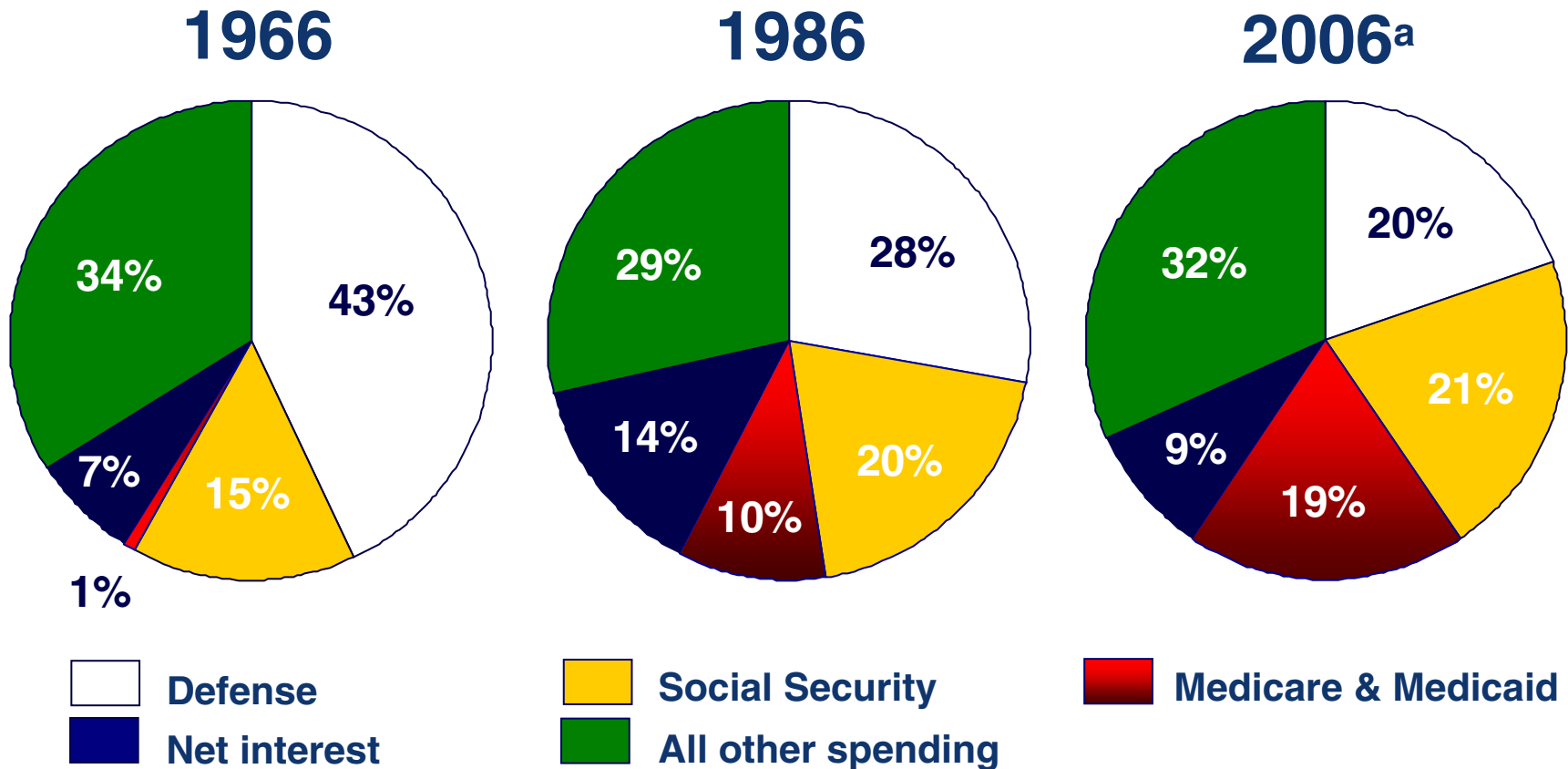
The Honorable David M. Walker
Comptroller General of the United States

The Government Performance Summit
The Center for Government Performance and the
Performance Institute
January 29, 2007



