

21st Century Challenges

Reexamining the Base
of the Federal Government

The Honorable David M. Walker
Comptroller General of the United States
Federal Managers Association
Hilton Crystal City, Arlington, VA
April 12, 2005



G A O

Accountability • Integrity • Reliability

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'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

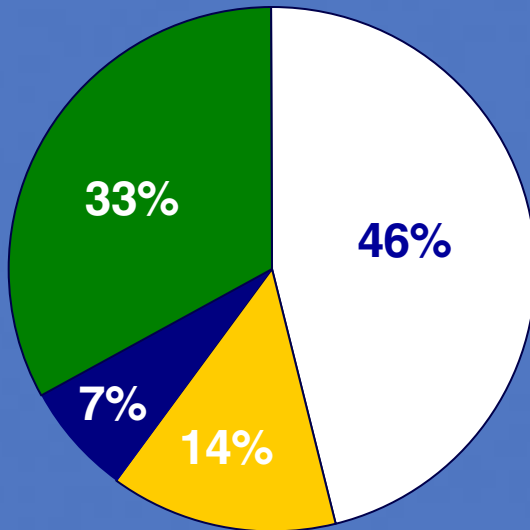
^a Legislation is likely to be necessary, as a supplement to actions by the executive branch, in order to effectively address this high-risk area.

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

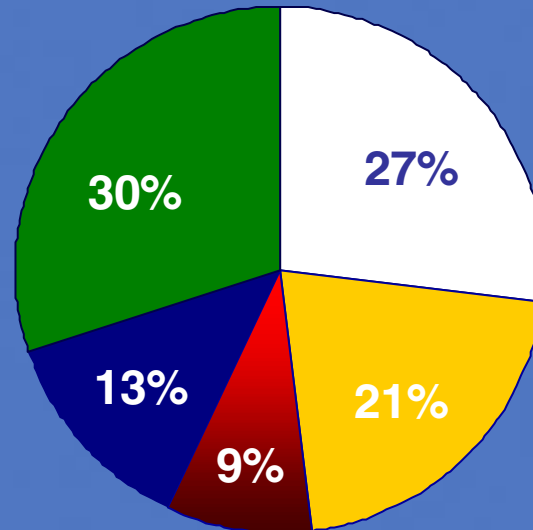
^c The IRS Financial Management high-risk area has been incorporated into this high-risk area.

