



UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE

# 21st Century Transformation Challenges and Opportunities

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

**The Coast Guard Innovation Expo  
New Orleans, LA  
October 30, 2007**

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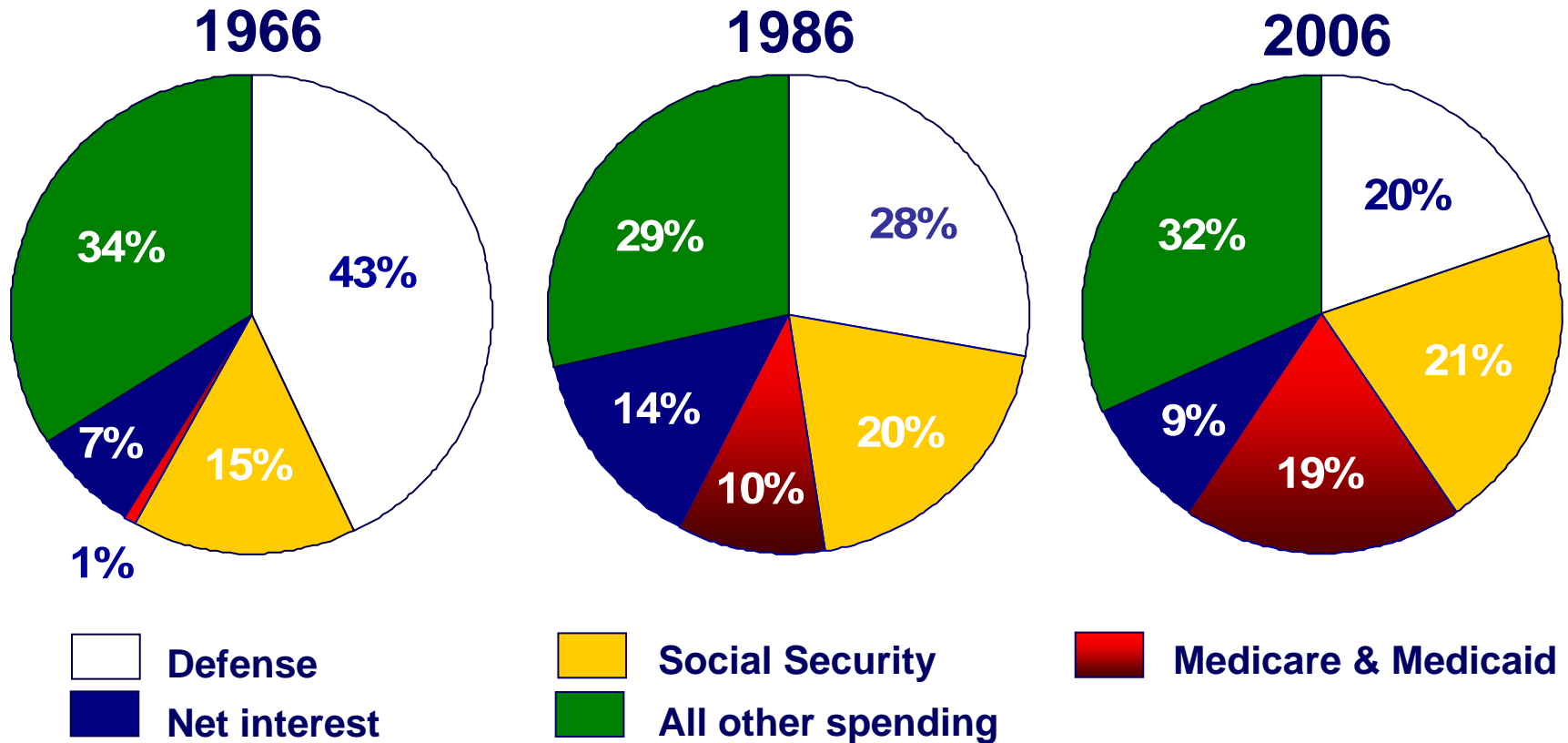


# The Case for Change

**The federal government is on a “burning platform,” and the status quo way of doing business is unacceptable for a variety of reasons, including:**

- Past fiscal trends and significant long-range challenges
- Selected trends and challenges having no boundaries
- Additional resource demands due to Iraq, Afghanistan, incremental homeland security needs, and recent natural disasters in the United States
- Numerous government performance/accountability and high risk challenges
- Outdated federal organizational structures, policies, and practices
- Rising public expectations for demonstrable results and enhanced responsiveness

# Composition of Federal Spending

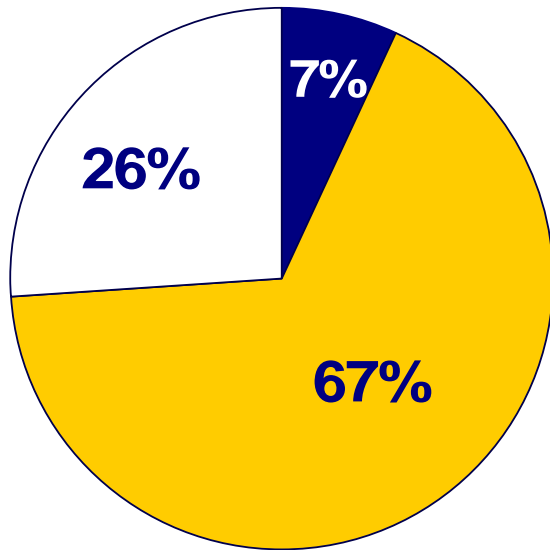


Source: Office of Management and Budget and the Department of the Treasury.