GAO-07-420CG

Composition of Federal Spending

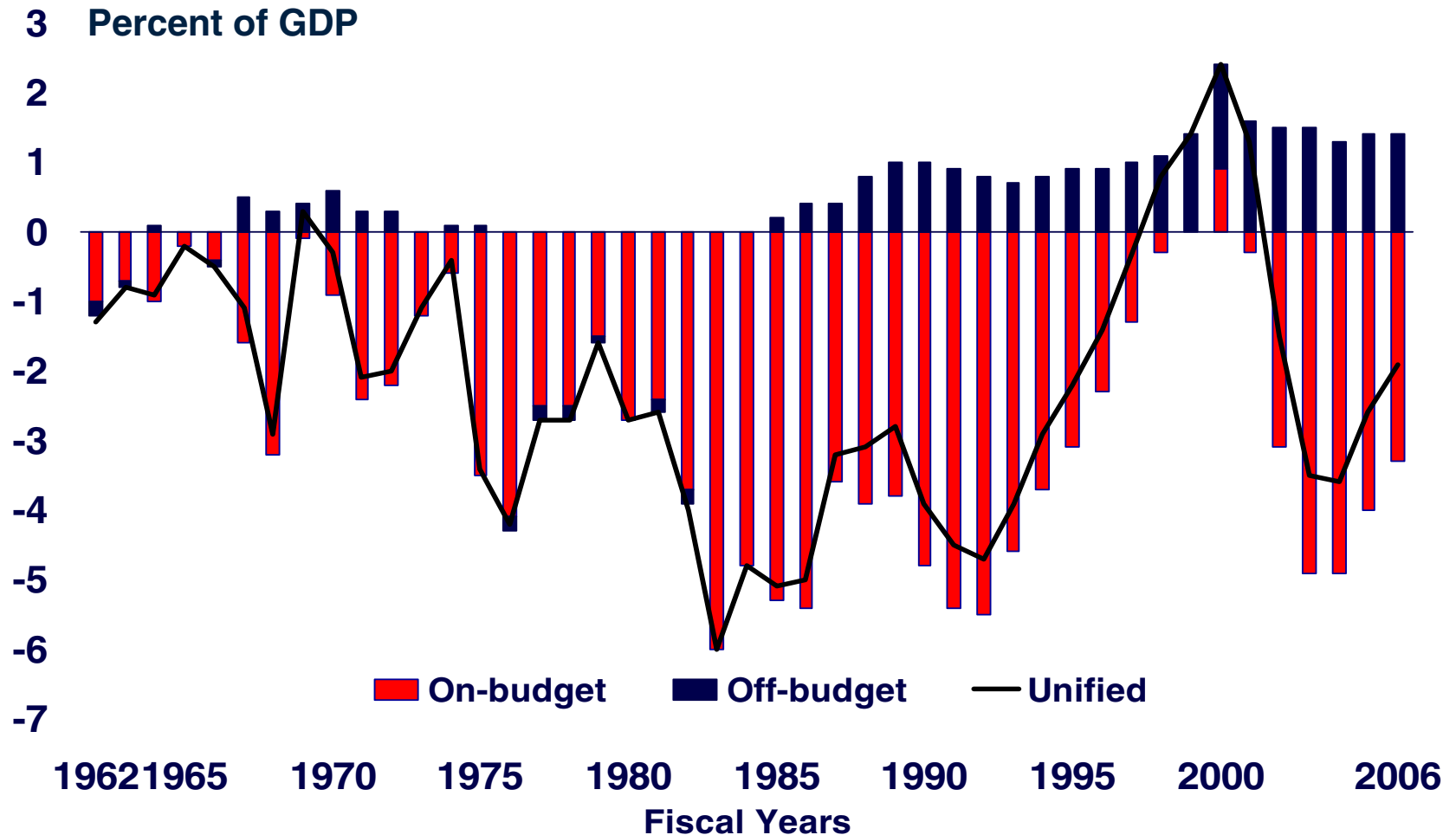


Sources: Office of Management and Budget and the Department of the Treasury.

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

^aPreliminary.

Surplus or Deficit as a Share of GDP Fiscal Years 1962-2006



Sources: Office of Management and Budget, Department of the Treasury and the Congressional Budget Office.

Fiscal Year 2005 and 2006 Deficits and Net Operating Costs

	Fiscal Year 2005	Fiscal Year 2006
	(\$ Billion)	
On-Budget Deficit^a	(494)	(434)
Unified Deficit	(318)	(248)
Net Operating Cost^b	(760)	(450)

Sources: The Office of Management and Budget and the Department of the Treasury.

^aIncludes \$173 billion in Social Security surpluses for fiscal year 2005 and \$185 billion for fiscal year 2006; \$2 billion in Postal Service surpluses for fiscal year 2005 and \$1 billion for fiscal year 2006.

^bFiscal year 2005 and 2006 net operating cost figures reflect significant but opposite changes in certain actuarial costs. For example, changes in interest rates and other assumptions used to estimate future veterans' compensation benefits increased net operating cost by \$228 billion in 2005 and reduced net operating cost by \$167 billion in 2006.

Major Reported Long-Term Fiscal Exposures (\$ trillions)

	2000	2006	% Increase
• Explicit liabilities	\$6.9	\$10.4	52
• Publicly held debt			
• Military & civilian pensions & retiree health			
• Other			
• Commitments & contingencies	0.5	1.3	140
• E.g., PBGC, undelivered orders			
• Implicit exposures	13.0	38.8	197
• Future Social Security benefits	3.8	6.4	
• Future Medicare Part A benefits	2.7	11.3	
• Future Medicare Part B benefits	6.5	13.1	
• Future Medicare Part D benefits	--	7.9	
Total	\$20.4	\$50.5	147

Source: 2000 and 2006 Financial Report of the United States Government.

Note: Estimates for Social Security and Medicare are at present value as of January 1 of each year and all other data are as of September 30. Totals may not add due to rounding. Percentage increases are based on actual data and may differ from increases calculated from rounded data shown in table.