Composition of Federal Spending

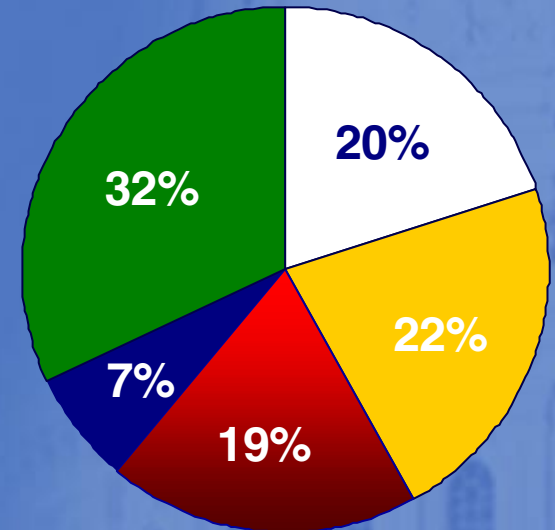
1964



1984



2004



Defense
Net interest



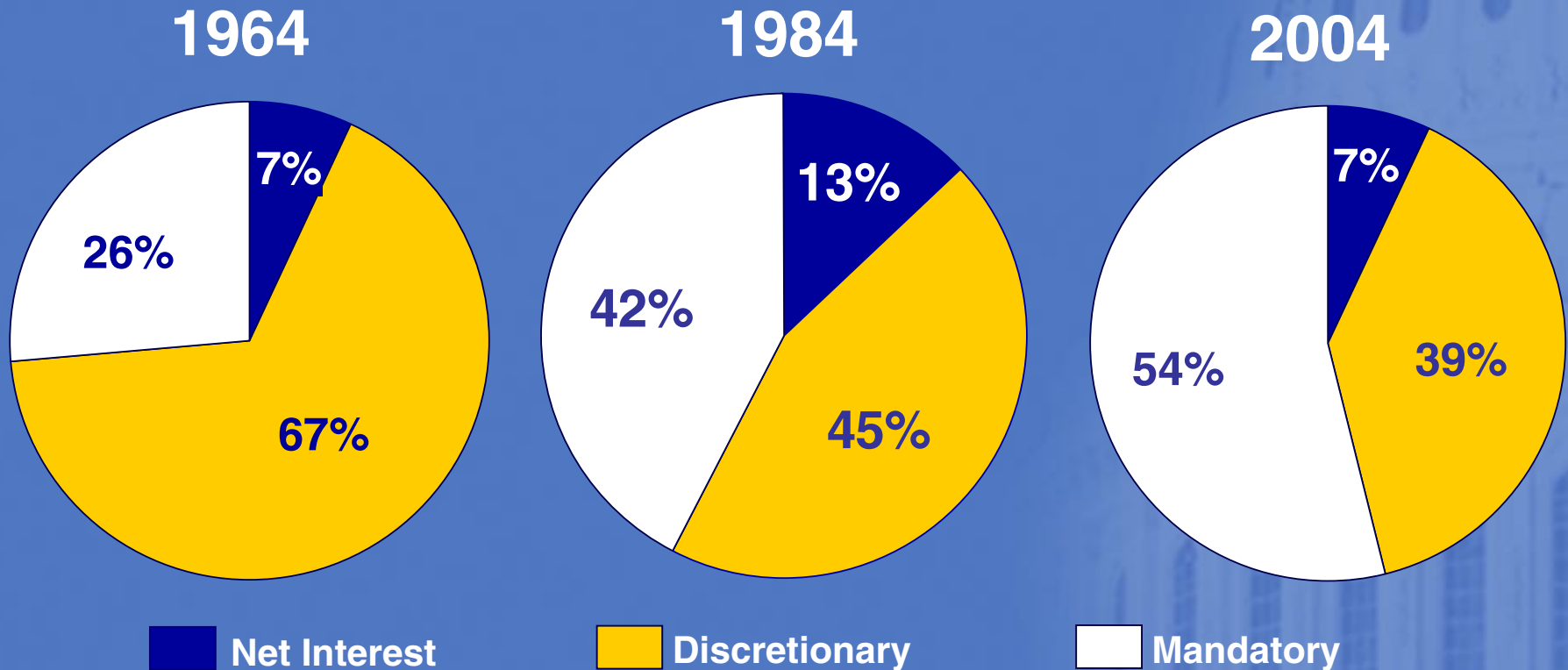
Social Security
All other spending



Medicare & Medicaid

Source: Office of Management and Budget.

Federal Spending for Mandatory and Discretionary Programs



Source: Office of Management and Budget.

