

EXECUTIVE OFFICE OF THE PRESIDENT
OF THE UNITED STATES

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PRESIDENT'S MANAGEMENT ADVISORY BOARD

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MEETING

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WEDNESDAY

JULY 11, 2012

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The Board met in Room 428 of the
Eisenhower Executive Office Building, 1650
Pennsylvania Avenue, NW, Washington, D.C., at
10:00 a.m., Jeff Zients, Chair, presiding.

PRESENT

JEFFREY ZIENTS, Chair

GREG BROWN

SAM GILLILAND

JEFFREY KINDLER

DEBRA LEE

GAIL McGOVERN

ENRIQUE SALEM

ELIZABETH SMITH

TIM SOLSO

RONALD WILLIAMS

ALSO PRESENT

JOHN BERRY

CAROLYN COLVIN

BILL CORR

GAY GILBERT

SETH HARRIS

JANE HOLL LUTE

MAURICE JONES

JOSEPH JORDAN

KATHLEEN MERRIGAN

JOHN PORCARI

DAN TANGHERLINI

STEVEN VanROEKEL

DANNY WERFEL

SCOTT WINSLOW

NEAL WOLIN

C-O-N-T-E-N-T-S

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Presentation on strategic sourcing led by
Member Jordan.....7

Presentation on improper payments by
Danny Werfel.....89

1 P-R-O-C-E-E-D-I-N-G-S

2 (10:10 a.m.)

3 CHAIR ZIENTS: All right, does
4 everybody have a notebook? Turn to Tab 1. I
5 am going to quickly go over -- then hand it to
6 Scott for a few minutes to talk about what
7 we'll go over today. We are going to have an
8 open session starting now. We're going to do
9 a session that'll run until about -- until
10 11:00 on strategic sourcing and purchasing
11 power.

12 MR. WINSLOW: That is correct.

13 CHAIR ZIENTS: It's 11:00 then or
14 11:30?

15 MR. WINSLOW: 11:30.

16 CHAIR ZIENTS: All right.

17 MR. WINSLOW: This is -- again,
18 we've shifted a little bit. It's 11:30, but
19 Denis is joining us.

20 CHAIR ZIENTS: Okay, so 11:30 to
21 12:00?

22 MR. WINSLOW: That is correct.

1 CHAIR ZIENTS: There's no specific
2 agenda -- then we will have a -- probably do a
3 working lunch from 12:15 until 1:30. We'll
4 spend that time on two topics, one is improper
5 payments. And then we'll take on two new
6 topics. Strategic sourcing and improper
7 payments I think we all need wide
8 communication on the 2011 initiatives, IT and
9 the SES.

10 So, we'll get updates on the two
11 of those to make sure that we are continuing
12 to make progress there. We'll talk about next
13 steps, and then we'll walk over to the
14 Roosevelt Room for some time with the
15 President. Scott?

16 MR. WINSLOW: Fantastic. Thank
17 you, Jeff. My name is Scott Winslow. I'm the
18 Executive Director of the President's
19 Management Advisory Board and the designated
20 federal official as well.

21 Thirdly, as Jeff mentioned, we'll
22 be spending our time today talking about both

1 improper payments and strategic sourcing, and
2 thank you very much to all the PMAB Members
3 both for their time, as well as their patience
4 across the last couple of days as the calendar
5 has shifted a little bit.

6 We heard a couple of days ago that
7 the President was actually going to have some
8 time to meet with the PMAB Members, and as
9 such, his calendar is a little less forgiving
10 than the rest of ours. So, we had to move
11 things a bit. So, thank you for your patience
12 and understanding.

13 Across our time today, we really
14 hope to have a discussion with all of you
15 here, and part of the reason for this Board
16 actually being in existence. We have to take
17 advantage of the expertise and experience that
18 you all can bring to bear on the management
19 issues and challenges we face inside the
20 federal government.

21 So, we would like for this to be a
22 conversation, not a presentation. So, please

1 feel free to stop us as we move along. I know
2 most of you are not shy. I've had the
3 opportunity to spend some time with all of
4 you.

5 We do thank you for your
6 individual contributions and conversations, as
7 well as the experts inside of your companies
8 that you've given us access to.

9 As Jeff mentioned, we're going to
10 run up until about 1:30, at which point, we
11 will move on over to the West Wing to meet
12 with President Obama.

13 I just wanted to remind you this
14 is an open meeting. It is being webcast at
15 the moment. We will close the session at one
16 point across the day, and reopen it after
17 lunch. With that, let me turn the podium back
18 over to Jeff, and to Joe Jordan.

19 MR. JORDAN: Thanks, Jeff. So, as
20 we go through the strategic sourcing session
21 this morning, I'll say a few things. First, I
22 wanted to quickly recap the scope of the issue

1 and also the problem we are trying to solve.

2 I wanted to outline some of the
3 really helpful input we've already gotten from
4 our subcommittee members around the table so
5 that the rest of the PMAB Members and deputy
6 secretaries joining us can hear. And then we
7 really wanted to spend the bulk of the time
8 getting some additional thoughts from you on
9 how we could take the private sector best
10 practices and make them real, as we drive hard
11 against this over the next couple months,
12 within the government.

13 To that end, I'm going to ask some
14 prompting questions framing certain issues
15 that you guys have raised or things you guys
16 have said are critical to any strategic
17 sourcing effort to help refine those and how
18 we can go forward and execute.

19 Then my colleague, Dan Tangherlini
20 from GSA, whose team has been partnered with
21 us on the calls and the site visits and all
22 those sorts of things will also outline some

1 of GSA's specific strategic sourcing concepts.

2 So, with that, if you go to slide
3 1, which has the charts, and you saw this and
4 just refined the numbers a little bit.
5 There's a tremendous opportunity when we talk
6 about buying smarter federal government
7 contracting.

8 We spend about \$535 billion each
9 year, and even when we take a real look at
10 that pie and pull out things like major
11 weapons systems and other things that probably
12 aren't addressable by strategic sourcing,
13 you're still left with approximately \$150
14 billion in annual prime contracts that we
15 think we could improve upon how we procured
16 those goods and services.

17 What's the major issue that we're
18 running up against and that we're trying to
19 solve with strategic sourcing? On the right
20 hand side, it shows the decentralized and
21 fragmented spending. We have a myriad of
22 agencies engaging with the same vendors, and

1 because of differences in sophistication,
2 quantities that they're purchasing, et cetera,
3 it results in widely varying prices for the
4 same items.

5 So, fully loaded phone and data
6 plan in the exact same metropolitan area, you
7 see approximately 3x variance between three
8 agencies.

9 Now, one other thing that we've
10 really learned and that we want to highlight
11 is that this is happening within the same
12 agencies as well.

13 For far too long, we purchased not
14 as the largest buyer of goods and services in
15 the world, leveraging that buying power, but
16 rather as 130 mid-sized companies dealing with
17 various vendors.

18 And so, we've got to fix that.
19 So, how -- what have you guys told us, and
20 what have we learned in terms of a path
21 forward. The next slide outlines a few of
22 these things.

1 So what did we hear from the PMAB
2 Subcommittee Members? Thank you again. We
3 had calls with everyone. Many of you sent in
4 some documentation for this, along with your
5 tactical leaders. We've done some site
6 visits, and we plan to do more. So, it was
7 incredibly helpful.

8 We learned a few lessons, and
9 we're going to have some of the PMAB Members
10 go through a few of them in a moment, but I
11 wanted to outline the things on the left-hand
12 side here. That senior leadership, top-level
13 commitment is key to the success of these
14 efforts.

15 You need to have cross-functional
16 coordination if you're going to have these
17 things deployed. It can't just be your
18 procurement folks saying, "We need to go do
19 this." You've got to get the program people,
20 and people in the factors floors who say, "But
21 I can find the lot type cheaper if I just do
22 it on my own. I don't want to engage in your

1 overall contract." Getting them bought in
2 from the beginning.

3 Tim, I think you're going to talk
4 about some of this with the Cummins teams, and
5 those sorts of things. We need to
6 collectively analyze transaction-level data,
7 getting down deep into the data used.

8 Gail, I know that you talked about
9 the journey that Red Cross has gone through,
10 and we're going to have a chance to have you
11 outline some of that. But you -- I heard over
12 and over on the phone, "Data is key. Data is
13 key." We've got to drive it through the data.

14 Then setting the aggressive goals:
15 I'm going to talk a little about some of the
16 stakes we're going to put pretty far out
17 there. Jeff has been very clear about his
18 desire to do something aggressive here. We
19 want to make sure that sort of thing resonates
20 with all of you.

21 Then lastly, this is not a fire
22 and forget exercise. It's continuous

1 improvement. Many of you have talked about,
2 you know, "This has been ten years in the
3 making." I heard things like, "When we
4 started this in '95..." And we understand
5 that. But given the size of our spending, we
6 can capture some quick wins.

7 A few things. I didn't want to
8 make this a PowerPoint-heavy conversation.
9 So, I want to engage on this slide for a
10 minute. As we look at the right-hand side,
11 and this is where I want to start to really
12 make this a dialog and stop talking.

13 Under the senior leadership, the
14 two things we're thinking of is we take what
15 you have done and applied to us as making sure
16 we've got an accountable official at GSA; a
17 strategic sourcing advocate is what -- the
18 term Mark and I thought of based on what a lot
19 of you have said, and also making sure that
20 you use that top level commitment to issue
21 some agency-wide or company-wide guidance
22 policies to say, "Hey, you have to do this."

1 You know, three of our five calls
2 had to comment, "Well, why can't you just make
3 them do this?" And the more we talked about
4 it, let's not talk about the problems. Talk
5 about the solutions. In a lot of ways, we
6 can.

7 So, let's -- as long as we've got
8 our agency partners bought in, and everybody
9 is on the same page, let's issue some guidance
10 that says, "You have to do this." With those,
11 do we capture the right elements there? Is
12 that right?

13 You all talked about the top-level
14 commitment, and those of you who were not on
15 our team certainly know this issue quite well.

16 Have we -- what do you think is the right way
17 to address that high level accountability?
18 How did you do it?

19 MEMBER SMITH: I would use
20 different language.

21 MR. JORDAN: Okay.

22 MEMBER SMITH: I think we need to

1 be direct. This is a -- we have dollars that
2 could be put to better use. Advocate means
3 that we think it's a good idea, and we'd like
4 to advocate. If you start with that tonality,
5 you're going to continue to get an opt-in and
6 opt-out, which is --

7 MR. JORDAN: Yes.

8 MEMBER SOLSO: Yes, I think that
9 at least in Cummins' cases, we were in the
10 '90s in crisis mode. If you look at our
11 balance sheet, our materials and indirect
12 materials was the biggest item. So, we
13 couldn't get to our profitability without
14 dealing with that in a systemic way.

15 Second is that the current
16 chairman and CEO, we put him in that area at
17 the time.

18 MR. JORDAN: Where was he at that
19 time?

20 MEMBER SOLSO: Well, he -- he and
21 -- had been in strategies work, but he was a
22 high potential. So, we made him head of

1 purchasing. Actually, yes, I think we called
2 it purchasing, and it's now supply chain
3 management.

4 MR. JORDAN: He reported to you?

5 MEMBER SOLSO: No. He reported to
6 the President of the company. I was the
7 Chairman and CEO, but this is when we engaged
8 with McKinsey, and did the -- so, what
9 happened is you've got people from various
10 functions and various businesses altogether
11 bundling types of buys and doing a lot of
12 analysis on, "Where do we buy? Why do we buy
13 it there?" You know, "What are we paying?
14 What's the range of pay? What should we be
15 paying?"

16 Then what would come out of that
17 would be a plan for that particular wave. So,
18 that's how you got cross-functional buying.
19 Now, he is currently the chairman and CEO, and
20 the head of supply chain management works
21 directly for him. So, there's absolute
22 compliance. At least we think there is

1 absolute compliance.

2 I'm not sure that we know
3 completely, but that's where people understand
4 that we talk about supply chain management
5 with the analysts. We give the analysts the
6 goals, so our analysts and shareholders hold
7 us accountable in that area.

8 So, you get a lot of that out
9 there. Then you get the focus, and when
10 people see that this is politically correct
11 and important in the company, then they buy
12 into it.

13 MR. JORDAN: Where is this looking
14 now? Where does this reside right now within
15 the agency?

16 MR. CORR: Well, the -- all of our
17 departments are multi-faceted. We -- in our
18 Office of the Secretary, we've got a chief
19 acquisition officer. Nancy Gunderson actually
20 is here. We set policies, but we've got ten
21 operating divisions. NIH is one of them.
22 Indian Health Service is another.

1 In each of those places, we've got
2 budget officials. We've got procurement
3 officials and contract officers, program
4 people.

5 So, one of the -- one of the
6 things I love to hear you all talk about is
7 when you've got disparate divisions that have
8 different missions, how does one sort of
9 provide some consistent direction? And
10 another big issue for us, Jeff, since you gave
11 me the floor for a moment, is we've got
12 competing priorities.

13 We've made a major push to cross
14 the department for small business procurement,
15 and there's a major focus on sustainability.
16 And so, when you've got sort of multiple -- as
17 a government agency, we've got multiple goals,
18 and communicating that clearly to employees,
19 giving them a sense of their priorities, and
20 then holding people accountable is complex.

21 And so, as we -- as we try to up
22 the ante in strategic sourcing and really get

1 people to focus on it and use it more, then
2 you can -- you can help us with this. We're
3 going to have to balance these competing
4 priorities, or figure out how to make clear to
5 employees, procurement officials, how to
6 balance them.

7 MR. TANGHERLINI: I know I have
8 another part on this subject, I can help but
9 jump in?

10 CHAIR ZIENTS: Just your two cents
11 on GSA global.

12 MR. TANGHERLINI: GSA is a -- and
13 I'll talk a little about this. To some
14 extent, we're supposed to provide vehicles
15 that agencies can use. We are taking a
16 leadership role, working with Joe and OMB to
17 try to provide strategic sourcing vehicles,
18 but we are an option. We are an option that
19 agencies can choose to use or not.

20 So, I was going to talk about my
21 role. My former role is the chief acquisition
22 officer, among other things at the Treasury

1 Department, where you had this leadership role
2 where we were trying to organize the
3 acquisition of the department; the billions of
4 dollars we spent there, about 7.

5 But as Bill said, that leadership
6 role was not a direct, hierarchical one. We
7 didn't have clear reporting, line-of-sight
8 reporting of those acquisition through that
9 CAO. So, we had ten acquisition shops. Ten
10 leaders of those acquisition shops who thought
11 their priority was their particular bureau,
12 not necessarily the agency -- and as you
13 pointed out, not necessarily these higher
14 goals established by the administration.

15 And so, we have many layers of
16 kind of lack of direct oversight as to how
17 these things have been acquired.

18 MEMBER SMITH: Can I ask a
19 structural question? Because often -- you
20 guys have talked a lot about the challenges
21 just inherent in the government. And so, I
22 guess one question I have for you, and it's

1 something that's worked in the past for us is
2 what are the incentives for the responsibility
3 on vendors to bundle together?

4 Because that's not core competency
5 of yours. You're never going to be able to do
6 it to the extent that other people can. So,
7 many organizations have put the
8 responsibility on the vendor to say, "You
9 bundle us," okay? Because that's a core
10 competency of you as a private enterprise.
11 "You bundle us, and come back with a rate to
12 us."

13 I just think you need to be honest
14 about your ability to herd cats with some of
15 the structure that's here. Put the onus on
16 them. I'm not going to mention any companies,
17 but there's a very successful retail company
18 that's gotten very large by putting the
19 responsibility for that type of thing on their
20 -- on their vendors.

21 MR. TANGHERLINI: What they're
22 able to do is trade the scale of that

1 organization, and say, "You bundle us, you get
2 us."

3 MEMBER SMITH: Correct.

4 MR. TANGHERLINI: And we have a
5 tendency to -- we'll do it ten times in the
6 Treasury Department -- that's the whole
7 strategic sourcing around office supplies as
8 our first attempt to say, "Show us what an
9 entire bundle would look like in the federal
10 government, and we'll price it up against the
11 way we're doing it now."

12 I'll tell you a little bit about
13 our relative success --

14 MR. JORDAN: Can I ask a question
15 on that a little bit? Because we have in the
16 third section about the data. One of the
17 things we're thinking about doing -- taking
18 out of the meetings of our subcommittee was
19 mandating in contract that the vendors at
20 least give us certain levels of price and
21 transaction data. Because right now, we just
22 don't have that visibility.