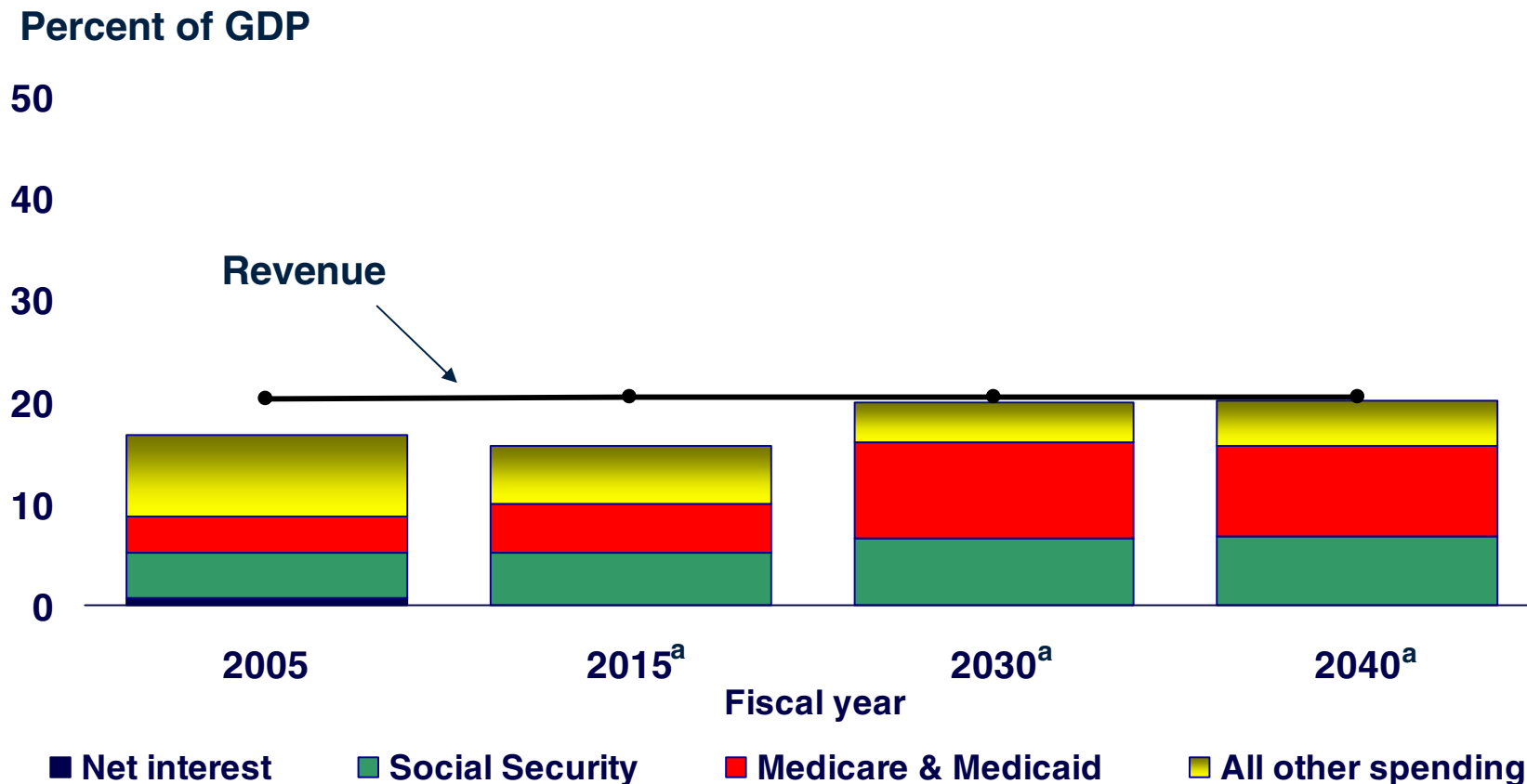
Understanding the Size of Major Reported Fiscal Exposures

Our fiscal burden can be translated and compared as follows:

	2006
Major reported fiscal exposures	\$50.5 trillion
Total household net worth	\$53.3 trillion
Ratio of fiscal exposures to net worth	95 percent
Burden	
Per person	\$170,000
Per full-time worker	\$400,000
Per household	\$440,000
Income	
Median household income	\$46,326
Disposable personal income per capita	\$31,519
Ratio of household burden to median income	9.5

Sources: GAO analysis of data from the Department of the Treasury, Federal Reserve Board, U.S. Census Bureau and Bureau of Economic Analysis

Composition of Spending as a Share of GDP Under Baseline Extended (January 2001)



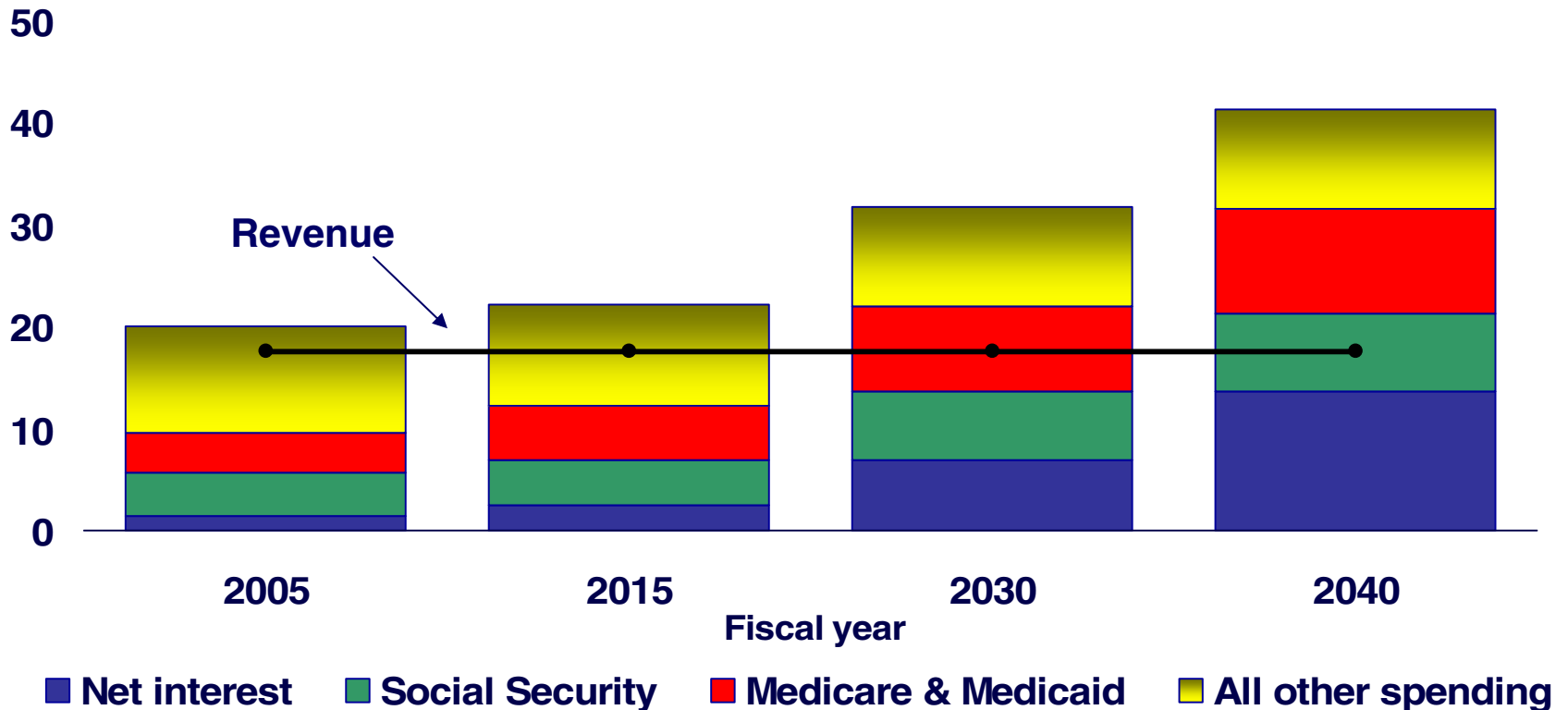
Source: GAO's January 2001 analysis.