Fiscal Year 2004 Deficit Numbers

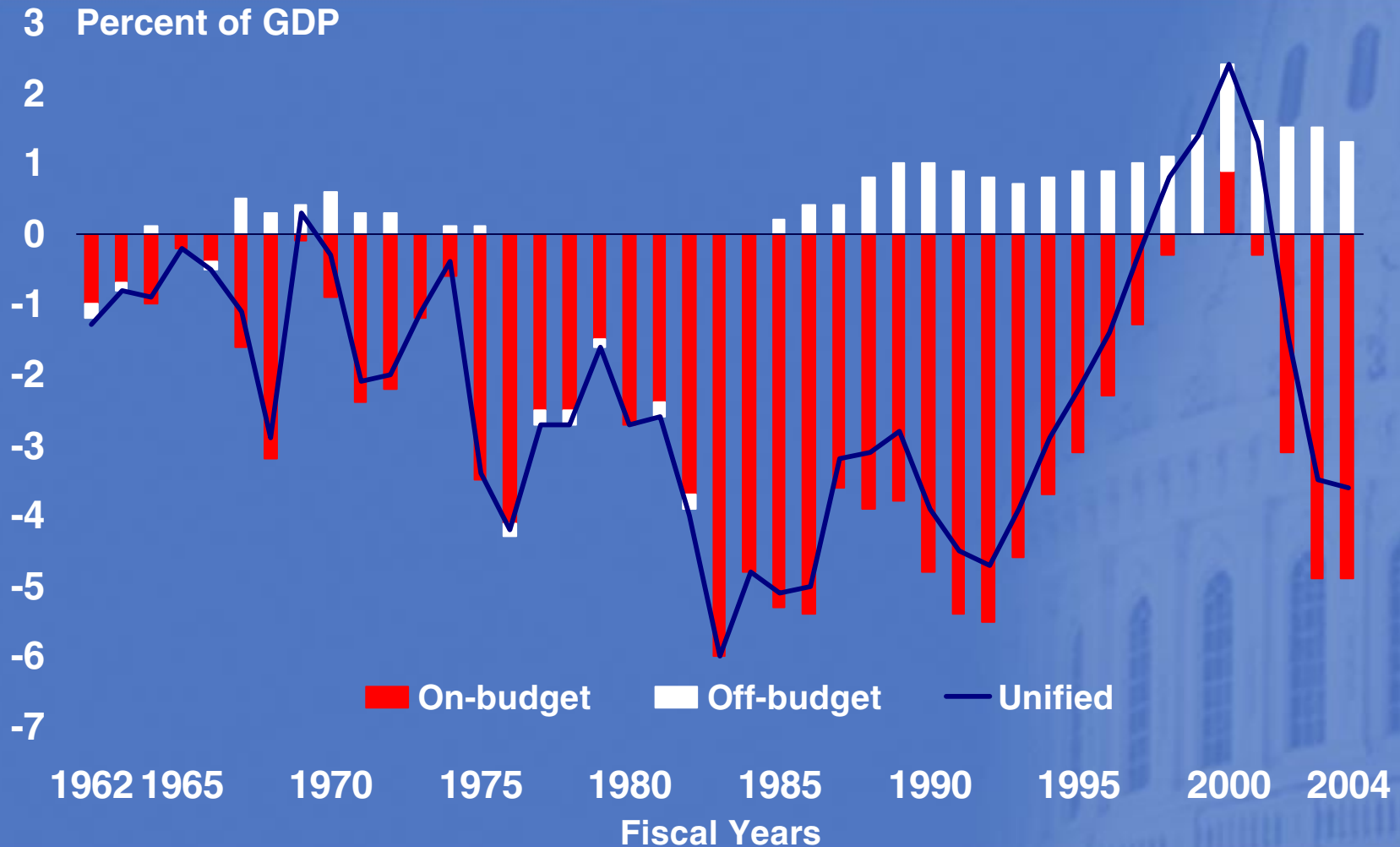
	\$ Billion	% of GDP
On-Budget Deficit	(567)	(4.9)
Off-Budget Surplus	155*	1.3
Unified Deficit	(412)	(3.6)

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

March 2005

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 2005^a

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) ^b Future Social Security benefit payments (\$4,017) ^c Future Medicare Part A benefit payments (\$8,561) ^c Future Medicare Part B benefit payments (\$12,384) ^c Future Medicare Part D benefit payments (\$8,686) ^c Life cycle cost including deferred and future maintenance and operating costs (amount unknown) Government Sponsored Enterprises e.g., Fannie Mae and Freddie Mac

^a All figures are for end of fiscal year 2004, except Social Security and Medicare estimates, which are as of January 1, 2005.

^b This amount includes \$845 billion held by military and civilian pension and post-retirement health funds that would offset the explicit liabilities reported by those funds.

^c Figures for Social Security and Medicare are net of debt held by the trust funds (\$1,687 billion for Social Security, \$268 billion for Medicare Part A, and \$19 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 \$11.1 trillion, \$24.1 trillion for Medicare Part A, \$25.8 trillion for Medicare Part B, and \$18.2 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.