1 So, that was our kind of interim
2 step to kind of get -- do you think that's on
3 the right path?

4 MEMBER SMITH: Sure.

5 MEMBER MCGOVERN: And I can assure
6 you they have that data. They're looking at
7 your -- right on the busiest page.

8 MR. JORDAN: And they're smiling.

9 MEMBER MCGOVERN: They're smiling.
10 They're going, "Keep selling more of that
11 125."

12 MR. JORDAN: That's right.

13 MEMBER MCGOVERN: So, they have
14 the data, and they can come back and tell you
15 how big a purchaser you are, if you can't.

16 MR. JORDAN: And it is reasonable
17 for us to ask that.

18 MEMBER SOLSO: They won't want to
19 give it to you --

20 MR. JORDAN: Of course, but that
21 goes to the whole issue where we are the
22 largest buyer. Let's use a little of that

1 muscle.

2 MEMBER WILLIAMS: One question,
3 quickly, is to what extent do you use a
4 planning process, an integrated planning
5 process, in the organization as an actual
6 forcing event.

7 In other words, if you think about
8 Treasury Department, essentially you had a
9 planning process that has integrated -- each
10 area builds a plan that reflects the
11 purchasing savings, et cetera. So, it's their
12 goal, it's their plan, but there's an
13 integrated view around how that's going to be
14 achieved and people are held accountable in
15 the business plan. So, could you say a few
16 words about that? Is that present? Is that a
17 capability you have, or used, or think about
18 using?

19 MR. JORDAN: I could definitely
20 say -- I would just say that we're definitely
21 doing certain things in that direction. I
22 know Steve VanRoekel will join us later. He

1 and I are going around to different agencies
2 to portfolio status meetings, talking about
3 just that: really pushing investment review
4 boards that can be rolling these various
5 management functions into one decision-making
6 body, which is a very common private sector
7 practice.

8 But too frequently, unlike Tim's
9 example, where the chairman/CEO came from
10 procurement or worked in procurement, which is
11 one of the biggest things we took out of that
12 site visit other than the deconstructed engine
13 in the lobby I had to be pulled away from, is
14 that in government it's an ancillary function
15 too frequently.

16 We need to make -- we're talking
17 about something that drives decisions under
18 \$35 billion being spent. It needs to be
19 brought into that court. So, we're making
20 progress, but I think it still varies.

21 MR. HARRIS: Yes, 10 seems to be
22 the number of the day here. We have 10

1 operating administrations, fairly independent,
2 in Transportation. We brought them together
3 under strategic sourcing executive steering
4 committee, and I chair it.

5 To Dan's point about no clear line
6 of responsibility, we actually established it
7 here, and built by consensus a plan. The low-
8 handing fruit we go after, we establish
9 targets on it. I think one of the important
10 attributes is we said explicitly early on that
11 the same things accrue back to the operating
12 list so you can reinvest it in your
13 priorities.

14 That makes buy-in a whole lot
15 easier. So, we're through the first couple of
16 them. We estimate what the savings would be
17 from strategic sourcing in the first one we
18 did. It was peripheral devices in servers.
19 We're at about \$7.7 million in savings.

20 We anticipate we'll be over 8, and
21 that's right in the mid-range of what we
22 thought we'd be. So, you can actually measure

1 it.

2 MEMBER LEE: I just want to say
3 that's a very important point, and one I made
4 in our conversation is that the savings have
5 to be reapplied to something that matters.
6 People that are finding the savings.

7 I mean in my business, we always
8 say we want the money to go on the screen
9 because we're in the TV business. So, if we
10 can save money by saving money on cell phones
11 or one of the other ancillary things, it
12 really makes a difference to the company
13 because we're putting the money where we
14 should and in what matters to our audience.

15 So, I don't know what the -- the
16 analogy is.

17 MR. JORDAN: It's very analogous.
18 It talks about your different shows getting
19 bought in with the centralized efforts. It's
20 the same thing with a lot of the ten different
21 departments.

22 CHAIR ZIENTS: At the same time,

1 we have ten --

2 MEMBER SOLSO: I'm happy to do
3 that. But just to talk about the goals, what
4 we found when we did the wave thing was save
5 30 to 40 percent. I mean they're huge if you
6 do an analysis. Joe, you know the process
7 because I think you were working for McKinsey.

8 Just a couple of things. This
9 isn't in the book, but this is a -- Cummins
10 started in the '90s, so it is a long process
11 to have what they call a Cummins Production
12 System, and one function in a production
13 system in purchasing.

14 So, we have what we call
15 functional excellence. So, we define and
16 break down the purchasing flow of searching --
17 sourcing contract development negotiations,
18 how to pay supply and management, risk
19 management, change management, supplier
20 quality improvement. Then we have what that
21 means, what falls in that area.

22 Ideally, and I realize this isn't

1 possible, but if you could get all of the
2 agencies into a centralized purchasing
3 function and have one common system, it would
4 save you literally hundreds of billions of
5 dollars.

6 And so, I mean the stakes are that
7 high. It does require, though, software
8 development. And so, you're caught in this
9 bind about, "I've got to spend money to save
10 money.", but my argument is that the return on
11 that software, if it's done well, is just
12 enormous. I guess rather than -- Cummins was,
13 we have four businesses. We probably have
14 plants in 70 different locations and 30
15 different countries. So, we're not the
16 federal government, but it's a fairly complex
17 organization.

18 So, it can be done. In talking to
19 the people that hosted you during the visit,
20 they had four observations/recommendations,
21 and rather than go through all of it, I
22 thought I'd just touch on those four.

1 First, you've already identified
2 it. I guess you have 35 different purchasing
3 systems, and if you can consolidate that into
4 17, or whatever it is, and maybe you can't do
5 total but you can consolidate around certain
6 commodities, and that's where the software
7 development -- so, too many systems. Try and
8 reduce the number of systems you have.

9 On the second one, I don't know
10 what you'd do about it, but I guess there's
11 36,000 acquisition officers or buyers, but
12 two-thirds of them are in the Department of
13 Defense. So, the Department of Defense is
14 setting policies and processes that the other
15 third can hear it. They're going to not
16 necessarily be aligned with what you're
17 objectives are.

18 So, somehow I think you've got to
19 get the Department of Defense into this
20 process, if at all possible, and -- and work
21 closely together.

22 I handled Defense sales a long,

1 long time ago in the '80s, and essentially we
2 got out of that business because we couldn't
3 afford to do business with the government. I
4 mean, just the procurement policies, the costs
5 associated with that, the abuses that were in
6 there, the rotation that every three years the
7 procurement officers made it very difficult.

8 So, there's a lot of opportunity
9 here, if in fact you can get cooperation. The
10 second one or the third one, again, I don't
11 know what you can do about it, but your annual
12 budget process makes it incredibly difficult
13 because you don't have a budget.

14 So, weight appropriation leads to
15 spend it or lose it. You have to do it
16 quickly, so you may not get all the analysis
17 and the data that you need. So, you're
18 subject to mistakes. So, again, going back to
19 some kind of system like this, and dividing
20 the scope of what buyers could do and what
21 they should do, at least giving them some
22 direction.

1 I know you're not going to change
2 the budgeting process, but if you can figure
3 out how to optimize that for you. And then
4 the fourth observation is that, and it's on
5 the GSA side, is that because of the recent
6 lack of compliance, there's somewhat of a
7 crisis as I understand, to quote Rahm Emanuel,
8 "Never waste a crisis."

9 So, you might be able to take some
10 of the problems you've had there in other
11 areas and really make the visible in the sense
12 of we really need to fix this, and we need to
13 do it in a hurry, and it's the right thing for
14 the country." But use that crisis to be able
15 to move it.

16 And that is -- again, at Cummins,
17 if we -- I mean we were really, really in
18 trouble. And so, if we had three or four
19 initiatives. This would be one of them. So,
20 we made it very visible.

21 CHAIR ZIENTS: This is
22 interesting. You're right. I hadn't thought

1 about the GSA situation as to the crisis is
2 opportunity, and we have the right leader to
3 do that. When you initially said crisis I
4 thought about the budget pressure we're under.

5 A few years ago, whether it was in
6 this area or improper payments or elsewhere,
7 in a growing budget environment it's a little
8 harder to get people's attention. Dan and I
9 talked about this a lot -- it's pretty easy to
10 get people's attention because their budgets
11 aren't growing, and they want to invest in
12 mission and policy.

13 So, there's a real opportunity to
14 deal with the macro crisis in the budget, and
15 I think there's an interesting link to GSA and
16 leadership.

17 MEMBER SMITH: That's right. That
18 is when it happens in almost any
19 organization.

20 MEMBER SALEM: So, why is GSA -- I
21 -- I -- GSA is an option? So help me. Can
22 you expand on that?

1 MR. TANGHERLINI: Yes, and if you
2 don't mind that's kind of the introductory
3 part of what I was going to talk about. Who
4 is GSA? I don't mean to jump ahead.

5 CHAIR ZIENTS: No, it's perfect.
6 Let's do that, then we'll circle back. Do one
7 of your slides --

8 MR. TANGHERLINI: It's not really
9 on there. In 1949, a predecessor of the PMAB,
10 called the Hoover Commission, appointed by
11 Truman, was dealing with the same issues. The
12 question was, "How do we leverage the scale of
13 the federal government, and how do we
14 organize things like our real estate holdings,
15 and how do we -- how do we stop buying dumb?"

16 You know, we buy once. We buy smart. We buy
17 well.

18 The problem is then we created a
19 monopoly that lasted for about 40 years, and
20 what happened is there was a sense that the
21 service division we provided was declining in
22 quality. And so, in the early '90s, something

1 called the Clinger-Cohen Act passed, and
2 essentially rendered GSA an option with an
3 idea to try to leverage some of the best
4 practices of private sector in the form of
5 competition.

6 And so, what we did was in essence
7 push out that acquisition activity into the
8 agency. So, smart guys like John could get
9 the acquisition workforce focused on these
10 goals. The problem is then whether the
11 competition is real or not.

12 Can people really switch between
13 these organizations that are maybe focused on
14 some priorities but not all the common
15 priorities? And so, this source of
16 opportunity that we provide people called the
17 GSA schedules, which is essentially a pre-
18 cleared set of vendors with a list price that
19 is obvious and transparent, and frankly a
20 jumping off point for negotiation, now has
21 about 11 percent of the marketplace.

22 CHAIR ZIENTS: And you got a

1 terrible chicken-egg problem because of the
2 voluntary, in that he can't promise to deliver
3 a certain amount of product, right? And
4 vendors would say, "Well, why would I opt into
5 that? I can do better on my own." If
6 everybody held hands and came together, then
7 Dan could deliver a much better --

8 MEMBER SALEM: But isn't it the
9 same problem? GSA has the same problem as
10 with trying to solve with ten groups inside of
11 an organization that are trying to be siloed,
12 right? So, at the state you have agencies
13 with fragmentation. At the federal
14 government, you've got much larger
15 fragmentation. So, it's really the same
16 problem.

17 CHAIR ZIENTS: Yes, but you -- but
18 you're -- in essence, Dan's whole
19 organization is an advocate --

20 MEMBER KINDLER: I just wonder,
21 though, whether this is relevant to you. In
22 my experience, across many different

1 companies, most recently even at Pfizer,
2 there's a -- there's a real difference between
3 sourcing and procurement regarding things that
4 people really regard as strategic to their
5 mission and they really ought to have control
6 over, versus paper clips.

7 CHAIR ZIENTS: Right.

8 MEMBER KINDLER: And one of the
9 things we found was that -- and we spent -- in
10 violation of the 80-20 rule, we spent a lot of
11 time fighting with R&D, for example, over
12 whether lab equipment was something they
13 should have control over or whether that
14 should be done separately.

15 And at the end of the day, that
16 was not a good use of our time. If you can --
17 it's hard for me to believe that if people
18 really care who makes decisions about office
19 supplies. And I saw your documents, because I
20 think you're really all over that. That's the
21 way of the good. Don't let the perfect be the
22 enemy of the good.

1 It strikes me that you say,
2 "There's certain things that are mandatory
3 that there's no strategic issue here."
4 There's no agency-specific issue. This is not
5 something that you need to have control over.
6 Let's agree on that. Let's nail that one.
7 That's mandatory.

8 To talk about Liz's point, that's
9 not about advocacy. That's non-negotiable.
10 We are going to buy the paperclips.

11 Now, let's not fight another day
12 over the things you have control over. One of
13 the things we found, for example, we were
14 spending a huge amount of money on was
15 consultants, and obviously McKinsey knew a lot
16 more about how many different people they were
17 charging different rates than we did. But
18 everybody felt they needed to have control
19 over their decision-making about consultants.

20 So, we said, "We'll fight that
21 battle later. Let's get the paperclips done."

22 CHAIR ZIENTS: You see the initial

1 cut is \$535 more than \$150.

2 MEMBER KINDLER: So, take the low-
3 hanging fruit that nobody can legitimately
4 argue is a decision they should be making.
5 So, it strikes me, Dan, when you talk about --
6 when we sort of go from all to nothing, you
7 know, first it was all centralized and then it
8 was all competitive -- the fact is there's
9 different kinds of sourcing. There's some
10 that should be centralized, and there's some
11 that maybe arguably shouldn't. Let's get the
12 centralized ones done that everybody can agree
13 on.

14 MR. TANGHERLINI: We visited
15 Hewlett Packard. They have an internal GSA-
16 like organization, and they control or
17 provide 90 percent of the spending built
18 around planning, and the planning was about,
19 "How much am I going to save you next year?"
20 Not, "How much are we going to spend in the
21 coming year?"

22 I think maybe there's some

1 relative percentage, maybe 90-10 or 80-20, 65-
2 35, that is really a balance of one of those
3 things you gain value from by centrally buying
4 once and buying well, using your scale. One
5 of those people mission critical to your human
6 services or --

7 MEMBER SALEM: Everybody is going
8 to agree on the paperclip issue. The issue is
9 when you try to move that line up to what is
10 included in strategic sourcing that you get
11 all the reasons why it can't be done.

12 And so, I actually take a little
13 bit different approach, which the goal is
14 there's an accountability to spend under
15 management. Everybody has to say, "We have a
16 target of how much is managed centrally," and
17 you have to get that bought off on, and you
18 have to get to that goal.

19 So, the question is -- like I
20 always get the argument that Jeff just made
21 that there's expertise inside of a function
22 that will do a better job. I don't

1 necessarily agree with that.

2 CHAIR ZIENTS: I agree with that.

3 MEMBER MCGOVERN: I know this is
4 going to take an act of congress, literally,
5 but I think you have to edict. Not advocate,
6 edict. It all comes through a central
7 location, and instead of saying, "Oh, and
8 guess what? You get to spend the overage." I
9 would say, "Here's your new budget," and it
10 presupposes that some of the savings, not all
11 of it, but some of the \$150 billion is cut
12 out.

13 Because really when you do that
14 forcing mechanism, people will want to do
15 this. They would rather cut other people's
16 money than their own budget. So, I think that
17 -- I understand what you're saying exactly,
18 Jeff, but they can opt out as opposed to
19 opting in on the paperclips.

20 Say all of it goes through central
21 procurement, and these strange and exotic
22 maybe we'll give you a hall pass.

1 MEMBER KINDLER: I guess I'm just
2 sequencing this, because I don't disagree with
3 anything you said. I'm just saying let's not
4 let the perfect be the enemy of the good. If
5 you start to fight over things they're going
6 to want to control, we're going to miss the
7 opportunity on the ones that we can agree on.

8 MEMBER SALEM: The question I was
9 asking is why does somebody perceive that
10 they're not getting 1,000 from whatever the
11 central process is --

12 CHAIR ZIENTS: Let's go there.
13 Maurice, why do we not use GSA more than we
14 do? Presupposing that you don't. What's the
15 issue?

16 MR. JONES: I think the issue is
17 at least a perception that -- well, first the
18 issue is the desire to want to be in control.

19 Right? That's the first issue. But the
20 second is the perception that we can get as
21 good a price if not better than GSA.

22 The third is the sense that GSA --

1 this is not personal. The doubt that GSA will
2 be a zealous advocate for us. Right? So,
3 it's that trust issue.