^aAll other spending is net of offsetting interest receipts.

Composition of Spending as a Share of GDP

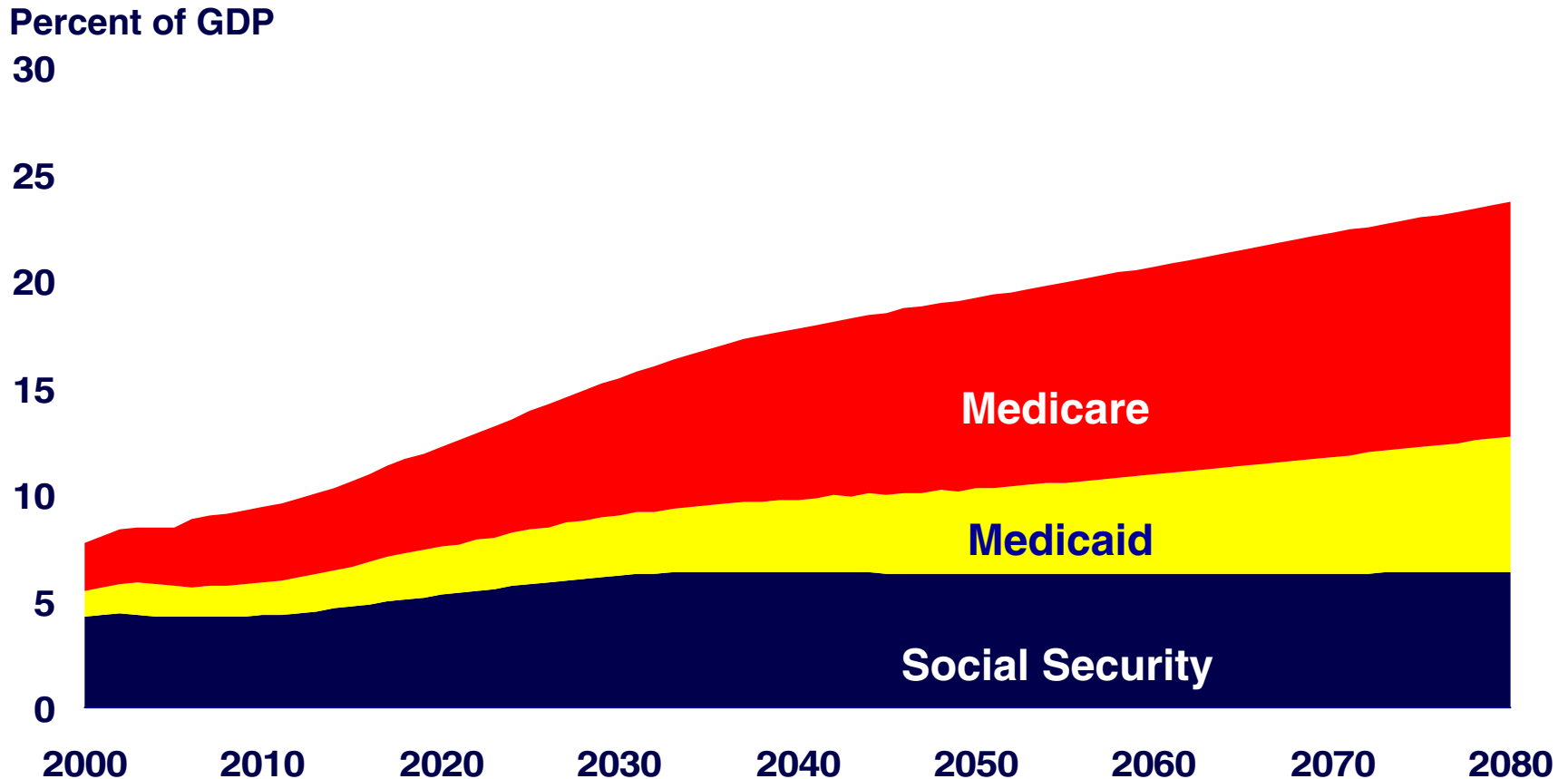
Assuming Discretionary Spending Grows with GDP
After 2006 and All Expiring Tax Provisions are Extended

Percent of GDP



Source: GAO's August 2006 analysis.