Revised 3/29/05

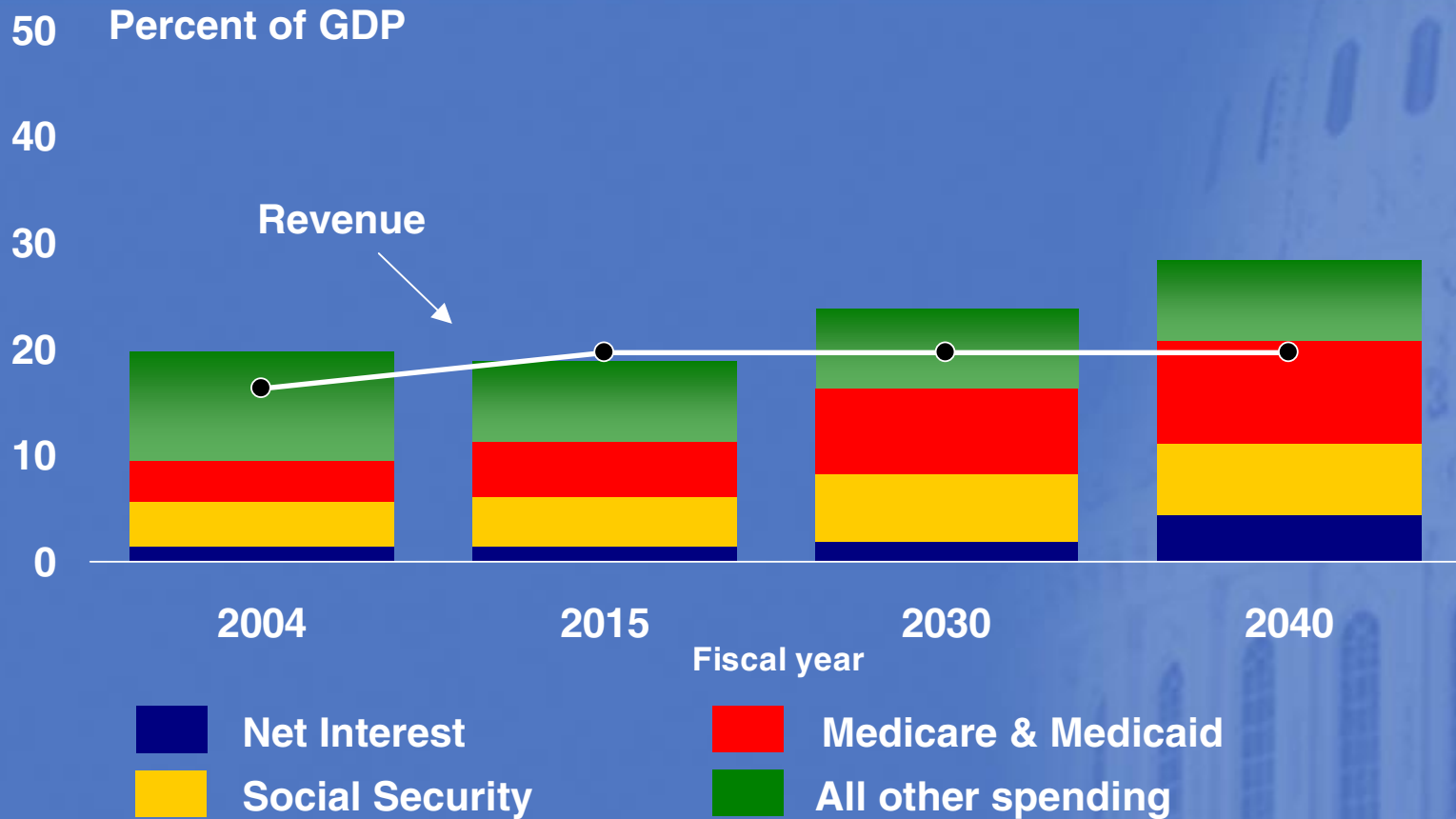
Another Way to Think About These Numbers

- Debt held by the public—\$4.3T
- Trust fund debt—\$3.1T
- Gross debt—\$7.4T
- Gross debt per person—about \$25,000
- If we add everything on the previous slide, the burden is more than \$150,000 per person or more than \$365,000 per full-time worker. Alternatively, it amounts to a total burden of more than \$45 trillion in current dollars, which is about 18 times the current annual federal budget or about 3.7 times the current annual GDP. This compares with an estimated \$48.5 trillion in total net worth, including home equity, for all Americans.