4 MEMBER KINDLER: Do you
5 distinguish between different kinds of spends?

6 So, we're using paperclips as kind of an
7 extreme, but there's certainly things like the
8 smartphones that are used here. Would you
9 distinguish or would your people distinguish
10 between the things that they argue they could
11 get a price on better versus things that
12 really are mission-core that really need to be
13 done by you?

14 MR. JONES: I would say my folks
15 have a rebuttable presumption. The rebuttable
16 presumption is that we can do it better. Then
17 let's check to see what GSA does, as opposed
18 to the other way around.

19 MEMBER KINDLER: Maurice hit the
20 issues exactly right. Control, price, trend,
21 trust. I mean that's --

22 CHAIR ZIENTS: Exactly right.

1 MEMBER KINDLER: And I would just
2 say in that price thing, a lot of it's that
3 chicken-egg thing -- if it ends up not enough
4 people participate, it probably is --

5 MR. JORDAN: And I would just
6 complicate it a little bit even more. So,
7 those same factors are actually at work within
8 the department. So, there are people within
9 in the department who will say, "You know
10 what? Rather than using our procurement
11 shop, maybe we should go to GSA because they
12 can do it better than our procurement."

13 So, it's the same issue, and so
14 it's -- so, even within our enterprise right
15 now you got a scale.

16 MEMBER SALEM: What has to happen
17 is you have to have a role of expertise inside
18 of GSA where when they sit across the table
19 from any other agency the person feels like,
20 "This person knows more about
21 telecommunications than anybody inside my
22 function." Just moving up from paperclips.

1 And I kind of feel like what we
2 have to do is figure out how we get that level
3 of expertise inside GSA in a couple of
4 functions where the other agencies feel, "Yes,
5 there really is a benefit. This person is a
6 true expert." It really comes down to value
7 provided by the person sitting across the
8 table.

9 MEMBER MCGOVERN: You could kill
10 that bird with the same stone as the trust
11 issue by seating the positions with people
12 that come from the agencies.

13 MEMBER SMITH: That is exactly
14 right. You want to try to centralize. Then
15 you've got to pull from your franchise teams
16 in effect. Exactly.

17 The other thing is why is it an
18 either/or? Why isn't it a joint thing so that
19 you have on a project a leader of GSA and a
20 business leader from the Department of Housing
21 and Urban Development? So, that's what we do
22 on the things that Greg is talking about,

1 where you -- you know, functional expertise is
2 critical. This is not a no-brainer type of
3 thing. There's two people leading it, and
4 that seems to be a way with a lot of the, "I'm
5 throwing this over this wall to GSA, and
6 please, I hope that they do it right." I
7 think to do it as a --

8 MR. TANGHERLINI: Well, actually,
9 we did do a -- contract. That was of our
10 strategic sourced contracts. On slide 12, you
11 can see what the compliance is. This chart is
12 one of the agency's. We took the names off to
13 protect the innocent, except GSA, to show that
14 I even have compliance within GSA -- my office
15 supplies are even strategic sourced.

16 CHAIR ZIENTS: Where are the
17 office supplies bought?

18 MR. TANGHERLINI: They were bought
19 on our schedule. They're bought in the open
20 market. They're bought in catalogs. What
21 we've actually done is -

22 CHAIR ZIENTS: Office Depot?

1 MR. TANGHERLINI: For Office
2 Depot, we used the government credit card.
3 You will actually, whether you want to or not,
4 you will get the strategic sourced price. It
5 may be a bit like an escape-proof in that
6 sense.

7 MEMBER GILLILAND: I do think,
8 Dan, we need -- some of us spent a few minutes
9 with folks on your team, and I think all
10 things pointed to going after commodities in
11 the first big phase. I do think you want to
12 make your way up the food chain a little
13 further over time, but the first issue is
14 data.

15 So, how do you get at the data?
16 Some of the folks that work for you have jobs
17 in other agencies as acquisition officers, and
18 commented that even within the agency it is
19 really hard to get data.

20 Getting data from the suppliers,
21 you can force that on them, and then focus on
22 commodities, then go after the heart and

1 deliver value versus what they were spending
2 before. You get the quick wins or relatively
3 quick wins, and move onto other perhaps more
4 complex services, at a point which you may
5 even have better data.

6 MEMBER SOLSO: Right. One of the
7 things, not just in this area but the other
8 areas that our group has worked on is the time
9 frame is much longer than your time frame.
10 Okay, and in building a system like this,
11 ultimately that's what's going to be required.

12 You can do the one offs that
13 you're talking about, and you can get savings,
14 but you're not going to sustain it and have it
15 ongoing unless you build a system, and the
16 system that you built within the time frame of
17 your staying here.

18 So, in doing something like that,
19 starting with commodities, there ought to be
20 an effort that says, "While we're doing this,
21 we're going to build a system." Okay, so when
22 you guys leave, there's something left behind

1 that somebody can inherit. That's going to be
2 as important as the short-term savings.

3 MR. JORDAN: There's two parts to
4 the system. One is the QSP-201 that you guys
5 did, which is the set up policies and forms by
6 all the lines. That's the bedrock in
7 sustainable change development. Then there's
8 the actual technical system that you talked
9 about that eases implementation and improve
10 the escape-proof nature of all those. We're
11 trying to be both those things, and you're
12 right: the best we can do is start if off and
13 put it on a path where we've got some quick
14 wins.

15 Sam, you talked about this in our
16 conversation: the importance of getting those
17 quick wins, getting the buy-ins.

18 CHAIR ZIENTS: Dan is there
19 anything else you wanted to get out before we
20 --

21 MR. TANGHERLINI: I actually think
22 you ended pretty much where I wanted to end:

1 that our biggest challenge is frankly data. I
2 think maybe part of it is the history. When
3 we decided to go full competitive was around
4 the time that frankly many of our best
5 practices private sector organizations were
6 automated. We were automated.

7 Instead of automating once with
8 one common system, with one common platform so
9 we had full visibility, we did it 37 times at
10 least. I think that the multiple systems
11 operating or at least systems operating within
12 agencies.

13 So, really to be able to get to
14 where we need to be, we have to see what we're
15 spending, who we're spending it with, how are
16 we spending; in order to do that, we have to
17 get -- we have to get systems that will
18 actually talk back to us.

19 MEMBER SALEM: I would actually
20 say I completely agree with the data comment:
21 it'll always make you better. But you can
22 actually make a lot of progress before you get

1 a lot of data because you can actually figure
2 out where the big areas are that you're
3 spending a lot of money.

4 Back to your chicken-egg problem;
5 you got to settle that right away. So, what
6 is the step to get people to say, "We're going
7 to commit to participate?" Because otherwise,
8 we won't get out the --

9 CHAIR ZIENTS: Right. You take
10 this slide, and you say, "It has to be 100
11 percent." Every agency 100 percent. We're
12 talking about policy levels, right?

13 MEMBER KINDLER: Or page 11. You
14 take these activities. So, it's -- you know,
15 it's really beyond that. It's hard for me to
16 see. Maybe software licenses you can debate,
17 but it's hard for me to see where any of these
18 other things that are listed on this page, any
19 agency should be able to argue, "We need to do
20 that ourselves."

21 As long as you solve the chicken
22 and egg problem, and you pool the purchasing

1 power, you ought to be able to get better
2 prices on anything on this page. To get it, it
3 would be kind of long. So, make that
4 mandatory. And that's the quick win. That's
5 the commodity.

6 MEMBER SALEM: You don't need a
7 lot of data.

8 MEMBER KINDLER: It's all these
9 things on this page: travel, service, hotel
10 rooms. Software lies --

11 CHAIR ZIENTS: Jane?

12 MS. HOLL LUTE: I'm Homeland
13 Security. We're third largest. About
14 400,000, including our contractors. We
15 strategically sourced \$3 billion last year,
16 and had a savings of almost \$150 million. We
17 are full in on this. It is not a one-size
18 fits all.

19 It is a one approach fits most,
20 and so that's the theory that we're operating
21 on. It's not a one-size-fits-all, but like
22 McDonald's who proved successful, one approach

1 fits most. And so, can you adapt in that kind
2 of environment?

3 What we find is we're an
4 overwhelmingly operational -- we're in
5 Washington. You can think of us as
6 regulatory. We are policy making. But we
7 overwhelmingly out there in the field: Coast
8 Guard, Secret Service, GSA. All of those
9 things.

10 Operators need a proximity to
11 their procurement, as you all know. That
12 really is -- we live in a cultural barrier to
13 consolidation in headquarters. It's reality.

14 I mean my biggest job at the United Nations,
15 you know, it is a very real -- it is the
16 plumbing and wire -- it is the oxygen in an
17 operation.

18 The thing that we encounter that's
19 in addition to the issues everybody initially
20 put on the table is we encounter -- we induce
21 market distortion because of our volume
22 sometimes. I mean we completely destroyed a

1 landmark in Central Africa at one point when I
2 was in the UN, and there are other areas where
3 we can induce market distortion because of the
4 particularized needs that we have.

5 So we have to be mindful of that
6 in addition to this business thing, and the --
7 and the other rules of procurement that we
8 want to adhere to. But what I find I'm
9 hearing is, "Let's just mandate it." And we
10 can do a lot of mandating. We have. We've
11 done a lot of mandating.

12 We're a relatively new department.

13 So, on the one hand it was hard to do
14 mandating because we had 22 different
15 agencies, that dates back to 1790 and sort of
16 figured out how to run things. But Eisenhower
17 is out of office, so let's catch up with the
18 reading.

19 So, the mandating thing is right,
20 but driving off to a single forced solution --

21 MEMBER KINDLER: Well, can I just
22 ask you a -- I'm truly, genuinely interested.

1 If you look at this list on the left, office
2 supplies, travel services, hotel rooms, things
3 like that. As a matter of principle, would
4 you object or would your people object to
5 mandates on things like that?

6 MS. HOLL LUTE: No, we already
7 have them.

8 MEMBER KINDLER: Central mandates
9 from GSA as opposed to within the department.

10 MS. HOLL LUTE: No. In certain
11 respects, we essentially conformed to the --

12 MEMBER KINDLER: So, you could
13 solve the chicken and egg problem
14 theoretically? Which I do think is part of
15 the issue here because as you said, you're not
16 sure you're getting the price, but you're not
17 getting the price because nobody has -- people
18 can opt out.

19 So, if you truly mandate it, these
20 activities here are going to be done
21 centrally. Full stop. Everybody is in. Is
22 that something your people would have a

1 problem with?

2 MS. HOLL LUTE: Well, the answer,
3 like anything is it sort of depends. I mean
4 on paperclips, the higher you go up to
5 mission- criticality and you get there -- I
6 mean 9 millimeter ammunition? You're already
7 there. We mandated that. We mandated central
8 --

9 MEMBER KINDLER: Right. We're
10 talking about hotel rooms.

11 CHAIR ZIENTS: Dan, this is \$743
12 million and \$150 billion opportunity. That's
13 what you're doing right now.

14 MR. TANGHERLINI: That's right.

15 CHAIR ZIENTS: That's not what --
16 it does not represent office supplies alone --

17 MR. TANGHERLINI: It's a much
18 bigger number.

19 CHAIR ZIENTS: Much bigger. The
20 government spends across these, I would guess,
21 \$10-\$15-\$20 million.

22 MR. TANGHERLINI: More. More.

1 MEMBER KINDLER: So, if you just
2 mandated these, and centralized them, the
3 opportunity is huge. Before you get to
4 arguments about what is mission critical, just
5 this alone.

6 MR. TANGHERLINI: But then for
7 instance, travel -- you know, fully realize
8 we have to have everyone in the same travel
9 system, and we never even had the travel
10 system regionally put in place, fully adopted.

11 There are agencies, there are
12 bureaus within agencies, that say, "Yeah, that
13 doesn't work for us."

14 MEMBER SALEM: You can always find
15 the reason not to do something. And I don't
16 mean to -- and I don't mean to sound like I
17 understand all of the questions, but when you
18 say somebody negotiated a rate for a hotel,
19 right? You picked what the standard hotel
20 room is going to be across everybody. That
21 doesn't matter what system it is in. It's you
22 know you always -- sorry --

1 MS. HOLL LUTE: That's right.

2 MEMBER SALEM: So, I think to
3 Jeff's question, I was going to go to the
4 point you made, Jane, which is \$350 million
5 that you've already figured out how to save,
6 right? How does that fit into these
7 categories. I mean we've gotten scale by
8 being able to do it more centrally. I think
9 that was really the -- I mean you already
10 saved \$350 within your department. That's
11 great. So, now, can we take -- how much of
12 that was in these buckets, and can we then
13 extend that to other agencies?

14 MEMBER SMITH: I also want to just
15 challenge to Bill and Enrique. There seems to
16 be a bit of naivete to -- in my mind that --
17 that going central, that every single action
18 that I give to you today, I am going to get a
19 better price on that particular action. I
20 doesn't work that way. So, this is the --
21 it's called the greater good, and it ladders
22 up.

1 So, we've had situations where I
2 had to centralize things, and I said, "I know
3 that you're getting charged more now. But
4 guess what? When I put this all together, net
5 at the top we're saving a lot more money. But
6 you're right. On the margin, on that
7 decision, you're now paying \$20 more for your
8 hotel room. But we're doing it for the
9 greater."

10 That seems to be not part of the
11 conversation here.

12 MR. TANGHERLINI: This price
13 versus cost; you can take a contracting
14 official working for another agency. Go and
15 use our strategic sourced office supply
16 contract, and get a better price for a
17 stapler. But I had to pay to get the contract
18 official --

19 MEMBER SMITH: It's also on the
20 margin. Empower people as advocates to look
21 at every decision on the margin. The reality
22 is I'm going to make a guess. Let's say you

1 centralize everything. Thirty percent of the
2 time, you are going to pay more for your, you
3 know, individual thing that you might've done
4 on your own. But the end of the day, once you
5 finished one link, you've saved a boatload of
6 money.

7 There seems to be not an
8 understanding and acceptance that every time a
9 decision gets made on the margin now that it's
10 centralized, I might or might not on that
11 decision be in a better or worse position.
12 And so you're allowing people to opt out on
13 every marginal decision.

14 MEMBER SALEM: Well I would say
15 though that there's --

16 MEMBER SMITH: I'm talking about
17 the conversation about the --

18 MEMBER SALEM: There's a lot of
19 discussion about this, and I agree with what
20 Liz said that we're not maybe seeing always
21 the bigger picture. But to get us going, I
22 mean we've already done a lot of great work.

1 So, how do we pick something, and drive it
2 across the -- as much of the federal
3 government as possible?

4 So, if you were to say, "Pick
5 three areas." Whatever those three are, maybe
6 on this list. And then you say, "Let's go
7 around and figure out how we advocate for this
8 to be consolidated centrally in a way that" --

9 CHAIR ZIENTS: I think with the
10 federal government, if we picked a few areas
11 and made some early progress. But now we have
12 to drive those to 100 percent. Or, do you add
13 more?

14 MEMBER KINDLER: Because if this
15 is a case of not letting the perfect be the
16 enemy of the good, you have to get people used
17 to the idea that certain decisions made
18 centrally will, respond to your point earlier,
19 which was summarize control, trust and price.

20 That means everybody has got to
21 get in the pool on it, take one of these
22 things that should not be controversial:

1 office supplies, travel service, hotel rooms.

2 Make it mandatory 100 percent. Software.

3 Then you'll create a momentum around the whole
4 concept.

5 GSA will have more credibility.

6 People will believe that it can get things
7 done. Early wins. I think that's the way to
8 go.

9 MEMBER SALEM: And by the way, I
10 would argue hotel rooms would actually be
11 easier than office supplies. And the reason,
12 let me tell you why. Don't get me wrong. We
13 should work on office supplies, but you have a
14 logistics delivery component in that, while
15 the hotel rooms it's -- actually there is a
16 price. And there is a specific set of places
17 you stay, and I guarantee you could drive that
18 one without a lot of --

19 MEMBER KINDLER: And to Liz's
20 point, I do think you have to -- at some
21 point, the agencies, to the extent they have
22 marginal increases, you could benefitted --

1 they have to get some benefit from what the
2 whole gets to participate --

3 MEMBER SMITH: Or at least have
4 some visibility into it.

5 MEMBER WILLIAM: One other comment
6 I'd like to quickly make is that the systems
7 issue is going to be a constant barrier to
8 getting something done, and I would encourage
9 you to think about what I call low-tech
10 systems solutions. Don't change the system.
11 Change the data in the system.