Social Security, Medicare, and Medicaid Spending as a Percent of GDP

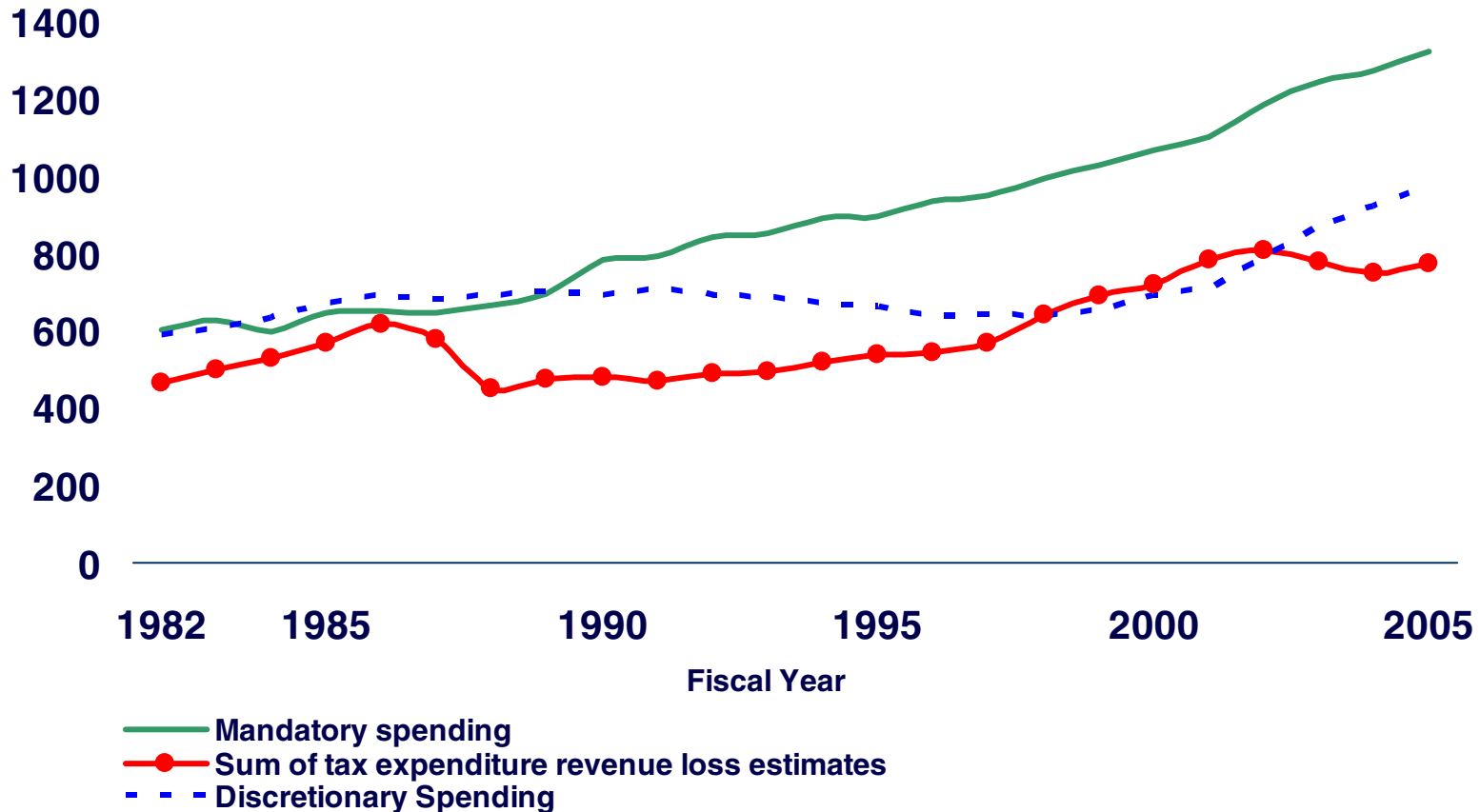


Source: GAO analysis based on data from the Office of the Chief Actuary, Social Security Administration, Office of the Actuary, Centers for Medicare and Medicaid Services, and the Congressional Budget Office.

Notes: Social Security and Medicare projections based on the intermediate assumptions of the 2006 Trustees' Reports. Medicaid projections based on CBO's August 2006 short-term Medicaid estimates and CBO's December 2005 long-term Medicaid projections under mid-range assumptions.

Federal Tax Expenditures Exceeded Discretionary Spending for Half of the Last Decade

Dollars in billions (in real 2005 dollars)