Note: The calculations are based on 75-year projections for Social Security and Medicare.

Composition of Spending as a Share of GDP

Under Baseline Extended

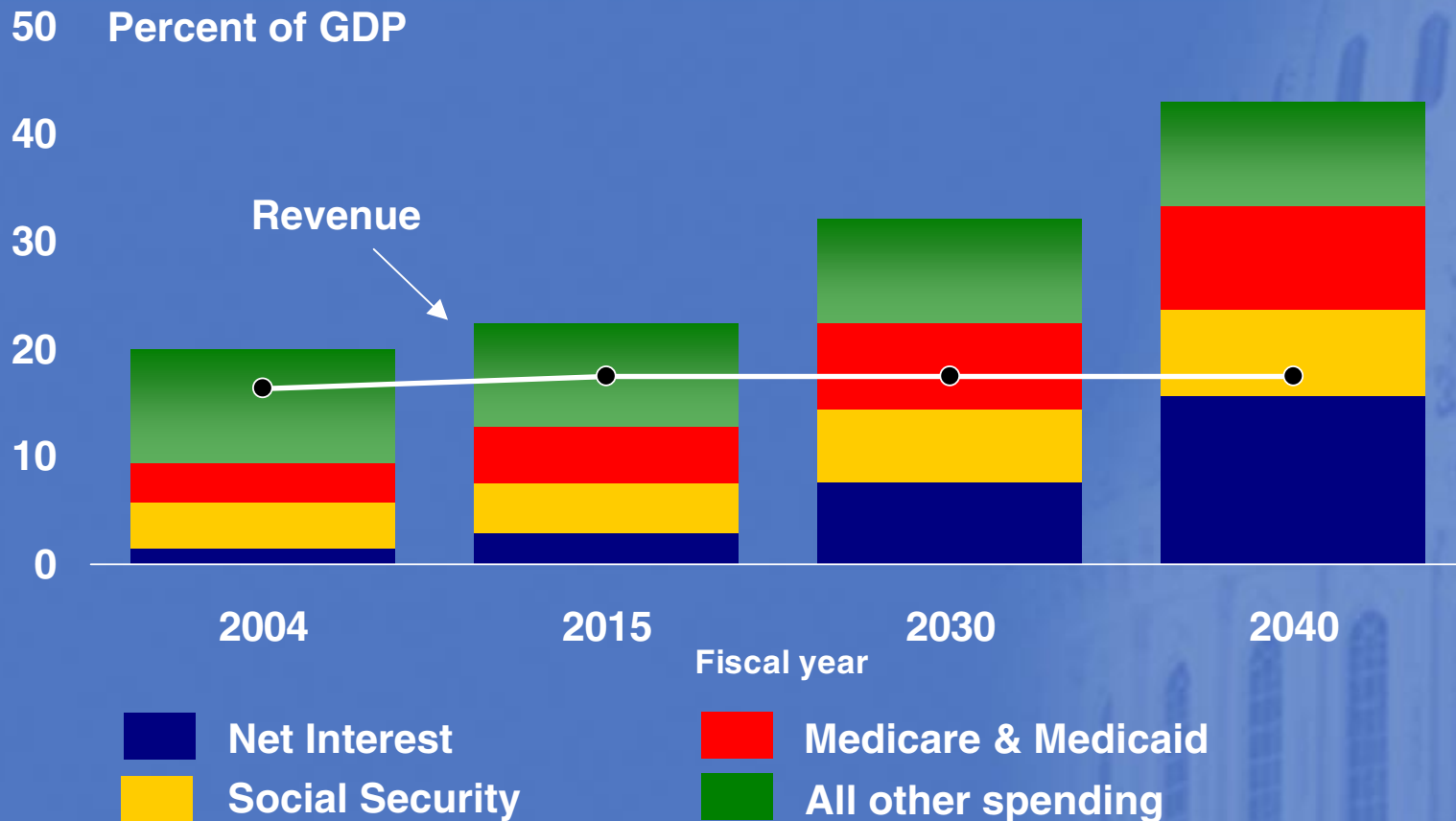


Notes: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2015 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2015, revenue as a share of GDP is held constant.