12 So, you know, load the hotel rates
13 into the 37 existing systems. Load the
14 procurement vendors into those systems, as
15 opposed to focusing in on eliminating and
16 centralizing all the systems.

17 CHAIR ZIENTS: So you're not
18 phrasing it "don't change the systems." Do
19 what?

20 MEMBER WILLIAM: Change the data
21 in the system. For example, you have a
22 procurement system that is set up to purchase

1 hotel rooms. Don't worry about centralizing
2 all 36 systems to use the same hotel rooms.

3 Change the data in the systems so
4 that someone gets on that system, and they use
5 that hotel and they use that rate. Change the
6 databases in the systems, and have a way to
7 control that. That's a lower tech, quicker,
8 faster solution to get to your standards.

9 MEMBER SALEM: There's a friend of
10 mine who runs a software company in the
11 Northwest that you're all quite familiar with,
12 and he basically had all of his --

13 CHAIR ZIENTS: Startups?

14 MEMBER SALEM: Startup. 25 years
15 ago it was a startup. So, he had a specific
16 initiative. I won't go into details. Then he
17 said, "I want adherence to this." He had
18 every one of his line executives come in and
19 say, "Tell me how you're going to achieve
20 this." And it's not about months and years.
21 It was about short periods of time.

22 He picks up and says, "How do we

1 get appearance to our directive on -- we're
2 going to get everybody consolidated on the top
3 three things: Hotel rooms, telecommunications
4 and office supplies," or whatever it was.

5 And everybody had to come forward
6 and say, "Here's what it is." Then he said,
7 "So, tell me right now why you won't be able
8 to adhere to what you just told me." And he
9 had zero tolerance for people not complying.
10 And so, it was a very -- everybody comes in,
11 presents and they hold them accountable for
12 it.

13 CHAIR ZIENTS: We have about 15
14 minutes left. Let's go to 8 and 9, and is
15 there anything we haven't covered that you
16 have come across, Gail?

17 MEMBER MCGOVERN: Let me start by
18 saying that I feel your pain. I feel like
19 I've inherited something that mirrors what
20 you're struggling with on a much, much smaller
21 scale.

22 We have a four-prong mission, and

1 two of the prongs are responsible for, in the
2 most part, procurement. Disaster services
3 were responding to 70,000 disasters in getting
4 meals, equipment, cots, blankets, and then
5 biomedical. -- and I highlight that one
6 because there's a lot of strange and exotic
7 stuff that we have to buy, like testing
8 agents, et cetera, and yet we still centralize
9 procurement for that as well.

10 I'll explain how we compensated
11 for the expertise and how did you do this for
12 something that isn't paperclips.

13 Our challenge was that everything
14 was decentralized. Everything is optional.
15 We had 700 chapters operating as independent
16 units. So, just to illustrate how out of
17 control all of this was, I had 33 blood
18 services operations, and in 33 units we had 69
19 vendors just for t-shirts.

20 So, that's about as paper-clip as
21 you can get. So, the starting point was, as I
22 said, pretty similar. So, what we did is we

1 stood up a shared services model. So, we took
2 all procurement out from under these separate
3 places that were doing all the purchasing.

4 And, it might've been a little bit
5 easier for me to do this because the folks
6 that are out there, but I suspect it is
7 similar in your units as well. They're very
8 mission-driven, and they don't get their
9 jollies from buying paperclips.

10 So, did they think that a
11 centralized procurement function would get
12 them a better price? I'm not too sure, but I
13 can tell you that they didn't really feel like
14 doing this anyway. So, it was probably easier
15 to wrest some control.

16 So, the other thing that we did
17 that might get rid of the challenge of the
18 strange and exotic is instead of aligning
19 around functions like contracts or payment, we
20 aligned around business units.

21 So, the people that were procuring
22 for biomedical actually understood those kinds

1 of vendors and what the agents and kits and
2 medical supplies were being used for.

3 So, they could speak the language
4 after a while when we structured it this way.

5 So, that was a big improvement. And then, if
6 you look at the bottom of the page, you can
7 see the strategic sourcing process.

8 So, what we did there is instead
9 of being transactional, we became very
10 strategic. We literally, from the planning
11 perspective, said, "How much do you want?
12 What do you want to buy? What are your future
13 requirements?" And we did this with every
14 single vendor that we were using in the
15 process.

16 Then the manage piece, which is
17 essential, is we keep managing that ongoing
18 relationship with the vendor. By the way, we
19 can buy a lot of our disaster supplies off of
20 the GSA schedule. We do it religiously, and
21 we save a boatload of money. So, I'm going to
22 put in a commercial for GSA.

1 (Laughter.)

2 By the way, my team is like, "Why
3 do we think they can do better than we can?"
4 And I said, "They can't. You've got to try
5 it. Come back and tell me it doesn't work,
6 but try it." So, we're very much there.

7 So, if you just look at the second
8 page, I'll make a couple of points on this.
9 We did deploy additional data sets because we
10 had so many things going on, so many different
11 places.

12 So, we went to Oracle for the
13 financial stuff. We went to Ariba for
14 procurement, and I did hear a lot of squawking
15 about, you know, "I don't like this system.
16 It's user-hostile." And it became, "Just try
17 it. You're going to learn to love it."
18 Eventually, that is what happened.

19 I mentioned we aligned the
20 business units. The notion of having
21 competing goals, like you need
22 environmentally-friendly suppliers, et cetera,

1 et cetera. We had two competing goals too.
2 We wanted to improve the portion of minority
3 and women-owned businesses in our supply set,
4 because as you can see where we started. It
5 was abysmal.

6 It took us a while to figure out,
7 because we didn't have data either, how --
8 what percentage it was. It was only 2
9 percent. But at the end of the fiscal year,
10 we were up to 10. This year, we're going to
11 end higher than 15. But the most important
12 thing is we saved money, improved quality and
13 improved this.

14 So, they're not necessarily
15 competing priorities, and they sometimes can
16 work in lock-step. And you can -- you can see
17 the savings that we were able to manage to
18 get, and that becomes the cause celebre.

19 I mean as soon as people saw this,
20 and I translated it back into headcount. I
21 basically said, "This is how many people that
22 we'd have to lay off." And I know you can't

1 do that, but there's some other measure of
2 unit that you can use that can galvanize
3 people. But it's, "This is how many jobs we
4 saved by doing nothing more than buying
5 smarter."

6 So, I think a lot of this is a
7 major cultural shift. A lot of it is a "trust
8 me." A lot of times, I said, "Let's just try
9 it. We can always back off if it doesn't
10 work." I have to say I was using words like,
11 "Mandate, edict." I had no teeth in this.

12 We since changed our governance in
13 this so that the chapters do ultimately report
14 into one location, but this was just be trying
15 to get this through -- through influence. If
16 you tee it up in a way that people that are
17 impacted see the benefit to them, that -- and
18 you sound like you believe it, I do think you
19 can prevail.

20 If all else fails, I've learned
21 that just nagging consistently without
22 stopping will eventually exhaust people, and

1 they'll comply. I'm done.

2 CHAIR ZIENTS: Sorry go ahead.

3 MEMBER MCGOVERN: Nope, I am done.

4 CHAIR ZIENTS: Why don't you
5 present the straw man -- I don't know if we
6 have time, as to what we want to do in the
7 next few months. And then October, we've got
8 real progress --

9 MR. JORDAN: Absolutely.

10 CHAIR ZIENTS: And if we need any
11 feedback on that, you can classify it.

12 MR. JORDAN: That'd be great. So,
13 how about taking some of the tactical
14 application that I had handed out in the
15 beginning in the last line, and then all the
16 input that you've given us already refines
17 some of those based on what I heard today.
18 So, first, laying out -- and this is a very
19 straw man for a pressure testing idea, but the
20 goal would be to try to save \$10 billion over
21 the next two years. A real number, an
22 aggressive man on the moon type target, but

1 one that we think is achievable.

2 With the process -- based on what
3 I'm hearing now, focusing the process to -- I
4 believe there's two prongs. One is we've got
5 to drive increased utilization of our current
6 federal strategic sourcing issue vehicles.
7 We've got a few split up. You see in the
8 document that often it's just the opt out.
9 We've got to figure out the right ways to
10 drive to increase utilization here. Put a lot
11 of mandates, but we've got to do that in
12 partnership with the agency.

13 And the second prong is increasing
14 the number of vehicles that we have. So, the
15 sub-bullets are we've got to improve the
16 agency high-level accountability but also
17 create a steering committee where we've got
18 participants, so we don't act ahead of what
19 all the needs are. We get the buy-in, but we
20 do it quickly, and then on the second part,
21 we've got to improve the data.

22 So, inserting a contracting clause

1 in a new contract that says, "You have to give
2 us that price and volume data." So, we will
3 still have our own data systems that we
4 populate, but we'll also be able to get that
5 information.

6 So, what does that look like by
7 October so we can come back to some real
8 progress and things to discuss? I see three
9 things that I would like to be back here
10 talking about with you.

11 One, the update on where we are on
12 the utilization of those federal strategic
13 sourcing --

14 CHAIR ZIENTS: Do you have those
15 vehicles we're talking about? There's office
16 supplies --

17 MR. JORDAN: Yes, there's office
18 supplies, wireless, domestic delivery and a
19 few others.

20 CHAIR ZIENTS: Anything with
21 travel?

22 MR. TANGHERLINI: We have already

1 discussed travel management. We competed
2 that. There's some opportunities around car
3 rental.

4 CHAIR ZIENTS: There's a half
5 dozen or so things like those that he just
6 went through.

7 MR. JORDAN: Yes.

8 CHAIR ZIENTS: That you're going
9 to drive toward?

10 MR. JORDAN: Yes, exactly. So,
11 we'll give you a from-to on the utilization,
12 and say, "Hey, did the things that we hear"
13 sorry, back up. I'm sorry. We're going to
14 have to issue some sort of guidance on
15 collaboration with the agencies, but to the
16 agencies saying, "Okay, that's those two
17 prongs. Here are the specific things you need
18 to do."

19 Based on that, there will be a
20 from-to on the utilization of the vehicles.
21 You can say, "Hey, these things work," or,
22 "How do we need to course correct?" And then

1 secondly, we'll update you on some of the
2 progress on new target list.

3 To Jeff's point, I know there's a
4 lot of discussion there, but what I heard you
5 really saying is it's a continuum. It's not
6 binary choice, but it's a continuum, and we've
7 got to move up that value chain, and at a
8 certain point to Jane's feedback, it may --
9 the cost benefit may -- we're a long, long way
10 from that.

11 So, we're going to continue.
12 We've got some things at one end of the chain.

13 We're going to keep moving up. So, we're
14 going to tell you how we're doing against the
15 ones we have. We're going to tell you some of
16 the things that we're targeting in our
17 progress, and why those are the right things,
18 and then -- please, please.

19 MEMBER KINDLER: Just one thought
20 by something you said and something Gail said.

21 If you come up with this \$10 billion moon
22 shot idea, thinking of a way to translate it -

1 - obviously you can't use metric you used, but
2 some metric that says, "This is going to be to
3 Liz's point: By working together, we're going
4 to create something that is of value to all of
5 us, and probably relate back to the budget in
6 some way because that's where the rubber meets
7 the road."

8 MR. JORDAN: Yes.

9 MEMBER KINDLER: So, if we
10 collectively deal with this chicken and egg,
11 and we get it all in, and we say, "Here's what
12 it will mean to your agency in a real way,"
13 by, to Liz's point, giving us the margins,
14 we'll get something together. I don't know
15 what that metric is, but something like what
16 Gail was saying.

17 MR. JORDAN: You've got to thread
18 a real needle between what Debbie is talking
19 about that's been so successful, which is
20 getting agency participation, by saying, "You
21 can cut here and reinvest in mission-critical
22 things," also taking into account what Gail

1 says, which is, "We're in tough budgetary
2 times. Let's give some of those savings
3 back."

4 MEMBER KINDLER: Maybe saying, "If
5 we saved \$10 billion, here's the piece of it
6 you're going to get back."

7 MR. JORDAN: That's exactly right.

8 So, you're right that we need to refine the
9 metric, and we want to address both of those.

10 MEMBER MCGOVERN: One cautionary
11 note on this approach, and I don't know the
12 right answer here, but if you keep moving up
13 the ladder one piece at a time, you are in
14 effect sort of slowing ripping this band-aid
15 off, and at the very end of the process,
16 you're going to have all the sacred cows that
17 people don't want to touch, and it's going to
18 really be hard to go through that last piece
19 of it.

20 So, I'm going to throw out a wacky
21 idea. I don't know if this makes sense, as
22 I'm thinking a little bit with my mouth here,

1 but if you took one that was complex and hard
2 instead of the paperclips, the travel,
3 etcetera, etcetera, and a separate group tried
4 to tackle that. Because you're not going to
5 be creating enough muscle memory on how to do
6 this if you're just going to do the real low-
7 hanging fruit.

8 And maybe you stop at the end of
9 the low-hanging fruit. I mean maybe that's
10 the answer, but I would just encourage you to
11 don't just do the easy stuff, because you
12 can't declare success. And say, you know,
13 "You see how easy that is? Now we're going to
14 buy missiles." I mean it's just not going to
15 work that way.

16 MR. JORDAN: Yes.

17 MEMBER LEE: And I would add to
18 that. Even the low-hanging fruit can be
19 difficult. You know, someone used the word
20 non-controversial earlier. I don't think
21 there's anything that's non-controversial.

22 I mean even hotel rooms, as easy

1 as that sounds, there are going to be people
2 who say, "Oh, I want to stay closer to where
3 the conference is," or, "Oh, I've been staying
4 at that hotel for so long." Right? "I get
5 frequent flyer."

6 I mean nothing is easy. And so,
7 there is resistance whether I've done this
8 with McKinsey or Booz Allen, or whoever has
9 come in and said, "I can get you \$10 million
10 here, and \$20 million here." You never get
11 all of it, and I think that's -- you have to
12 be realistic about that in whether you get 80
13 percent of it, or 85 percent of it. It is a
14 constant challenge, it is an ongoing process,
15 and I would hate for you to set sights and
16 say, "I'm going to get \$3 billion, and you
17 only get \$2 billion," and so, folks are
18 disappointed.

19 I mean it's always a push.
20 Always. Even if you have a mandate, people
21 find ways to get around it. So, I think you
22 just have to keep that in mind.

1 MEMBER SALEM: Who is driving this
2 project? Is Joe driving this? Is Jeff? Who is
3 driving this?

4 CHAIR ZIENTS: Joe is on my team -
5 -

6 MEMBER SALEM: Right.

7 CHAIR ZIENTS: He was driving and I
8 was going to add something critical to it. And
9 it is all that the managing counsel near here
10 that has to drive it around agencies, so, it
11 was overall involvement.

12 MEMBER MCGOVERN: Do you feel like
13 you're buying?

14 MS. HOLL LUTE: Well, so, I think
15 there's no question there's buying. I mean
16 we've saved \$1.4 billion in our department in
17 seven years, and the bulk in the last three-
18 and-a-half. We came in with efficiency
19 initiatives, which had 30, 60, 90: What we're
20 doing in 30 days, what we're doing in 60 and
21 what we're doing in 90 in terms of culture and
22 education. We also had this sort of a, "Let's

1 build the department together."

2 Homeland Security is still kind of
3 relatively new. I mean it is ten years old.
4 It's not one-year-old to the tenth time. I
5 mean but there was a brief time in our lives
6 when we were repeating the mistakes of the
7 previous year.

8 I love the phrase, "Let's put the
9 money on the screen." We had a version of
10 that. You know, "Let's put it on the border.

11 Let's put it in airports. Let's put it in,
12 you know, the operational line."

13 So, I'm sort of trying to
14 understand the message of this conversation
15 because it's not, "Should we do strategic
16 sourcing?" The answer is, of course we
17 should. I mean the issue is under what
18 conditions does a government-wide
19 centralization of the functionality make sense
20 as opposed to the value of proposition for
21 money?

22 I mean we take the government rate

1 in hotels. We don't take the Homeland
2 Security rate in hotels. We take -- so, we're
3 making use of this, and we're going to do
4 more. We've got almost four dozen active
5 initiative programs that could be bucket-ized
6 in certain respects, and they range in
7 everything from the paperclip, you know, 9
8 millimeter weapon, up to -- and this is a very
9 big list I've been working on for 18 months,
10 which is common airframe procurement. I mean
11 Border Control has got 27 different airframes.
12 Coast Guard has four.