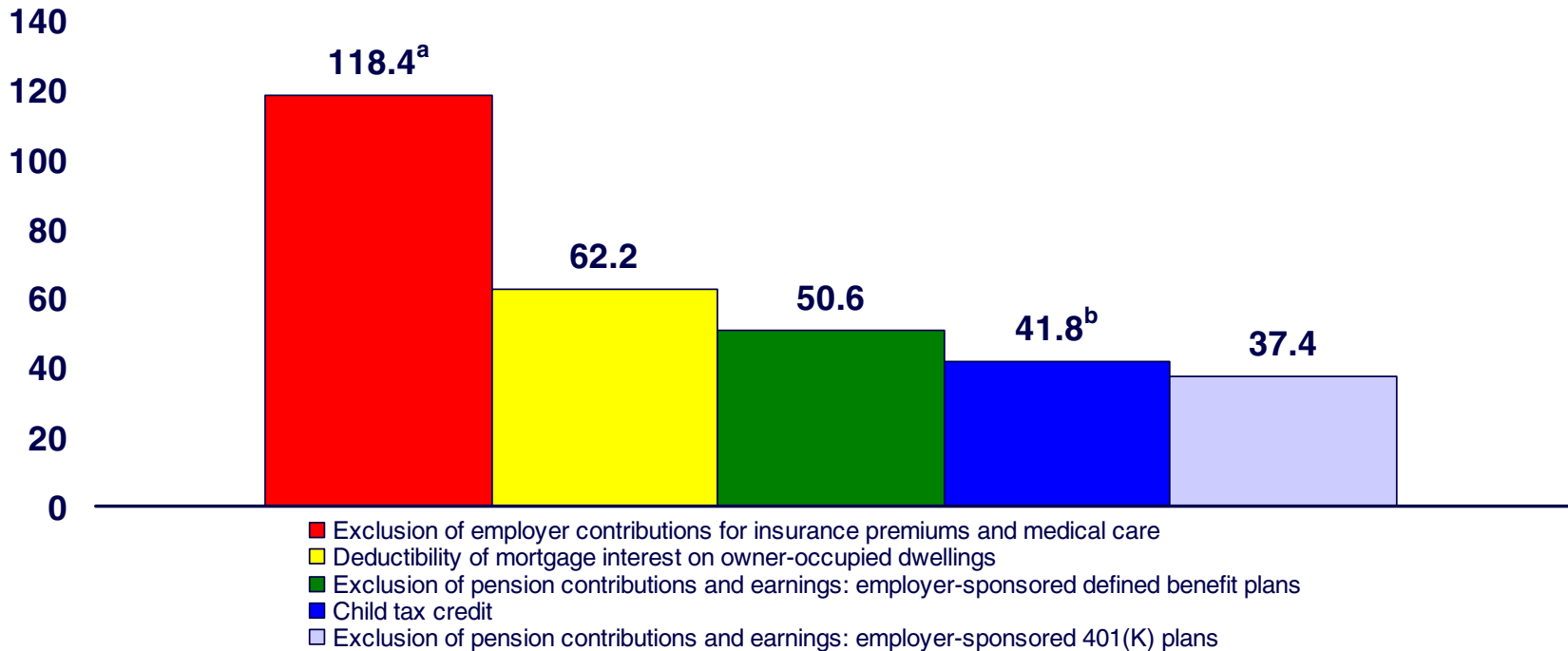


Source: GAO analysis of OMB budget reports on tax expenditures, fiscal years 1976-2007.

Note: Summing tax expenditure estimates does not take into account interactions between individual provisions. Outlays associated with refundable tax credits are included in mandatory spending.

Health Care Is the Nation's Top Tax Expenditure in Fiscal Year 2005

Estimated dollars in billions



Sources: Office of Management and Budget (OMB), *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2007*.

Note: "Tax expenditures" refers to the special tax provisions that are contained in the federal income taxes on individuals and corporations. OMB does not include forgone revenue from other federal taxes such as Social Security and Medicare payroll taxes.

^aIf the payroll tax exclusion were also counted here, the total tax expenditure for employer contributions for health insurance premiums would be about 50 percent higher or \$177.6 billion.

^bThis is the revenue loss and does not include associated outlays of \$14.6 billion.

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 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: A Three-Pronged Approach

- 1. Improve Financial Reporting, Public Education, and Performance Metrics**
- 2. Strengthen Budget and Legislative Processes and Controls**
- 3. Fundamental Reexamination & Transformation for the 21st Century (i.e., entitlement programs, other spending, and tax policy)**

Solutions Require Active Involvement from both the Executive and Legislative Branches

The Way Forward

Improve Financial Reporting, Public Education, and Performance Metrics

- Improve transparency & completeness of President's budget proposal:
 - Return to 10-year estimates in budget both for current policies and programs and for policy proposals
 - Include in the budget estimates of long-term cost of policy proposals & impact on total fiscal exposures.
 - Improve transparency of tax expenditures
- Consider requiring President's budget to specify & explain a fiscal goal and a path to that goal within 10-year window--or justify an alternative deadline
- Require annual OMB report on existing fiscal exposures [liabilities, obligations, explicit & implied commitments]
- Require enhanced financial statement presentation and preparation of summary annual report that is both useful and used
- Increase information on long-range fiscal sustainability issues in Congressional Budget Resolution & Budget Process.
- Develop key national (outcome-based) indicators (e.g. economic, security, social, environmental) to chart the nation's posture, progress, and position relative to the other major industrial countries

The Way Forward: Strengthen Budget and Legislative Processes and Controls

- Restore discretionary spending caps & PAYGO rules on both spending and tax sides of the ledger
- Develop mandatory spending triggers [with specific defaults], and other action-forcing provisions (e.g., sunsets) for both direct spending programs and tax preferences
- Develop, impose & enforce modified rules for selected items (e.g., earmarks, emergency designations, and use of supplementals)
- Require long-term cost estimates (e.g. present value) for any legislative debate on all major tax and spending bills, including entitlement programs. Cost estimates should usually assume no sunset
- Extend accrual budgeting to insurance & federal employee pensions; develop techniques for extending to retiree health & environmental liabilities
- Consider biennial budgeting
- Consider expedited line item rescissions from the President that would only require a majority vote to override the proposed rescission(s)

The Way Forward: Fundamental Reexamination & Transformation

- Restructure existing entitlement programs
- Reexamine and restructure the base of all other spending
- Review & revise existing tax policy, including tax preferences and enforcement programs
- Expand scrutiny of all proposed new programs, policies, or activities
- Reengineer internal agency structures and processes, including more emphasis on long-term planning, integrating federal activities, and partnering with others both domestically and internationally
- Strengthen and systematize Congressional oversight processes
- Increase transparency associated with government contracts and other selected items
- Consider a capable, credible, bi-partisan entitlement and tax reform commission along the lines proposed by Sen. Voinovich and Cong. Wolf

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.