Source: GAO's March 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 March 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

21st Century Challenges Report

- Report was issued February 16
- Based on GAO's work for the Congress
- Provides framework and questions to assist in reexamining the base
- Covers entitlements & other mandatory spending, discretionary spending, and tax policy and programs

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?

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

Themes

- Changing Security Threats
- Increasing Global Interdependence
- Demographic Shifts – Aging Population
- Promoting Growth in a Knowledge-Based Economy
- Governance

Illustrative 21st Century Questions

- How should the historical allocation of resources across services and programs be changed to reflect the results of a forward-looking comprehensive threat/risk assessment as part of DOD's capabilities-based approach to determining defense needs?
- Should federally funded training programs operated across multiple federal agencies—9 federal agencies administer 44 such programs—be better integrated and restructured in order to increase their cost effectiveness?
- To what extent do the tools and incentives increase spending on housing rather than promote affordable housing? Can the tools and incentives provided to homeownership be better targeted toward increasing home ownership among selected groups with less capacity to access credit markets?

Illustrative 21st Century Questions

- How can industry standards for acceptable care be established and payment reforms be designed to bring about reductions in unwarranted medical practice variation? For example, what can or should the federal government do to promote uniform standards of practice for selected procedures and illnesses?
- What criteria should be used to target federal funding for homeland security in order to maximize results and mitigate risk within available resource levels?
- Do we need to reexamine the U.S. force structure used for nation building and peacekeeping activities by the United Nations, NATO, and other international institutions? Should the United States have a separate force devoted to such functions? What role should the United Nations, NATO, and other international institutions perform in connection with such functions?

Illustrative 21st Century Questions

- To what extent are federal energy policies and incentive structures adequately preparing the nation to satisfy its energy needs over the long term? What is the appropriate balance between efforts to promote enhanced production of fossil fuels, alternative renewable energy sources, and energy conservation?
- How can federal disability programs, and their eligibility criteria, be brought into line with the current state of science, medicine, technology, and labor market conditions?
- How can the United States better develop a world-class technical and scientific domestic workforce that is not as dependent on large inflows of international students and researchers?

Illustrative 21st Century Questions

- Can intermodal solutions to the needs of modes such as freight, air, and passenger rail service be effectively carried out within the framework of the existing trust funds and other transportation programs or is another model needed?
- Which tax incentives need to be reconsidered because they fail to achieve the objectives intended by the Congress, their costs outweigh their benefits, they duplicate other programs, or other more cost-effective means exist for achieving their objectives?
- How should the federal government update its compensations systems to be more market-based and performance—oriented?

Federal Human Capital Reform

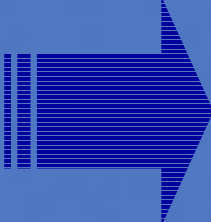
- **People are critical to successful transformation**
- **However, the existing federal personnel system is outmoded and a barrier to transformation needed to address 21st Century challenges**
- **GAO placed strategic human capital management on the high risk list in 2001 to focus attention on needed reforms**
- **More progress on reform has been achieved in the last 5 years than in the previous 20**
 - **Legislative reforms**
 - **President's Management Agenda**
 - **Individual agencies' efforts**

Federal Human Capital Reform

- Tailored flexibilities have been granted to a number of agencies: DHS, DOD, NASA, GAO, etc.
- GAO is sharing its knowledge and experience to help inform other agencies in their efforts and to avoid pitfalls

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
- Avenues for adverse action appeals, both internally and externally