13 MEMBER SMITH: But I'm thinking you
14 are hearing -- and I'll liken Tim's analogy.
15 He started 20 years ago. I think what you're
16 hearing from the private sector is that
17 threshold of commonality is much further along
18 that you think, to Greg's point. To Jeff's
19 point. I'm sorry.

20 MEMBER KINDLER: It's okay. It's
21 a compliment.

22 (Laughter.)

1 MEMBER SMITH: But that threshold
2 is much further along than you think. It's
3 not about paperclips and hotel rooms. You can
4 push it much further than you think you can.

5 MEMBER SOLSO: I think there is one
6 message though that I don't think has been
7 over emphasized, and that is that you will get
8 your employees to say, "This is really a great
9 thing, but it doesn't really apply to me."

10 Okay, it is absolutely guaranteed
11 that you will get that. And so, you have to
12 be able to sit there and say, "Yes, it does
13 apply to you and you must comply." Anything
14 less than that, and you're going to miss the
15 opportunity. If anything else --

16 MEMBER SMITH: You know, I used to
17 say that the possibility, however low it might
18 be, that the fact that it's costing more, the
19 margin will ultimately lead to that effect.

20 MR. JORDAN: I think that's one
21 you might want to ask our subcommittee,
22 especially between now and October. We're

1 going to continue to meet with the experts
2 that you've pinpointed, as well as some of
3 yourselves, to pressure-test the ideas as we
4 move pretty aggressively so.

5 You know, Tim, when we met with
6 your team, they talked about the Loctite
7 example. That's what Liz is saying, which is
8 to try to break through and say, "We want to
9 own this." They come by and say, "Look, I can
10 buy a Loctite for \$3.00. The strategic
11 sourcing effort comes by \$3.50. Let me just
12 do my own thing." We are grateful for this and
13 we are going to need some of your experience.

14 MEMBER SOLSO: The one that I got
15 was on the travel. We standardized, and got
16 huge savings, but the guys in India said, "We
17 got a local one, and we can get a better deal
18 on airports."

19 And we literally had to said,
20 "You'll lose your job if you don't follow the
21 procedure. You will lose your job."

22 CHAIR ZIENTS: All right. This

1 was a great session. Joe will be working with
2 Dan and Stephanie to pull together a plan.
3 We'll get that out in the next week or so.
4 This one has such good potential. I mean, this
5 is just --

6 MEMBER MCGOVERN: You are walking
7 over dollar bills. You just have to pick them
8 up.

9 (Laughter.)

10 CHAIR ZIENTS: And it is complex,
11 but we'll build on that, that muscle, and
12 anything on that.

13 MEMBER BROWN: One last comment.

14 CHAIR ZIENTS: Please.

15 MEMBER BROWN: I would burn a lot
16 of calories on cycles on these incentives
17 because what strikes me is we can debate. And
18 I agree. I totally agree with both --
19 everything you said about pick three to start
20 with. Whatever, just don't try to boil the
21 ocean. Be very composite, very specific.

22 Second, inspect what you expect in

1 terms of capabilities. One thought would be,
2 not to be controversial, but we talk about the
3 decentralized procurement. Might want to
4 think about centralized results, because this
5 department says, "I saved 50." "I saved 100."

6 Some of it is bullshit. You say, "We're
7 going to have a clearinghouse here; we are
8 going to identify.

9 So, I have a third idea about
10 centralizing measurement so every organization
11 isn't just saying, "We are fantastically
12 great," when OMB rolls out. We got a budget
13 problem. Everybody is saving everything but
14 nothing is rolling. And lastly, it's about
15 incentives because unlike the private sector,
16 and it is much easier for us, think about what
17 is the motivation? What is the incentives?

18 Is it a give-back of proportions?

19 I don't know, but I think you really need to
20 solve that. Then the earlier commentary on
21 what and how and whether it's easier. But
22 incentives is tricky.

1 CHAIR ZIENTS: All right, great
2 session. PMAB Members, take a 10-15 minute
3 BlackBerry, restroom break.

4 (Whereupon, the above-entitled
5 matter went off the record at 11:25 p.m., and
6 resumed at 12:23 p.m.)

7 CHAIR ZIENTS: We are on page 17,
8 National Security -- where are we, Dan?

9 MEMBER SMITH: Sixteen.

10 CHAIR ZIENTS: Sixteen, under tab
11 2.

12 MR. WINSLOW: I just wanted to let
13 everybody know we are actually going to be
14 broadcasting live at this point. So, the
15 meeting is back open. Just wanting to alert
16 you to that.

17 CHAIR ZIENTS: Good. So, Dan --

18 MR. WERFEL: He was a tough act
19 follow. As was the earlier discussion.

20 CHAIR ZIENTS: I'm going to ask
21 you to pull this in in about 35-40 minutes.
22 We got to get back upstairs.

1 MR. WERFEL: Absolutely.
2 Actually, I think, and I joked to Dennis that
3 I could create a time between national
4 security discussion and this, and I wasn't
5 kidding actually. But first, let's go over
6 some basic information on improper compliance.

7 On slide 16, you see the scale of
8 the issue that we have \$115 billion annually
9 on improper payments. This is an enormous
10 challenge. The chart there shows you that
11 Medicare, Medicaid, Unemployment insurance and
12 Earned Income Tax Credit are the big players
13 here.

14 What is -- just to ground
15 everyone, what is an improper payment from the
16 federal perspective? It's very intuitive. We
17 sent funds to the wrong recipient. We do it
18 in the wrong amount, and sometimes with
19 automatic payments there's no documentation.
20 So, if the action is approved, we call it an
21 error. Or, we have recipients using funds in
22 an improper manner.

1 There's a whole range of different
2 errors you see in the practical terms. Just
3 to give you a flavor, in the Medicare world,
4 we can reimburse a provider for an MRI, but we
5 go back and audit it and only a chest X-ray
6 happened. And so, we just reimbursed for a
7 procedure that was five or six times more
8 expensive than actually happened. These are
9 the types of things that can occur.

10 We also have, in the Medicare
11 world, a huge challenge with what you call
12 medical necessity. So, if a hospital admits a
13 patient for a procedure, but you go back and
14 look at regulations, and it should've been
15 outpatient, that's very difficult to fix. It
16 involves doctor training and Medicare
17 outreach.

18 When you think about improper
19 payment, before I move on, I want you to think
20 about it in terms of some buckets. There is a
21 bucket which is really, really challenging to
22 navigate and fix, and medical necessity is an

1 example.

2 Another example would be that the
3 payment that the government makes is based on
4 household size, or number of children living
5 with the person who is filing for the benefit.

6 We don't have the global childhood -- child
7 residency database to know.

8 So, for example, Earned Income Tax
9 Credit, which is one of the big ones. To get
10 the payment right, we have to know whether
11 that individual has lived with a dependent
12 child for six months or more during the year.

13 Very, very difficult to assess.

14 I don't -- we're not planning to
15 focus our discussion on that bucket. There
16 are, however, a bucket of errors that exist
17 that are within, we think, a greater degree of
18 proximity of control for us to fix, and those
19 involve areas where we're making basic
20 mistakes because we're not integrating data
21 effectively, or looking at data effectively,
22 and included in that is where we're being

1 defrauded.

2 So, for example, we're not
3 supposed to pay entities that have been
4 suspended or debarred by the government, yet
5 we do so. We do so because we don't have
6 tools in place that integrate that information
7 into our payment processes. So, we know
8 before we make the payment, "Has this person
9 been suspended or debarred?"

10 It gets more complicated, but also
11 sometimes we have a company that is suspended
12 or debarred, and then they reincorporate
13 themselves with a new name and a new
14 structure. And then they're back doing
15 business with us. We need to capture that,
16 and then you need more multi-dimensional
17 analysis of the data. Another thing that
18 we're not very good at at this period in time,
19 and we're trying to get better at that.

20 Then there's obviously fraud.
21 There's identity theft. People setting up.
22 This happened with billions of dollars, and

1 the IRS faces that challenge where people make
2 false identifies and file for tax refunds, and
3 we have challenges in weeding that out.

4 So, let's flip to slide 17. We
5 have a working group with the PMAB Members.
6 We talked about and focused our discussion on
7 data and technology, and essentially how do we
8 move out of the embryonic phase of -- that
9 we're in right now of thinking about
10 leveraging the information age, more data,
11 more analytics, more forensics.

12 We're getting the sense in areas
13 such as national security, and areas such as
14 law enforcement that there is a somewhat of a
15 revolution that's been going on for quite some
16 time, and how information to be used to look
17 for anomalies to understand what's going on
18 that's here to build into risk management a
19 much more smarter approach on how to dedicate
20 resources to attack particular types of risk.

21 But in this area, we have not yet
22 -- we're not anywhere near where what I think

1 we need to be in terms of level of
2 sophistication. So, we need to take that
3 journey that law enforcement and national
4 security has taken for us, and we think
5 pressure testing these ideas and these
6 thoughts with our corporate partners makes a
7 lot of sense.

8 So, we have both an agency-
9 specific focus. So, for example, you'll hear
10 from the Labor Department. We also have Peter
11 Budetti here from CMS, who is tackling that
12 issue for Medicare and Medicaid, and then we
13 want to try to tackle this problem government-
14 wide, and Neil Wolin from the Treasure
15 Department is here to help talk to us about a
16 government-wide forensic solution that we
17 currently have under development.

18 So, with that, let me turn to
19 Seth, who is going to do the other part of the
20 presentation.

21 MR. HARRIS: Thanks. Good
22 afternoon, everyone. Let me start by

1 introducing some experts on the subject.
2 Behind me is Gay Gilbert, Director of our
3 Office of Unemployment Insurance, and Jim
4 Taylor who is the Labor Department CFO, and a
5 former deputy IG. So, they're quite
6 knowledgeable in this area.

7 So, I'm going to jump back and
8 forth between slides 18 and 19. UI is a joint
9 state, federal program based on federal law
10 administered by the states, based on state
11 laws that vary quite significantly.

12 So, there are 53 systems using
13 different state laws with respect to
14 eligibility. They use different processes for
15 operation. They have different methods of
16 delivery of checks.

17 We regulate the state systems,
18 monitor state administration to ensure that
19 they're in compliance with state law. We
20 oversee the federal trust funds, and we give
21 states' administration funds technical
22 assistance to help them with their operations.

1 Now, we've been working quite
2 aggressively over the last two years with our
3 state departments to try to get at improper
4 payments, and if you'll turn to slide 19,
5 you'll see the latest data that we have, which
6 is calendar year 2011.

7 The last statements show that we
8 have been able to make some progress with
9 bringing the improper payment rate down. The
10 middle column is calendar year, the preceding
11 column is fiscal year. So, that's the latest
12 in the middle.

13 So, we brought it down, but
14 obviously we have a lot more to do. On slide
15 19, it shows you the principal causes of -- or
16 all the causes of the improper payment rate.

17 The principal causes, the largest
18 causes, and then ones that we think we can
19 influence are of 4: Benefit year earnings,
20 which is a fancy way of saying people keep
21 collecting UI, even though they've gone back
22 to work. Work search, taking one of those

1 uniformly required while receiving UI you've
2 engaged in an active work search. Some
3 claimants failed to file a report as to how
4 they're engaged in a work search.

5 Separation errors. This is
6 employers failing to tell us why somebody has
7 been separated. That is relevant to
8 eligibility under UI. And employment service
9 registration: claimants just fail to register
10 with their state's employment service, which
11 is the principal method of providing the
12 employment services to unemployed and
13 dislocated workers.

14 In 2011 -- UI and close are the
15 principal areas that we're focusing on. In
16 2011, reporting period, and this is the right
17 corner, bottom corner, of slide 19. We
18 estimate that about 26 percent of all UI
19 overpayments were due to fraud, or about 3
20 percent of the total benefits paid.

21 Oh, as you can see, over two-
22 thirds of broad overpayments are due to

1 claimants continuing to collect after they've
2 gone back to work. So, they are
3 misrepresenting to us that they are
4 unemployed, rather than back at work, rather
5 than simply making a mistake.

6 So, flipping back to slide 18.
7 What are some challenges that we face? First
8 is this is a decentralized program that we
9 have very limited tools to influence. We're
10 using the full toolbox that comes and leads to
11 policy guidance. There are performance
12 measures in place, technical assistance.

13 Shaming: We've put a website up
14 that shows every single state's improper
15 payment rate broken out. It also shows
16 whether or not they're doing the set of things
17 we think they need to do to bring their rate
18 down. We're funding incentives and we're
19 using bullying all over the country now.

20 Another problem is information
21 technology capacity. Most states' IT systems
22 in UI are quite antiquated. The median age of

1 a state UI system is 20 years old. We have
2 one that is more than 40 years old. You have
3 states that are still programming in COBOL.

4 Data sources to support prevention
5 and detection are limited. Cross matching the
6 databases is one of the most important things
7 that we can do to address this issue.

8 For example, the national data
9 directory of new hires helps states to
10 identify when a claimant has gotten back to
11 work. The problem is there's a five to six
12 week time lag in that data.

13 So, that BYE problem with people
14 going back to work but still collecting UI.
15 This isn't really addressed by the NDMH as
16 well as we'd like it to be. Also, federal law
17 prohibits states from simply acting on a data
18 cross match. They have to verify it by some
19 kind of personal contact under federal law.

20 That obviously needs a tremendous
21 resource investment by the states to try and
22 correct these problems. So, we're working now

1 with three states to gather financial data
2 from banks to try and get the data much, much
3 more quickly.

4 And also, states still don't have
5 expertise in the capacity for analytics, and
6 I'll talk a little bit more about that when I
7 talk about how you can be helpful to us.

8 So, we've been focused on the
9 largest causes. As, I mentioned there are
10 four. There are three that we're really
11 focused on: BYE, employment service
12 registration and separation.

13 To address BYE, we've given money
14 to states to engage in much more frequent
15 cross matching with the National Directory of
16 New Hires, to identify when a claimant may
17 have gotten back to work.

18 States are now, when they find out
19 that somebody has gone back to work,
20 immediately notifying them, saying, "Hey, we
21 know you're back to work. Don't collect
22 anymore UI benefits." And we're also

1 developing some messaging tools to remind
2 people -- some people think, not legitimately
3 but mistakenly, that if you go back to work,
4 you can continue to collect UI until you get
5 your first paycheck. That's not right. We'll
6 remind you then with the messaging that your
7 payment is ineffectual.

8 To address separation issues,
9 we've worked with states to develop a
10 standardized application that's called SIDES,
11 to enable very quick electronic communication
12 between states and employers on separation
13 reason, reason for separation.

14 And now, we're turning to
15 strategies and we'll focus on work search and
16 fraud. So, let me quickly identify three
17 areas. I think these will match up with the
18 last that Danny is going to give you shortly.

19 The three areas where I think this
20 group could be most helpful to us: First is,
21 to be blunt, we are not using advanced data
22 analytics for identifying potential risks for

1 patterns of behavior prediction at all.

2 Second, if you have ideas about
3 organizational structure, we've gotten all the
4 states to get cross-functional payments
5 together and supported them in doing that.
6 But you may have thoughts about what kind of
7 team, what kind of structures are effective in
8 going after this problem.

9 Then third is communications and
10 messaging. We got the problem both of
11 internal communications to our state partners
12 and to our own organization, and also
13 external to our potential customers.

14 MEMBER WILLIAM: One question.
15 What is the penalty for the individual? What
16 happens to someone who has been overpaid in
17 the context of where they started another job?

18 MR. HARRIS: The money is taken
19 back out of your -- pardon me -- the money is
20 not clawed back. It is taken out of your next
21 set of unemployment benefits. So, if you're
22 unemployed weeks one through five, week five

1 is an improper payment. When you are
2 unemployed again in week 20 to 25, they will
3 reduce the amount of your payment during --

4 MEMBER WILLIAM: So, no punitive
5 aspect?

6 MR. HARRIS: No, it's not fraud.
7 There's no punishment.

8 MEMBER SALEM: And the reason we
9 can't get it all back right away is it doesn't
10 go back to processing systems?

11 MR. HARRIS: Sorry? I think this
12 is a party question. Objectively.

13 MS. GILBERT: That is correct.
14 First of all we agree to say they are
15 obviously going to keep the money, so our
16 primary way to get the wages back is often
17 through benefits withholding, or to use other
18 means, garnish wages, or a variety.