Key National Indicators: Where the United States Ranks

The United States may be the only superpower, but compared to most other OECD countries on selected key economic, social, and environmental indicators, on average, the U.S. ranks

16 OUT OF 28

OECD Categories for Key Indicators
(2006 OECD Factbook)

• Population/Migration	• Energy	• Environment	• Quality of Life
• Macroeconomic Trends	• Labor Market	• Education	• Economic Globalization
• Prices	• Science & Tech.	• Public Finance	

Source: 2006 OECD Factbook.

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

<u>National Flood Insurance Program</u>	<u>2006</u>
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Other

FAA Air Traffic Control Modernization	1995
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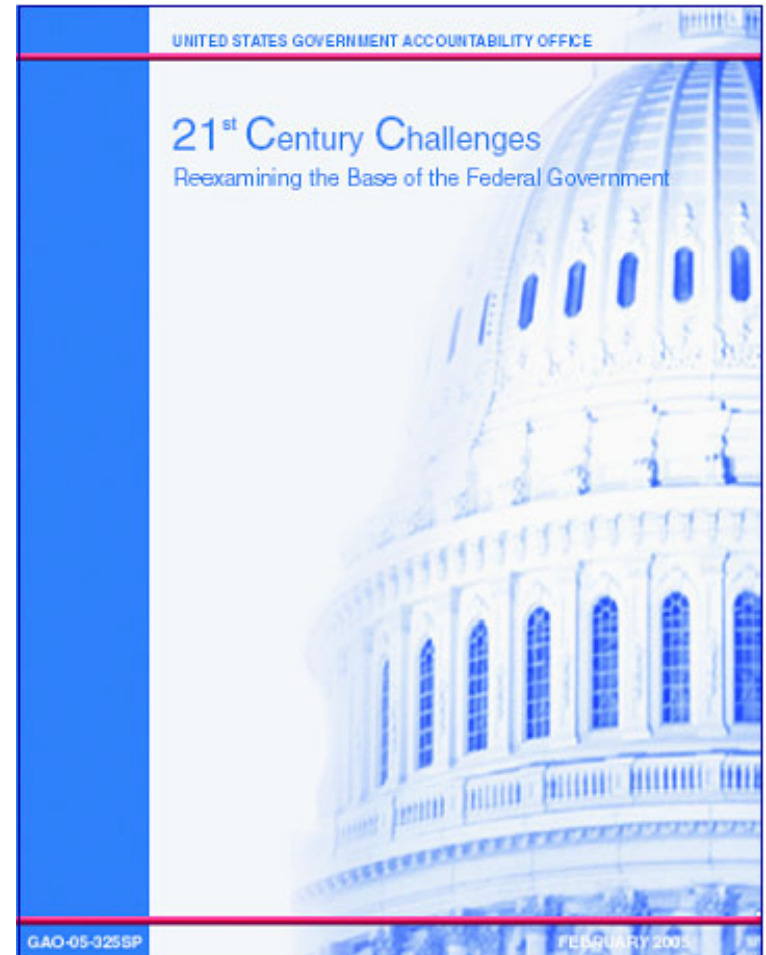
^a Legislation is likely to be necessary, as a supplement to actions by the executive branch, in order to effectively address this high-risk area.

^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.

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**



Source: GAO.

GAO-07-420CG

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

Generic Reexamination Criteria and Sample Questions

■ Relevance of purpose and the federal role

Why did the federal government initiate this program and what was the government trying to accomplish?

Have there been significant changes in the country or the world that relate to the reason for initiating it?

■ Measuring success

Are there outcome-based measures? If not, why?

If there are outcome-based measures, how successful is it based on these measures?

■ Targeting benefits

Is it well targeted to those with the greatest needs and the least capacity to meet those needs?

■ Affordability and cost effectiveness

Is it using the most cost-effective or net beneficial approaches when compared to other tools and program designs?

■ Best practices

Is the responsible entity employing prevailing best practices to discharge its responsibilities and achieve its mission?

Illustrative 21st Century Questions: *Management & Human Capital Issues*

- What are the **leadership models** that can be used to improve agency management and address transformation challenges? For example, should we create chief operating officer or chief management officer positions with term appointments within selected agencies to elevate, integrate, and institutionalize responsibility and authority for business management and transformation efforts?
- How should the federal government update its **compensation systems** to be more market-based and performance-oriented? For example, should poor performers be guaranteed pay increases? How can these systems ensure pay comparability and provide reasonable annual pay adjustments while also competing for critical occupations or in higher cost locations?
- How can the executive branch and the Congress have a more **strategic, crosscutting focus on policy and budget decisions** to address goals that cut across conventional agency and program boundaries? Can the governmentwide performance plan required by GPRA be implemented to provide the necessary crosscutting focus?

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

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.