Other Agencies' Elements of Reform

- **DHS and DOD reforms**
 - **Intend to include many of these same elements of a flexible and contemporary human capital management system**
 - Performance management system
 - Pay bands and performance and market-based pay
 - **But many details still to be defined, and the agencies face multiple challenges:**
 - Revisions to labor-management relations have been controversial
 - Need to provide sustained and committed leadership, dedicated resources, training, and program evaluation strategy
 - Need to assure that the necessary support infrastructure is in place before allowing agencies to implement certain authorities (e.g., performance-based pay)
 - Need to conduct certain studies over time (e.g., market-based compensation ranges)

Going Forward

- **Reforms to date recognize that one-size-fits-all approach is not appropriate to each agency's demands, challenges, and missions. However, a reasonable degree of consistency across the government is still desirable (e.g., principles, values, and safeguards)**
- **Need to move forward with reform, but how it is done, when it is done, and on what basis it is done can make all the difference**
- **Future reforms should incorporate a phased approach, where agencies are authorized to implement reform only after they have shown they have the capacity to do so (i.e., show-me approach)**
- **As part of this capacity, agencies must be able to make effective use of new authorities and have critical infrastructure in place:**
 - Strategic human capital planning process linked to the agency's overall strategic plan
 - Capabilities to design and implement a new human capital system effectively
 - Modern, effective, credible and validated performance management system
 - Adequate internal and external safeguards (e.g., reviews, appeal processes)

Going Forward

- **In the short term, reforms could include select and targeted new authorities**
 - Allowing agency heads to make a limited number of term appointments awarded noncompetitively
 - No guaranteed pay increases for persons who do not perform at an acceptable level
 - Rightsizing and restructuring authorities that can place additional emphasis on factors such as knowledge, skills, and performance
- **Broader reforms should be guided by a framework consisting of a common set of:**
 - Principles (e.g., merit principles)
 - Criteria (e.g., demonstrated business case)
 - Processes (e.g., preconditions, including adequate infrastructure in place)
- **GAO continues to work with key clients and stakeholders on future of reform**
 - Forum on government-wide framework
 - Testimony on DHS and DOD human capital designs
 - Symposium on modern compensation systems
 - Sharing our experience in implementing our reforms

How GAO Has Addressed Its Human Capital Challenges

Administrative

- HQ realignment & field office restructuring
- Self-assessment checklist
- Human capital profile
- Workforce & succession planning
- Employee feedback survey & suggestion program
- Employee Advisory Council
- Enhanced employee communications & participation
- Skills & knowledge inventory
- Employee preference survey
- Frequent flyer miles
- Student loan repayment
- Recruitment & college relations
- Phased retirement initiative
- Training/development
- Recognition & rewards
- Business casual dress & business cards
- Enabling technologies
- Opportunity/inclusiveness
- Mentor/buddy programs
- Commuting subsidy
- Competency-based employee appraisal system
- Human Capital Officer
- Office of Opportunity & Inclusiveness
- Flexitime and telework
- Total compensation communications
- Classification and compensation review
- Human Capital Strategic Plan

Legislation Addressing GAO's Human Capital Challenges

Past

- Broad-banding system for mission staff
- Expedited hiring authority (e.g., internship program)
- Special pay rates
- Senior level for technical staff
- Targeted early out and buyout authority (3 years)
- Revised RIF rules

Recent

- Targeted early out and buyout authority (permanent)
- Annual pay adjustment rates
- Pay retention provisions
- Relocation benefits
- Increased annual leave for upper level employees
- Executive exchange program
- Re-designation of “General Accounting Office” to “Government Accountability Office”

Competency-Based Performance Appraisal

Objective of new system are to provide a:

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

Succession Planning

Training

Promotions

Competency Model

Achieving Results

Maintaining Client and Customer Focus

Developing People

Thinking Critically

Collaborating with Others

Presenting Information Orally

Presenting Information in Writing

Leading Others

Recruitment

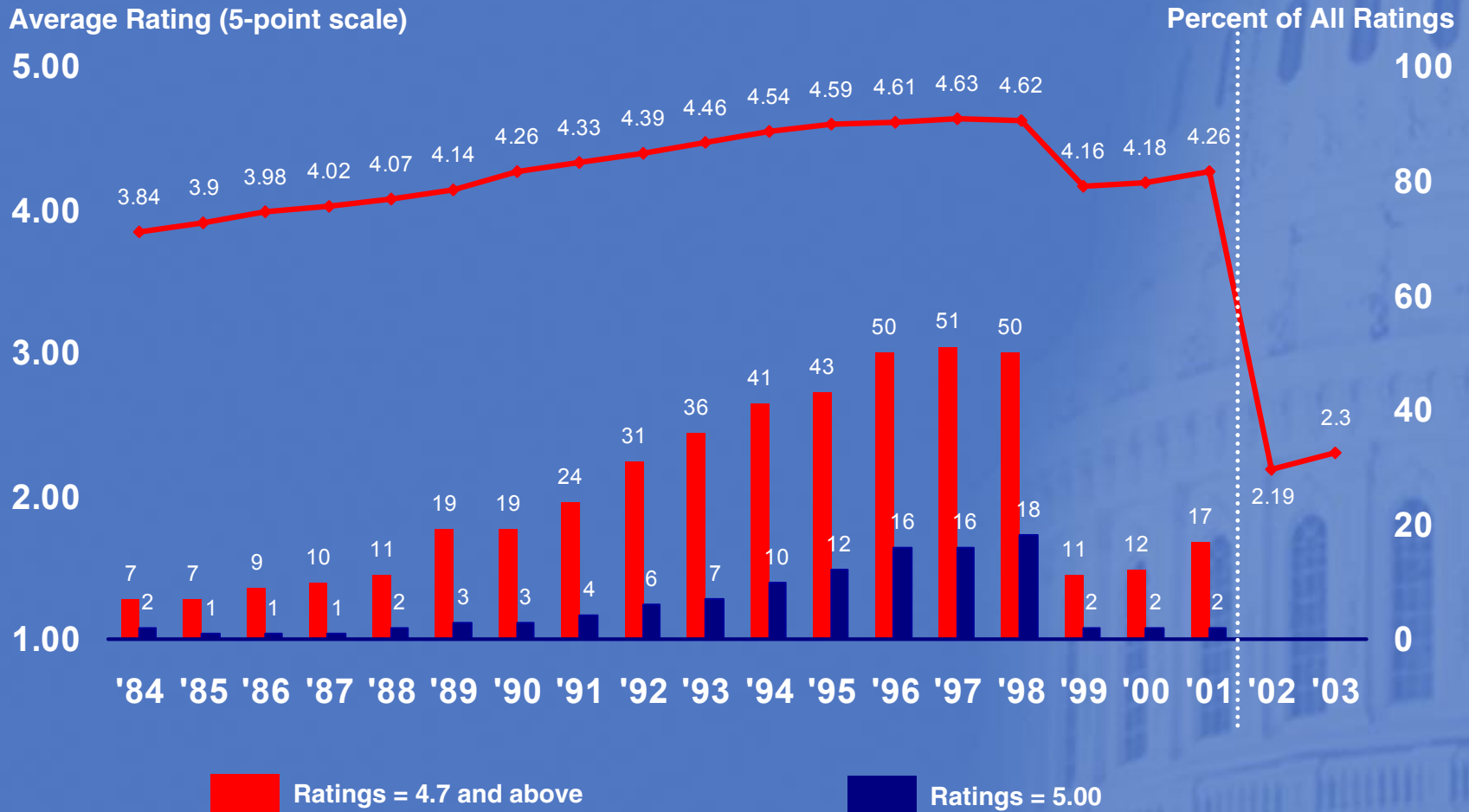
Work Assignments

Career Planning

Pay Decisions

Performance Management

Analyst/Specialist Appraisal Scores (1984-2003)



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

Classification and Compensation System: Key Guiding Principles

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

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

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

Key Leadership Attributes For Success

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

21st Century Challenges

Reexamining the Base
of the Federal Government

The Honorable David M. Walker
Comptroller General of the United States
Federal Managers Association
Hilton Crystal City, Arlington, VA
April 12, 2005



G A O

Accountability • Integrity • Reliability