19 MR. HARRIS: And there's the TOP
20 program. You mentioned the TOP program.

21 MS. GILBERT: Right. We now have
22 the authority to offset the early tax returns,

1 so it is good that you mention it now.

2 MR. HARRIS: So, we're not working
3 the states that haven't signed up for the
4 Treasury Department's TOP Program. So, that
5 way, the money can come out of federal tax
6 programs, rather than coming out --

7 CHAIR ZIENTS: But it's a dollar-
8 for-dollar penalty?

9 MR. HARRIS: Only if there's
10 fraud.

11 MS. GILBERT: That's right. Only
12 for fraud. The federal requirement is 25
13 percent of, oh excuse me, 15 percent of
14 penalty for fraud, unproclaimed. And there are
15 more rigorous penalties with a different law.

16 MEMBER SALEM: Sorry, what was the
17 number that is improper payments for specific
18 situations in going back to work and I still
19 claim?

20 MR. HARRIS: About 30 percent.
21 Our estimate is about 30 percent of the
22 overpayments --

1 CHAIR ZIENTS: So, about 3 percent
2 overall?

3 MR. HARRIS: Three percent of the
4 total overpayment.

5 CHAIR ZIENTS: Sorry, what's the
6 number? So, about \$100 million-ish, \$3
7 million?

8 MR. HARRIS: No, that's not --
9 it's the -- it is a third -- it's a third of
10 the total overpayments, which is -

11 CHAIR ZIENTS: 400 million, yes?

12 MEMBER SALEM: So, the next time
13 you go to hold it back. So, that means you
14 know. That means we have to know this person
15 has been overpaid, right? Meaning if we could
16 hold it back in the future, we must know now.

17 So, the issue is we don't have the authority
18 to get it back right away.

19 MS. GILBERT: As soon as we're
20 able to adjudicate and get them back to making
21 the decision, we can stop them at the point.
22 But our knowledge is highly imperfect.

1 MR. WERFEL: When we see it, we can
2 do the opposite. Part of this discussion is
3 we have blind spots.

4 MEMBER SMITH: The cost of the
5 claw back, whether it is in the public or
6 private sector, would be -- I think in terms
7 of -- so, how do we stop the problem before it
8 occurs? And the other thing, we're talking
9 about fraud, but people that are uninsured.
10 So, presumably there's no money to claw back.

11 So, I just would question the wisdom of going
12 on about claw backs when they are hard enough
13 in the private sector.

14 MEMBER SALEM: Right. But at this
15 point they're actually getting paid. But I
16 agree with your point it is preventable.

17 MEMBER SMITH: Yes.

18 (Simultaneous speaking.)

19 MS. GILBERT: I was going to say
20 many times by the time you identify an
21 improper payment, they no longer had income.
22 You've got to wait until they go back to work,

1 or they come back on unemployment or whatever.

2 MEMBER SOLSO: Another problem is
3 does state paid money as well as the federal
4 government? Are the state and the federal
5 government aligned in the goal of trying to
6 reduce this, or who they pay money to?

7 MR. HARRIS: The money goes back
8 into the UI Trust Fund. So, it is -- you'll
9 end up paying additional --

10 CHAIR ZIENTS: No I mean the
11 overall structure between state and federal on
12 UI.

13 MR. HARRIS: Right. Each state
14 has its own trust fund which is overseen by
15 the federal trust fund. It's sort of
16 aggregated to a federal trust fund. The money
17 goes back into the trust fund so we don't --
18 we have no incentive to -- we have no
19 disincentive to getting that money back. The
20 states have no disincentive to getting it
21 back.

22 It's fair to ask whether or not

1 they have a sufficient incent to go and get
2 the money because the -- the effect is
3 somewhat attenuated. So, they get the money
4 back. The money goes into a trust fund. It
5 gets paid out at some point in future
6 benefits.

7 Theoretically, if you collected
8 enough money, it would reduce the tax break
9 for employers in your state by some amount, or
10 it would give you additional money to pay out
11 additional benefits for more employed people.

12 But it's several steps attenuated from that
13 policy result.

14 MR. WERFEL: So, Neal, why don't
15 we shift to the government lion's solution.

16 MR. WOLIN: Let me first introduce
17 my colleague, Dick Gregg, who is fiscal
18 assistant secretary. He's in charge of making
19 about 85 percent of the payments the
20 governments makes, doing lion's share of the
21 debt collection and also financing them, all
22 of our notes and bills and public debt

1 options he supervises.

2 So, we are trying, as Dan
3 suggested, to create still in its nascent
4 state, it is fair to say, a utility for the
5 government at large that would allow us to
6 better capture payments that shouldn't be made
7 before they're made, both at the moment of --
8 before the moment of eligibility for programs
9 or for qualifying folks who do business with
10 the government before payments are actually
11 issued, and then a capability that will allow
12 us post-payment to do the kind of analytics
13 that every financial services company in
14 America does, both with respect to fraud
15 detection or other weaknesses in the system
16 that are helping contribute to the enormous
17 amount of improper payments that Danny
18 identified at the start.

19 Treasury is sort of the natural
20 place, because we are sort of the core
21 payments function of the government, and
22 because we've done something relatively

1 analogous on the debt collections side over
2 the last ten years, to, I'd say, reasonably
3 good effect although still striving to improve
4 there as well.

5 So, the basic idea in working with
6 the Kansas City Fed, who are in fact our
7 contractors on this, have some capacity and
8 some IT that is useful to us, are working on
9 creating a portal. It exists now.

10 It is still I think without
11 important aspects of functionality that allow
12 agencies, the Treasury and other agencies,
13 again, both at the moment of eligibility and
14 the moment of payment on a continuous basis.
15 That's the goal: to look at a series of
16 databases that the government has that is
17 listed on this page. Who has died? Who is
18 ineligible to do business with the government
19 either because they've been debarred as
20 procurement contractors or because in the
21 national security world, they're subject to
22 some sanction or another by the US Government,

1 or ineligible to receive payments for
2 Medicare/Medicaid and other federal health
3 programs, et cetera, and to really be able to
4 do this in real time, have agencies send
5 files, huge files, of potential beneficiaries
6 or contractors, or with respect to payments,
7 payees, and see who is not eligible.

8 The government already understands
9 some party that isn't eligible for a payment,
10 and do that kind of core, pretty
11 straightforward matching exercise that again
12 is done in Neal's world everyday, and that we
13 just haven't had the capacity to.

14 We are working on the back end
15 piece of this with respect to the data
16 analysis and the sort of post-payment sense of
17 things that will help inform how we do the
18 front end, both with the Kansas City Feds as I
19 mentioned, but also with Financial Crimes
20 Enforcement Network, which is a bureau of the
21 Treasury that focuses on a range of capacities
22 on financial crime, and on flows of money;

1 mostly on money laundering spaces, but in
2 other spaces as well.

3 They have, we think, a lot of
4 expertise that can be brought to bear on this
5 set of challenges. The challenges are not
6 unsubstantial, apart from this being early
7 days, and are really just trying to ramp up on
8 the -- on the IT end and on the functionality
9 and the governance. They're all, I think,
10 topics, where I think your all's input could
11 be particularly useful.

12 We face a set of challenges that
13 are not uniquely governmental, but I think are
14 exacerbated by our particular circumstance.
15 One relates to this set of issues about
16 privacy and balancing, information sharing,
17 which at the core of this is what this is
18 about with privacy concerns.

19 We have a set of statutory
20 constraints there, and political constraints
21 on top of those, that are not insubstantial,
22 and working those through will be important.

1 So, for example, in order for
2 agencies to continuously monitor the databases
3 that we have available to us that suggest
4 names of payees who shouldn't be eligible for
5 payments, we at Treasury have to work through
6 on an agency-by-agency basis matching
7 agreements, actual data sharing agreements
8 with each agency one by one.

9 So, it's an arduous kind of task,
10 and in order to change that, you need a change
11 to statute. I think that's unlikely to come
12 any time soon.

13 There's another set of challenges
14 I think that relate to the basic tension
15 between constituencies and our own policies to
16 want to make payments on the one hand, and
17 taking extra care to not make improper
18 payments on the other. Those are both
19 important objectives in getting that balance
20 in the right place. It's a very complicated
21 thing. Moreover, it is probably a different
22 balancing act for different programs and for

1 different kinds of payments. And so, it is
2 very, very textured.

3 MEMBER BROWN: Do you need data
4 matching agreements in place before you do the
5 matching service --

6 MR. WOLIN: We do. So, we have a
7 few, but there are lots and lots of parts to
8 the government, and we do one with each one of
9 them in advance before we can actually do this
10 continuous feed of data back and forth.

11 MEMBER BROWN: Is that the longest
12 pole in the tent?

13 MR. WOLIN: These are all pretty
14 long poles. I think the politics on privacy
15 complicate it. The issues around -- there are
16 lots of kinds of payments that we make, the
17 federal government and the aggregate, Treasury
18 included, where there's an overwhelming
19 impetus for policy reasons to make the
20 payments: to pay first and ask questions
21 later.

22 That is the basic sort of context

1 in which we find ourselves. Then the question
2 is how do we recalibrate that balance with
3 respect to a circumstance in which that may
4 have gone too far and the level of improper
5 payments obviously --

6 MEMBER BROWN: So, I don't want to
7 take this --

8 MR. WOLIN: Sure.

9 MEMBER BROWN: But what caused the
10 two or three agencies that gave you the
11 agreements the comfort to do so, and overcome
12 the privacy and other processing concerns?

13 MR. WOLIN: I think it is not so
14 much comfort. I think this has just been put
15 online. We're in early days. This is a
16 question of doing the mechanics of getting
17 that through, and my strong sense is that more
18 will come and things will go quickly.
19 Moreover, the functionality of this, of the
20 system as it exists today, as I say, is not --
21 none of you will find it overly impressive,
22 and as it gets more impressive and as we roll

1 out more capacity it will bring, I think, more
2 people to want to take advantage of what it
3 has.

4 MEMBER BROWN: How long until you
5 estimate you're where you want to be with the
6 matching agreements? Six months, nine months?
7 Four months?

8 MR. WOLIN: Well, it's a little
9 arduous. I mean I -- so, for example, I think
10 there is a possibility, especially if Justin
11 and his colleagues help us push forward with
12 other agencies and say, "Here's a template.
13 You may have reasons to deviate from the
14 template, but here's a basic template that we
15 could expedite that process."

16 But left to his own devices,
17 dealing with each agency and in particular a
18 set of independent agencies who are not
19 cabinet agencies -- who have some measure of
20 independence from the President, and from the
21 -- and from the Treasury is going to be a
22 long, arduous tease. Could be years. Could

1 be years.

2 CHAIR ZIENTS: What's a good
3 scenario to where we would be at sort of 80
4 percent?

5 MR. WOLIN: I think -- I can guess
6 18 months.

7 MR. WERFEL: I think Neal is
8 right. There is a lot of elbow grease to
9 these privacy agreements, and running parallel
10 to having what can be a painful meeting,
11 bringing in agencies, all their lawyers and
12 working out the details and standing on a few
13 of them; parallel to that, you're also working
14 with some privacy legal experts in the
15 government to see if there is a framework,
16 kind of a generic solution almost like the GSA
17 schedules. You know, get everyone on a
18 similar train. And we're trying to do that.

19 MR. WOLIN: There's a huge
20 database of information that is in deep
21 development to this conversation that has yet
22 to be on tap, and it's even -- it's a database

1 within Treasury, our taxpayers, which
2 obviously is sort of third rail of privacy
3 with respect to government information.

4 And so, it puts a quite quick and
5 clear relief just how tricky some of the
6 issues on this are.

7 CHAIR ZIENTS: That is the most
8 valuable data set by far.

9 MR. WOLIN: It's the most
10 valuable, and it's incredibly constrained for
11 our use statutorily. I mean the tail with
12 which we are managed with respect to what we
13 can do with tax information is I think
14 substantially more than we imagined.

15 So, I think there's a bunch we can
16 move forward pretty quickly. We need help,
17 and I think your insights, your experience and
18 those of others in the private sector who --
19 you know, can help us with things like process
20 issues, data integrity issues, just basic
21 blocking and tackling that is prevalent in the
22 private sector, but which we are struggling to

1 accelerate our efforts around would be
2 enormously useful.

3 Then we'll continue to work
4 through these thickets that have a more
5 political and statutory dimension.

6 MR. WERFEL: So, there's a lot of
7 different ways to take this conversation. On
8 slide 21, basically taking a kind of a macro
9 angle, but I'm really happy to go into any
10 direction.

11 Let me just talk you through kind
12 of our overview from a macro standpoint. It's
13 that when we take a step back from this, we
14 recognize what we see. The State of the Union
15 here is a very embryonic or non-existing use
16 of technology to attack this problem across
17 government.

18 Neal described we have a
19 government wide solution. Seth said we don't
20 really have that capacity at Labor. Peter is
21 here from CMS, and they've started out. But
22 again, one question that we're raising is why

1 is that, and how do we get to a better place?

2 This question, that's why I was
3 joking earlier. Someone said earlier, "Why
4 can't we take what Denis talked about and
5 apply it to paperclips?" And we have had
6 similar discussions or earlier discussions
7 that we call it the NASA effect. We don't
8 have to worry about NASA being on the cutting
9 edge of technology. The reality of NASA's
10 mission, and the reality of federalization is
11 culture. It just happens. They are going to
12 be on the cutting edge of technology in any
13 endeavor that they take.

14 But when you look at less priority
15 functions like how are we looking at fraud and
16 error in government payments to individuals,
17 contractors and grantees, we don't have the
18 incentives, the long-standing culture, the
19 infrastructure to do that.

20 And so, one global question that
21 we have is how, in this particular area or any
22 area of government, do we position our

1 organization better to be at the cutting edge?

2 Not just, "Hey, here's the latest
3 technology," but also understanding what's
4 going on in it.

5 Neal said earlier that every
6 finance company in the world is using
7 sophisticated stuff to find identify theft.
8 Credit card companies, et cetera, they have
9 run out --

10 MEMBER SALEM: They've got clear
11 incentive: it's the bottom line of the
12 company. And so, credit card fraud used to be
13 1% in the eighties, and they had nothing
14 through 10% -- but they kept managing down,
15 and that's bottom line profit. So, that's how
16 you drive their motivation. So, the question
17 we'll see equivalent --

18 MR. WOLIN: Our motivation is much
19 more complicated, and that's why the political
20 tension that I talked about -- you know,
21 people want payments to go out. And so, the
22 presumptions in a sense are flipped.

1 MEMBER SMITH: We talked earlier
2 about -- I mean it comes down to exactly what
3 I hear him saying: human nature. Honestly, if
4 you're not going to accept behavior change
5 that you want to have happen, it's not a
6 matter of getting the database in. It really
7 isn't. Because it's just so -- so, I guess my
8 question is people only change when they have
9 to, right? No one fixes the roof, not when
10 it's sunny.

11 So, if you've identified how much
12 the improper payments are, you do have a
13 mechanism that says, "We can cut your budget
14 by X or Y, because we know this percent." You
15 can't do that.

16 MR. WOLIN: Congress gets to do
17 that.

18 MEMBER SMITH: And you can't
19 present that we've identified this much. And
20 so, how do you hold people -- in the private
21 sector --

22 MR. WOLIN: Well, you might, but

1 your -- Congress is going to say, "We want
2 these payments to go out. And we want you to
3 fix the improper payments thing because that's
4 of course waste." But how do you organize one
5 or the other is not so clear.

6 So, I'm saying the normal tools
7 that you have to penalize P&L effects to put a
8 constraint on it, I'm not sure there are
9 things in the direction -- I'm sure there are
10 plenty, but there is this kind of core reality
11 that the tools are --

12 MEMBER SMITH: So, we've had -- we
13 do stuff internally to improper payments and
14 whistleblower and everything like that. With
15 everything you save, what's your skin in the
16 game on it? Right? You can't do any of that.

17 MS. MERRIGAN: We actually were
18 rewarding states that would bring down their
19 improper payment rate, and in the budget
20 cutting scenarios that we're in now, that's
21 the first thing that the appropriators cut out
22 because it is not necessary.