Key Transformation Elements

- Planning
- People
- Process
- Partnerships
- Technology
- Environment

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



Source: 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 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 Performance Measures

Key Dimensions

- Results
- Clients/customers
- People
- Partnerships

Context

- Absolute
- Trend
- Compared to Peers

How GAO Has Addressed Its Human Capital Challenges

Administrative

- **Human capital strategic plan**
- 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
- Mentor/buddy programs
- Commuting subsidy
- **Competency-based employee appraisal system**
- Human Capital Officer
- Office of Opportunity & Inclusiveness
- Flexitime and telework
- **Total compensation communications**
- **Broad-banding**
- **Market-based pay studies**
- **Band II restructuring**

Legislation Addressing GAO's Human Capital Challenges

Past


- **Broad-banding authority**
- 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 controlled by GAO**
- **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 sight” 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**



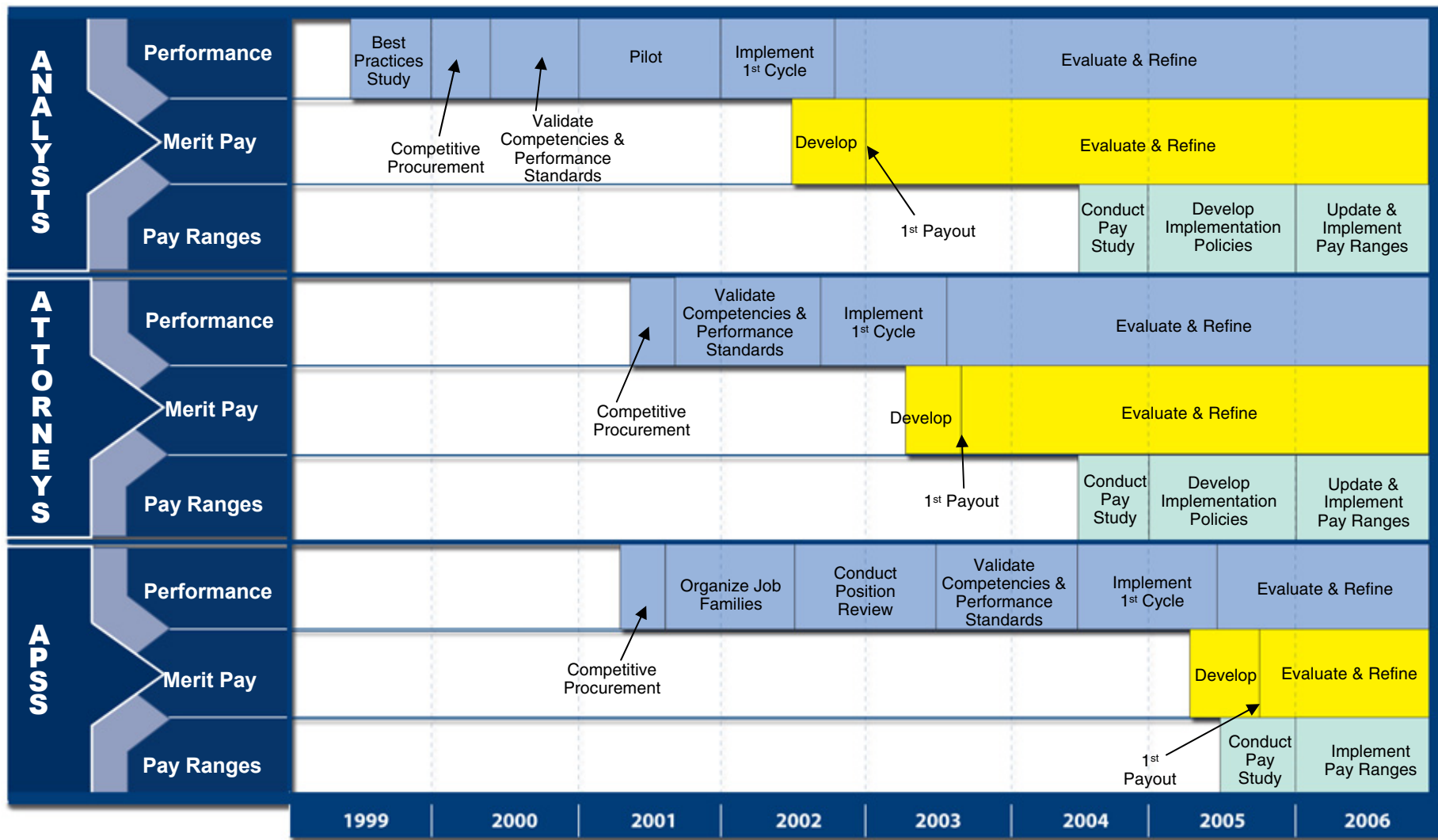
- Uses pay bands
- Is market-based
- Is performance-oriented


**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

Market-Based and Performance-Oriented Pay Systems: A Phased Approach



 Development and Implementation of the Competency-based Performance Management System

 Development and Implementation Performance-based Compensation System i.e., Merit Pay Bonus

 Development and Implementation Market-based Compensation System

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



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 some staff must have performance in excess of a certain level to advance beyond a certain point in 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

Classification and Compensation Review (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**

GAO's Band II Restructuring Effort: Lessons To Be Shared

- Study the relative roles and responsibilities of the employees affected before determining the number of bands
- Conduct an independent market-based compensation study instead of relying on GS-pay ranges
- Design and implement a modern, effective, and credible performance management system that makes meaningful distinctions in performance

Key Leadership Attributes Needed for These Challenging and Changing Times

- ***Courage***
- ***Integrity***
- ***Creativity***
- ***Partnership***
- ***Stewardship***

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On the Web

Web site: www.gao.gov/cghome.htm

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