1 So, we don't have total control
2 over some of the --

3 MEMBER SALEM: That sounds like a
4 great program. You had a great program.

5 CHAIR ZIENTS: How did that work
6 before it was cut?

7 MS. MERRIGAN: It was working
8 well. It does incent. It showed the stars
9 that shine as models for other states. It
10 provides an incentive, and we also helped the
11 people who were the worst in the improper
12 payments, too. We target some money to them
13 to bring them up to -- up to the --

14 MEMBER SALEM: That sounds like a
15 great program.

16 MS. MERRIGAN: Yes.

17 MEMBER SMITH: We started the
18 feedback on, "How do you do performance
19 management?" It's the exact same thing. When
20 you have a whole system built around rewarding
21 the status quo and the average performer, the
22 answer is that of course you're not going to

1 get a structural shift.

2 So, unless you can find your way
3 to having skin in the game and rewarding the
4 top performers in a meaningful way, you can
5 data mine all you want.

6 MEMBER WILLIAM: I guess the
7 question I have is when your budget is
8 reduced, is that amount of money reduced or is
9 that line item removed, and you're prohibited
10 from spending money on that line item?

11 MS. MERRIGAN: The latter.

12 MEMBER WILLIAM: Sorry?

13 MS. MERRIGAN: The latter.
14 There's certain things that --

15 MR. WOLIN: It's whether they
16 reduced the top line in the agency, or whether
17 they just reduced this element of it, and
18 leave the top line alone. Congress can do
19 either, and they do both all the time.

20 MEMBER WILLIAM: The point I was
21 trying to understand is whether it's simply a
22 matter of reallocating your main resources, or

1 whether it is a prohibited activity. But let
2 me suggest something here. I guess I'll ask a
3 question first about a point of clarity.

4 Is the issue that you don't have
5 the human and technological resources to
6 aggressively pursue the initiative outline
7 here because of skill and resource capability
8 and technical capability in the data? I think
9 that's part of it.

10 MS. MERRIGAN: That's part of it.

11 MEMBER WILLIAM: What percent of
12 the problem is it?

13 MR. HARRIS: A quarter.

14 MS. MERRIGAN: There's no
15 incentive to it.

16 MR. WOLIN: So, for example, if
17 you -- if you stop a bunch of improper
18 payments, and just take a veteran's program.
19 The savings are not going to rebound to the
20 benefit of that agency. They're going to just
21 go away. So, at an agency level --

22 CHAIR ZIENTS: Well, they go to

1 taxpayers.

2 MR. WOLIN: I'm saying they go
3 where you -- they drop to the general funds,
4 to the basic general fiscal. But at the
5 organizational level, the Department of X, Y
6 or Z does not -- is not going to be the
7 beneficiary of that virtuous behavior.

8 MEMBER MCGOVERN: Let me ask a
9 question. I'm thinking about the conversation
10 we just had, where the reason that people
11 don't want to buy off of GSA's schedule is
12 because of control, trust. They think they
13 can do it better.

14 The question I had for you guys is
15 -- I mean is there a feeling out there that
16 makes people angry? People are committing
17 fraud; they want to stop it? Or, is it at,
18 "Eh, it's hardly on my radar screen?" Because
19 this feels like a different kind of set of
20 incentives than handing over your purchasing.
21 This feels like a way to motivate people is,
22 "There's crimes being committed here."

1 MS. COLVIN: But that's why I
2 think we really need to clarify. In Georgia,
3 for instance, overpayments or improper
4 payments at FSA are not fraudulent -- it's the
5 complexity of the program. It's also the due
6 process that you have to provide --

7 MEMBER MCGOVERN: People can be
8 well intentioned and they're doing this by
9 mistake.

10 MEMBER BROWN: So, \$115 billion.
11 That's the point I was going to make: \$115
12 billion of improper payments. About what is
13 fraud?

14 MR. WERFEL: It's in the five
15 percent range. But let me make this -- this
16 is a strategic plan. I've struggled with
17 this. I've been at this for almost a decade
18 now, on this improper payments issue. At
19 first my reaction was, "This is not all
20 fraud." But then I started to feel like the
21 notion of the importance of it is elevated.

22 So, I make a big deal, for

1 example, when a Treasury IG report comes in
2 and talks about identity theft in IRS. I make
3 a big deal about that because I'm trying, as
4 you said, to galvanize energy and
5 accountability that this isn't the foundation
6 of why we're in government for stewardship
7 reasons, and trying to create that incentive.

8 Because without those financial
9 tools, you think -- going back to the NASA
10 thing. What's the incentive at NASA to use
11 the technology?

12 Now, obviously there's safety
13 incentives and lives. So, there's a safety
14 component. But also there's other scientific
15 exploration. There's incentives, but it's
16 short of financial. It's not that NASA
17 administrators get to keep a cut if they do
18 more technology. So, I've been trying to find
19 what that nexus is, and you mentioned --

20 MEMBER MCGOVERN: You're kind of
21 on the side of the angels here. You're
22 thinking of how to motivate people around it.

1 It's not like, "Hey, hand this over because
2 there's another group that can do it better."

3 The question is how do you just get people to
4 realize that this is just pure and simple
5 waste? I don't know if you have to give them
6 a cut of the waste? I'm not sure that's true.

7 It just seems like the --

8 MEMBER SMITH: There's got to be
9 some skin in the game. Let me ask you
10 something.

11 MEMBER MCGOVERN: I don't think
12 that there has to be.

13 MEMBER SMITH: Not financial. It
14 doesn't have to be financial.

15 MEMBER MCGOVERN: But it is the
16 greater good. I mean that's why smart people
17 like this are serving government, right?

18 MS. COLVIN: It's much more
19 complex than that. At Social Security we send
20 out, \$720 billion a year, two of which is --
21 in just the trust fund area, we only have
22 about 2.2 percent fraud. But when we have to

1 give the SSI populations, which is a needs-
2 based program, and you're looking at resources
3 and assets, and you look at the populations
4 that we're serving, we have to find tools that
5 allow us to identify whether or not they have
6 access up front.

7 So, we've been very successful
8 with our partnership with the financial
9 industry where we have access to financial
10 institutions, and we're able to go out and
11 very quickly ask five right now in their area
12 to identify whether or not they have assets.
13 Then we can then look at that.

14 But we don't do that upon initial
15 applications. We don't have the ability or
16 the resources to do it. We do it later,
17 often. And so, they've already received
18 benefits when we learn that they have
19 resources, and we have the challenge of going
20 back.

21 What we need to do is get to a
22 point where we have the resources, where every

1 time someone makes an application, we can
2 automatically go out and discern whether or
3 not they have access or resources. Many are
4 dealing with a population that has no
5 permanent address. They move a lot. Their
6 living arrangements change, and every time any
7 one of those things happen, they are supposed
8 to report to us.

9 We have 1,500 data matches, and
10 we're very effective at using those, but those
11 are inadequate. So, I'm hoping that you can
12 sort of offer some other ideas of other tools
13 that we might use that might lead to
14 prevention: how to prevent it from going out
15 the door.

16 We've had a number of work
17 simplification proposals that have gone to
18 Congress and they've never moved. But to give
19 you an example, if we want to move someone off
20 the rolls, and they appeal, due process, it
21 could be months before the decision is
22 reached. We have to continue to pay them

1 until that appeal is finished, when we know
2 that they're going to come off the rolls.
3 They probably know it too.

4 Then, once they have a decision
5 that's in our favor, we have to go back and
6 try to collect.

7 MR. WOLIN: I totally agree with
8 you, Liz, but having enough incentive
9 structure and doing classic performance
10 management, using those tools is a big thing.

11 I think here though there's -- I think
12 there's a constraint with respect to the tools
13 available.

14 I think that in the vain we're
15 talking about people who are in programs who
16 really do want to do the right thing. You
17 know there's exceptions, of course.

18 MEMBER SMITH: That's been my
19 sense.

20 MR. WOLIN: And they're very
21 focused on ethics, and they feel pride in how
22 they're administrating these things. I think

1 what they don't have, and I think what we're
2 finding that you're hearing from Seth and
3 you're hearing from counsel is that they don't
4 have tools, but their IT sort of circumstance
5 -- their ability to actually do what they'd
6 like to do is constrained by an inability to
7 actually figure out who is getting money that
8 they oughtn't be getting.

9 And I think my own deal, and Jeff
10 said is that the projector is particularly
11 well suited to help us figure out how we can
12 bring to bear a set of tools that would bring
13 big advantage in this area, and that we
14 basically don't have.

15 MEMBER WILLIAM: Let me make one
16 suggestion, which is that as you look at the
17 specific types of tools you need, there's a
18 process that I use. I don't know if it's
19 applicable in this setting. It's something
20 that we use called co-sourcing, where we
21 basically identify a capability we did not
22 have, both in terms of human resources and

1 sales.

2 We would find vendors who had
3 those capabilities, and we would contract that
4 vendor with the express purpose of building
5 that capability in our organization.

6 So, we would bring them in. They
7 would operate it, they would help us recruit
8 and train the staff necessary to maintain the
9 capability, and then over a two or three year
10 period, their contract goes away, and we have
11 a residual capability that's been
12 institutionalized and used.

13 So, if you think about that in the
14 context of the technology and tools that you
15 need. Because if you don't have the tools,
16 you don't have the capability. It's going to
17 be hard to invent them. What you also don't
18 want to do is be permanently captive of the
19 vendor, as opposed to a co-sourcing
20 arrangement where the vendor is paid for
21 technology and tool transfer.

22 MR. WERFEL: If I understand you

1 correctly, instead of hiring a consulting firm
2 to come build you a tool, you hire a credit
3 card company who is already using a
4 particularly effective mechanism to --

5 MEMBER WILLIAM: They know how to
6 do this. You don't know how. The objective
7 of the assignment is to leave you with both
8 the capability of the hardware and software,
9 and the human resources as part of your
10 organization, is able to institutionalize this
11 operation transfer.

12 CHAIR ZIENTS: Say that again.

13 MEMBER WILLIAM: Operation
14 transfer.

15 MEMBER BROWN: And you don't want
16 to build. You want to implement, and you want
17 to institutionalize.

18 MR. WOLIN: I think that's great.

19 I think the challenge would be who are the
20 parties with whom we might be able to do that?

21 So, for us, the Treasury, getting with a
22 financial services firm has a set of

1 complexities --

2 MEMBER WILLIAM: I know software
3 companies that would be interested.

4 MEMBER KINDLER: Make sure you
5 check first that anybody you hire hasn't been
6 debarred.

7 MEMBER MCGOVERN: You know, for
8 what it's worth we also have unbelievable
9 legacy systems, COBOL. I think we have some
10 that are in the machine line, and they're
11 really old. We started revamping our IT,
12 going to the usual suspects to figure this
13 out. I woke up in the middle of the night in
14 a sweat, thinking, "So much is happening in
15 the technology world. Are we just getting to
16 the point where we're about to throw this
17 away?"

18 So, we actually went on a
19 technology quest. We went to Silicon Valley.
20 We talked to VC's. We talked to startups.
21 We talked to the usual suspects, like Google
22 and Apple. The whole thing was, "What's new

1 under the sun?" Because I do think that
2 particularly in data warehousing,
3 cybersecurity, fraud, there is a lot going on,
4 and your legacy systems may be a good place
5 for you to leap from, ten more versions of
6 this stuff, in a way that isn't as painful as
7 some of the credit card companies had to go
8 through.

9 CHAIR ZIENTS: Let's do five
10 minutes on what we do between now and October.

11 So, I'm sure you'll focus on tools. And
12 let's take this away, we need to think through
13 July through October. Let's take five minutes
14 right now to take the counsel live --

15 MEMBER SMITH: So, have you had
16 those meetings with the outside IT experts
17 and, you know?

18 MR. WOLIN: Yes, we've had a
19 bunch. But again, we tend to go to IT firms
20 and confidential services-- we're not going to
21 go to Goldman Sachs or American Express. So,
22 we've had some, but I think my pretty clear

1 sense is we could benefit from a whole lot
2 more, and I'll let Dick speak for himself. I
3 think we can do plenty more of that, and
4 there's a lot we can learn --

5 MR. WERFEL: I think one of the
6 deliverables -- let me reverse engineer. I
7 think by default, where we want to be is in a
8 place where Seth and his team have a very
9 effective plan for how they're going to deploy
10 a new solution within an organization.

11 I think Neal and his team can have
12 their -- they've already had an initial
13 launch, but their expansion and their critical
14 path going forward pressure tested against a
15 global review that involves a lot of
16 stakeholders.

17 MEMBER KINDLER: It sounds like
18 your challenge is multiple, many times more
19 complex, because you have to depend on the
20 state systems. So, Neal's challenge is pretty
21 lengthy to begin with, but at least it's in
22 the federal system.

1 So, you have to deal with 50 state
2 systems, including people that are still using
3 COBOL. So, I don't -- I don't understand the
4 respective responsibilities of you versus the
5 states, and how you solve that problem.

6 MR. HARRIS: The big problem that
7 we have is that we don't have the data. So,
8 if the problem is -- if one of the problems is
9 data analytics and data mining, we don't have
10 it. The states have it.

11 But we have had success in other
12 contexts, actually in UI as well, bringing
13 states together in consortia. For example,
14 trying to get over this incredible technology
15 mountain that some of the states are facing,
16 and bringing them together in consortia and
17 funding the consortia so that they can test
18 ideas or develop infrastructure is one way to
19 -- now, it doesn't get you all 53
20 jurisdictions involved, but for the last few
21 tests and propositions, we've had some very
22 preliminary conversations about that.

1 We're not going to get everybody
2 to Windows 2010 by doing that, but it's a way
3 of --

4 MEMBER KINDLER: Going back to
5 your other discussion about incentives, what
6 is the states' financial incentive to
7 participate? Because the payments are coming
8 -- there's a disconnect between who is paying
9 and who is administering, if I'm understanding
10 this correctly. Did they get a benefit for
11 avoiding improper payments --

12 MR. HARRIS: To the extent they
13 can save money, it allows them in theory to
14 reduce taxes or pay more benefits because it's
15 -- this is employers. This is the money you
16 all are paying in your FUTA tax that is in
17 some number of cases, not all of our improper
18 payments, but in some number of those cases,
19 people who you shouldn't pay.

20 So, if you can keep that from
21 happening, it's more money either so you don't
22 have to raise taxes. You can reduce taxes.

1 Or, you can pay more out in benefits.

2 Now, that, as I said before, is a
3 little bit attenuated, but they -- but I think
4 they really want to -- and we've given a lot
5 of visibility into how each state is doing
6 with this website, and by publicizing it
7 fairly broadly. And every state has responded
8 enthusiastically, particularly those that we
9 see as being most at risk.

10 MEMBER SMITH: Can I ask something
11 about this?

12 MR. HARRIS: Sure.

13 MEMBER SMITH: Because I just -- I
14 have a problem jumping straight to tools,
15 because I think what you need -- I don't even
16 know what architecture, what governance, what
17 you want to do. So, every time I've always
18 had to clean up a mess, it's because someone
19 brought a new tool, or a co-sourcer brought in
20 a new tool versus having -- what is the end
21 game? What is the end vision?

22 So, spend your time up front

1 thinking, "What is the front -- what does the
2 architecture need to look like? What does the
3 governance need to look like?" The tools will
4 then come.

5 I have seen so many failures of
6 going after the sexy new tool, unless you have
7 that end game in mind. I've written off more
8 tools than I can count because the strategy
9 hadn't been there; the structure, the
10 governance, the decision rights hadn't been
11 there.

12 I would encourage you to -- I have
13 no -- but a Deloitte, an Accenture. I don't
14 know why you're going to J.P. Morgan or to the
15 banks. You need to figure out, I would think
16 first and foremost, what is the structure and
17 the wiring that we want, and then go to the
18 tools.

19 I get very nervous when I think
20 about, "Let's go talk to this and that."

21 MEMBER BROWN: So, just to add to
22 that, and I'm actually further upstream than

1 that; is this one that we should think about
2 rescoping?

3 MEMBER SMITH: I agree.

4 MEMBER BROWN: Before we go into
5 collaboration and design with this pool, the
6 data matching agreements -- I'm not even sure
7 what problem we're trying to solve. I'm aware
8 of it esoterically. High level, but should we
9 rescope, and say, "Should we go after
10 Medicare/Medicaid for an income tax credit,
11 unemployment?" Or much like Jeff and Enrique
12 on the other one, where you said, "Let's go
13 for the common denominator, the base line:
14 hotel, transportation, human resources?"

15 Is there a base lining - I don't
16 know what that is - on a category called
17 improper payments? And it's not 115 million.

18 I think I'm making it up. It's 40 or 50.
19 It's a subset that you don't have the
20 interdependencies and the lack of consult you
21 were describing. What -- maybe it's a smaller
22 impact area around improper payments. So, I

1 would think about rescoping, and then we could
2 talk about -- it's really -- you're talking
3 about technology process, and I think
4 organization --

5 MEMBER KINDLER: Can I just add
6 something to this? One of the questions I
7 raised when I was getting briefed about this
8 is, I'm not clear myself on how we come up
9 with these numbers of what was improper
10 payment as to whether we do it retroactively,
11 how we know, and how we count that. Because
12 you don't know what you don't know.

13 So, one of the things that I would
14 find helpful at least, and maybe you guys have
15 done this, is what is that universe, and what
16 are the different ones that we can attack, and
17 what is the -- now, this is not necessarily
18 relevant to your issue, Seth, within Labor,
19 because the \$400 million may be very impactful
20 for you, but from a government-wide point of
21 view, if we looked at the big number, this is
22 another case of not letting the perfect be the

1 enemy of the good, and going after the low-
2 hanging fruit.

3 It may be that the tools necessary
4 to go after the big numbers are easier to come
5 by, and so it would be helpful when we scope
6 the problem to understand what are the big
7 buckets. How do we go after them? What are
8 the different kinds of tools to reinvent the
9 machine to go after everything.

10 One of the baseline pieces of data
11 that I was wondering about is when we say
12 there's x dollars of improper payments, how do
13 we know that? What is it? How do we monitor
14 it? Do we go back in time and we recover
15 payments, and how do we sort of -- what is the
16 nature of this problem?

17 MEMBER SALEM: Page 16 has the
18 breakdown at a high level -- so, there's a set
19 of numbers of page 16. So, what we did was we
20 then went to Seth on fund insurance. So, then
21 he broke it down on page 19. I agree with
22 what you both said, but we could have -- if

1 you look at 19, it's got the root cause of
2 where these payments are going.

3 MEMBER BROWN: No, but what I'm
4 suggesting is let's go to strategic sourcing.

5 You said \$538 billion. \$150 billion is a
6 subset of that number, right? You have the
7 115. We believe in the 115. You've given the
8 five areas and we believe it. Is all 115,
9 from a capacity standpoint, an interdependency
10 standpoint or complexity standpoint? Is that
11 all reasonable to go after?

12 MR. WERFEL: No.

13 MEMBER BROWN: Or, hold on. Or,
14 is it a subset of 115? It's 80. It's 60.
15 It's 40. I think we need that number first.
16 Then when you get that number, then, using
17 strategic sourcing as an analogy, say, "What
18 are kind of the baseline things? Data service
19 matching agreements? There are -- maybe they
20 are. Let's go after that." And start to --
21 the low-hanging fruit analogy applied to the
22 improper payments. That's all I'm suggesting.

1 MR. WERFEL: Let me wrap this with
2 the following thoughts, because I want to get
3 to Jeff's question. I'll tell you again,
4 we've been at this for a decade, what do I
5 think we need more than anything. It might
6 not be right, but I keep coming back to this
7 question of are organizations aligned to
8 attack the problem.

9 So, let's look at Labor, as an
10 example. He said if -- he went over it
11 quickly. If someone came to us with this
12 idea. They said, "You know when corporations
13 pay direct deposit to their employees to
14 banks, banks know that when they're getting it
15 in that it's a payroll deposit. They could
16 tell that to you, and you could know that
17 person is back at work."

18 You don't have to rely on the W-2
19 or the W-3 form. You can actually get that
20 information direct from banks. So, as a
21 result, now we're working with the banks to
22 see if this information flow can happen. That

1 is an opportunity.

2 The issue that I have for the
3 Labor Department is how did they -- that came
4 to us by luck, by happenstance. It didn't
5 generate out of the organization. I want to
6 make sure that within the Labor Department
7 there's an organizational approach that's
8 looking for these solutions, understanding
9 what their portfolio of errors are, and where
10 the highest ROI is, and where I think we need
11 help right now in the government is how do we
12 go from 0 to 60 in building that organization
13 around this particular problem?

14 Because you're right: MasterCard
15 and these other companies are doing well, but
16 they didn't start at 60 miles per hour.

17 CHAIR ZIENTS: I don't think we're
18 quite as far along as to what we do -- I agree
19 we need to disaggregate this, and then get it
20 down to the early wins, the low-hanging fruit.

21 I think when we do that, it'll enable us to,
22 on certain things, like your bank relationship

1 with payroll.

2 I think once we do some of that
3 disaggregating prioritization, and then try to
4 derive a work plan off of that, but I think
5 we're going to need a phone call, at least,
6 for the subcommittee to do another round.
7 Let's break now because I want to do the quick
8 updates on our 2011 initiative IT and SES, and
9 we've got the President in 22 minutes.

10 (Whereupon, the above-entitled
11 matter went off the record at 1:18 p.m. and
12 resumed at 1:19 p.m.)

13 CHAIR ZIENTS: All right, let me
14 start with you, and then we're going to try to
15 do -- the point of this session is the 2011
16 initiatives, and start with 2011 and end with
17 2011 -- 2011 in SES and IT, the whole point is
18 to hardwire this and institutionalize it, but
19 each meeting, we're going to come back to you
20 and give you a quick update on IT and SES, and
21 where we are.

22 Why don't we start with IT.

1 You've got 15 minutes at most between the two
2 of you. So, why don't you each take six or
3 seven --

4 MR. VanROEKEL: I'm going to take
5 like five. So, thank you all for hearing this
6 update. I know last time we sat down and
7 talked about vendor management organizations,
8 you heard from the pilot agency sort of doing
9 this work, and -- and I thought today I'd just
10 give you a quick update.

11 Slide 23, we're going to just
12 spend maybe 30 seconds on. On vendor
13 management, and you heard a lot last time from
14 the agencies that are doing this work. The
15 key milestones since the last time we saw each
16 other is, one is the establishment of the
17 maturity model across governments.

18 So, we're now assessing working
19 with Joe Jordan, who I think you heard from
20 this morning, who runs Federal Procurement
21 Policy; the dovetail of strategic sourcing
22 with vendor management. So, to think about

1 how do we create centers of excellence that
2 know areas of technology then and how do we
3 apply that to relationships with the vendors?

4 So, this maturity model is then
5 the first step. The second is setting goals
6 and aligning those goals across those
7 agencies. The great update for you is that
8 we've -- since establishing this, we've hit a
9 milestone of saving about \$40 million in the
10 last six months of renegotiating contracts
11 through this new model, setting goals.

12 The Veterans Administration now
13 has a group they call the Ruthless Reduction
14 Taskforce. That's been going six months. And
15 so, the Patent and Trademark Office, General
16 Services Administration, you just heard from
17 Dan, are all also doing this, and Treasury is
18 probably the farthest along as well as far as
19 vendor management.

20 As far as next steps on this, it's
21 all about scale, it's taking in scale across
22 government. I'm excited that Joe Jordan is

1 now in a seat so that we can take that
2 forward.

3 Slide number 24, and this is
4 probably the most exciting area of focus for
5 me, and one where I'm very hands-on, is
6 Investment Review Boards and portfolio
7 management in IT.

8 Last PMAB meeting, if you
9 remember, Jeff and I launched this initiative
10 called PortfolioStat, which is a data-driven
11 process, that ends up being a face-to-face
12 assessment of working with agencies on going
13 through their IT portfolio, and assessing
14 where they are relative to the agency all-up.

15 What's amazing is that in many
16 cases, this hasn't been done in these
17 organizations, and what's very apparent is the
18 amount of duplication across agencies, the
19 culture of sort of fiefdoms wrapping their
20 arms around the work that is happening, and
21 lots of opportunity to break that down.

22 We kicked PortfolioStat off this

1 week. Over the last month or so, agencies have
2 been gathering data for us and kind of
3 building the case of evidence of the things
4 from the farthest corners of their agencies.
5 The face-to-face meetings started this week.

6 I thought I'd give you a quick
7 example. So, I'm doing six of these this week
8 at different agencies. I'm meeting with every
9 single cabinet level agency, and others, to do
10 really two things. One is to run through the
11 rationalization of their portfolio, and second
12 is teach them how to run an Investment Review
13 Board.

14 So, we use this meeting, bringing
15 the deputy secretary, the chief financial
16 officer, the chief acquisition officer, the
17 chief information officer, the budget side of
18 OMB and myself in the room, to really kind of
19 show them what an Investment Review Board
20 really needs to be.

21 So, we start and end every meeting
22 with a mission of the agency, the objectives.

1 We don't start with the tactic. We start
2 with the mission, and talk about what they're
3 trying to accomplish, and then work our way
4 down to how we're doing that in rationalizing
5 the portfolio.

6 So, that's an example of the data
7 that's come in. There will be six agencies.
8 I won't name them, but they represent about
9 \$6.2 billion in federal IT spending, which on
10 the civilian side is about 16 percent of our
11 portfolio. The whole portfolio with DoD is
12 about \$80 billion cash outlay every year.

13 So, this small snapshot of 6 is
14 \$6.2 billion, and as far as the opportunities
15 that we see in there, we have, self-reported
16 in those agencies, about \$3,400 per employee
17 on mainframes and servers.

18 If we just bring that down to the
19 government average, and industry average is
20 about \$2,000, we'd save \$376 million one time.

21 This group spends about 90 percent of their
22 IT budgets on telecomm systems. If we bring

1 that down to an average of about 6 percent,
2 that's \$187 million.

3 Two-hundred and fifty two dollars
4 per employee on indemnity management. If we
5 bring that down to \$195, which is our average,
6 that's \$15 million. Those three stats right
7 there is half a billion dollars, and it's six
8 agencies across a body of 24 and 16 percent.

9 So, that's half a billion dollars
10 in one-fifth of the government agencies
11 waiting for us out there. We want to seize on
12 that.

13 So, it's not -- these aren't hard
14 and fast. We're not saying these are
15 certainly achievable goals. I don't want to
16 overpromise and underdeliver, but it's a --
17 it really shows up kind of the realm, the
18 envelope, from which we can reap savings here
19 on the portfolios rationalization side. And
20 more importantly is building a culture of both
21 looking at the bottom of the IT list, cutting
22 it in favor of putting it onto the capex side

1 of the equation, and it's still the culture of
2 getting the key players in a room together to
3 rationalize this stuff together.

4 And so, what we're going to see is
5 that I am of course meeting -- have all these
6 meetings set up through the beginning of
7 August. End of August, agencies owe us a
8 final plan on their rationalization of their
9 portfolios with an implementation time frame.

10
11 The key point of that is we're
12 going to drive really hard to get agencies to
13 be very aggressive in these areas to run this
14 consolidation and get through this. We're
15 doing a lot on cloud computing and investment
16 vehicles, and in acquisition vehicles, making
17 it much easier for them to do this
18 rationalization. And so, I think we have the
19 right elements of the one-two punch to get
20 this stuff done.

21 And to close, again, thank you for
22 all the work. I mean it was sitting down with

1 many of your agencies. I just sat with
2 Department of Education yesterday, and they
3 talked about their time with Adobe, and they
4 now have a model on measuring their IT
5 investments that is very unique in government,
6 not unique in the private sector, and it
7 certainly was a model I gleaned from our time
8 there.

9 With our imperative from the
10 President to really innovate with less, I
11 think this presents a huge opportunity for us
12 to take the savings side of the equation and
13 pour it into the innovate side, and good
14 things are happening.

15 MR. BERRY: Page 26 and 27. I
16 just want to -- I'll be very brief. I want to
17 thank everybody for helping us on this,
18 especially Sabre Holdings and Cummins in terms
19 of the executive development and training
20 programs that are up and running now.

21 We have done two of them, and I
22 want to thank Gail, who has been one of our

1 first speakers, and Jeff and Greg and Sam, who
2 all of you helped us by coming and helping
3 speak at these.

4 You'll see at the bottom there
5 some upcoming training events, where we'll
6 have a significant number of -- we'll probably
7 be reaching over 1,000 at these three events.

8 So, it'd be a really great opportunity if
9 your schedules allow.

10 You can see the dates. So, if any
11 of you are available, we will very graciously
12 take you up on it, and it'd be a huge help to
13 us.

14 The other thing that has also been
15 launched: that program we've been doing with
16 the Federal Executive Institute, and the on-
17 boarding approach with new executives, but
18 also an existing training program for all of
19 the other onboard executives already. We've
20 called that Leading Edge. It had four
21 components, thanks to your all's help, and you
22 advised us with that, sort of having a good

1 speaker training series, having an executive
2 network that was sort of confidential, but
3 they could share information and questions
4 among each other.

5 There was a coaching component to
6 it, and then a service project component to it
7 that would be multi-agency, trying to get us
8 at that -- working across silos, working
9 across departments with the original intent of
10 the Senior Executive Service.

11 So, first session was held. Very
12 great attendance. We did it in the largest
13 auditorium we had in town, full house. And
14 so, we'll be keeping going with that.

15 On the SES appraisal system,
16 again, thanks to you guys. Due to so much of
17 the work that you have done on that, we now
18 have that up and running at the VA, at Labor
19 and at OPM we're five months into it. It's
20 looking good, and now the trick is getting
21 each and every agency to come onboard with
22 this.

1 CHAIR ZIENTS: Eighteen have fully
2 committed, right?

3 MR. BERRY: Yes, and the -- we
4 will have over 80 percent done by 2014 is the
5 goal now, but I've challenged my people. What
6 do we need to do to make that 100, and do it
7 in the same time frame? We'll be back to you
8 on that. I hope to get the gap closed between
9 the 80 and the 100 by the next time we get
10 together.

11 MEMBER MCGOVERN: Now, my notes
12 say for the next session 11 are online
13 already, and the rest in two years. Is that
14 true?

15 MR. BERRY: Yes.

16 CHAIR ZIENTS: Eighteen are fully
17 committed, 11 are online, and John said 100
18 percent are --

19 MR. BERRY: I'd like to see it. I
20 don't see why we can't. They're saying it's
21 up to the agency. Between Jeff and I, we have
22 -- one real quick question. Employee

1 viewpoint surveys: we are -- we do surveys of
2 our employees, but we have -- we do it as an
3 in-house. It's pretty cumbersome. It's 89
4 questions. Only have less than 40 to 50
5 percent uptake. We are looking right now at
6 how we can do this better, smarter. And I
7 know a lot of you have -- I know you all must
8 be doing this, and I am wondering if you can
9 help us on the viewpoint survey. It'd be
10 really great.

11 MEMBER SALEM: We use a thing we
12 use to measure customer -- customer and
13 partner satisfaction. We ask them one
14 question. We actually turned that into an
15 internal employee survey. And so, ultimately,
16 you could actually get so much data out of a
17 much smaller set of questions, and ultimately
18 there's one question you really need: "Would
19 you recommend it?"

20 That really gives you a sense of
21 what people really feel about the organization
22 or agency. If you want, I'll put you in touch

1 with the person who runs it for us.

2 MR. BERRY: There's a lot of
3 discussion sort of about the 12-question meta-
4 analysis approach. I don't want to name any
5 companies, but has anybody -- is that one that
6 -

7 MEMBER MCGOVERN: I used it in two
8 companies, and we really loved it. It's a lot
9 more expensive than this approach, but you get
10 90 percent participation like this, because
11 it's less than ten minutes to fill it out.

12 MEMBER SALEM: We get 80-90
13 percent.

14 MEMBER KINDLER: We used a
15 different type of approach, but the main thing
16 we got out of it was for our overall
17 organization, but also at the unit level, how
18 do people feel about the quality and the
19 culture and so that was a very helpful
20 performance management tool over time.

21 MR. BERRY: Boy, that would be
22 fantastic. Maybe through Scott, we could send

1 out an email blast, and you could give us a
2 way to contact them.

3 CHAIR ZIENTS: Thanks, guys.

4 (Whereupon, the above-entitled
5 matter went off the record at 1:32 p.m.)

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C E R T I F I C A T E

This is to certify that the foregoing transcript

In the matter of: PRESIDENT'S MANAGEMENT
ADVISORY BOARD

Before: Executive Office of the President

Date: 07-11-12

Place: Washington, DC

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