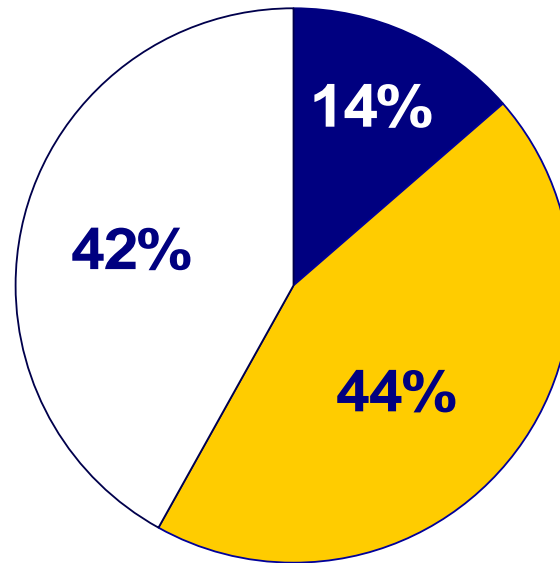
Note: Numbers may not add to 100 percent due to rounding.

# Federal Spending for Mandatory and Discretionary Programs

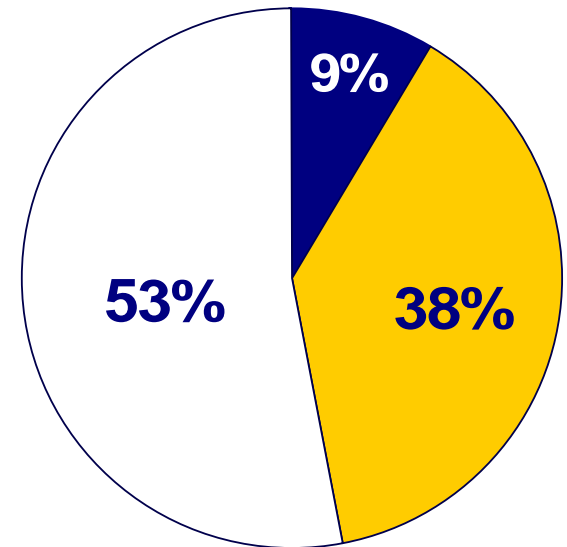
**1966**



**1986**



**2006**



 **Net Interest**

 **Discretionary**

 **Mandatory**

Source: Office of Management and Budget.

# Fiscal Year 2005 and 2006 Deficits and Net Operating Costs

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

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

<sup>a</sup>Includes \$173 billion in Social Security surpluses for fiscal year 2005 and \$185 billion for fiscal year 2006; \$2 billion in Postal Service surpluses for fiscal year 2005 and \$1 billion for fiscal year 2006.

<sup>b</sup>Fiscal year 2005 and 2006 net operating cost figures reflect significant but opposite changes in certain actuarial costs. For example, changes in interest rates and other assumptions used to estimate future veterans' compensation benefits increased net operating cost by \$228 billion in 2005 and reduced net operating cost by \$167 billion in 2006. Therefore, the net operating costs for fiscal years 2005 and 2006, exclusive of the effect of these actuarial cost fluctuations, were (\$532) billion and (\$617) billion, respectively.

# Major Fiscal Exposures

(\$ trillions)

	2000	2006	% Increase
<b>• Explicit liabilities</b>	<b>\$6.9</b>	<b>\$10.4</b>	<b>52</b>
<ul style="list-style-type: none"> <li>• Publicly held debt</li> <li>• Military &amp; civilian pensions &amp; retiree health</li> <li>• Other</li> </ul>			
<b>• Commitments &amp; contingencies</b>	<b>0.5</b>	<b>1.3</b>	<b>140</b>
<ul style="list-style-type: none"> <li>• E.g., PBGC, undelivered orders</li> </ul>			
<b>• Implicit exposures</b>	<b>13.0</b>	<b>38.8</b>	<b>197</b>
• Future Social Security benefits	3.8	6.4	
• Future Medicare Part A benefits	2.7	11.3	
• Future Medicare Part B benefits	6.5	13.1	
• Future Medicare Part D benefits	--	7.9	
<b>Total</b>	<b>\$20.4</b>	<b>\$50.5</b>	<b>147</b>

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

Note: Totals and percent increases may not add due to rounding. Estimates for Social Security and Medicare are at present value as of January 1 of each year and all other data are as of September 30.

# How Big is Our Growing Fiscal Burden?

This fiscal burden can be translated and compared as follows:

<b>Total –major fiscal exposures</b>	<b>\$50.5 trillion</b>
<b>Total household net worth<sup>1</sup></b>	<b>\$53.3 trillion</b>
<b>Burden/Net worth ratio</b>	<b>95 percent</b>
<b>Burden<sup>2</sup></b>	
<b>Per person</b>	<b>\$170,000</b>
<b>Per full-time worker</b>	<b>\$400,000</b>
<b>Per household</b>	<b>\$440,000</b>
<b>Income</b>	
<b>Median household income<sup>3</sup></b>	<b>\$46,326</b>
<b>Disposable personal income per capita<sup>4</sup></b>	<b>\$31,519</b>

Source: GAO analysis.

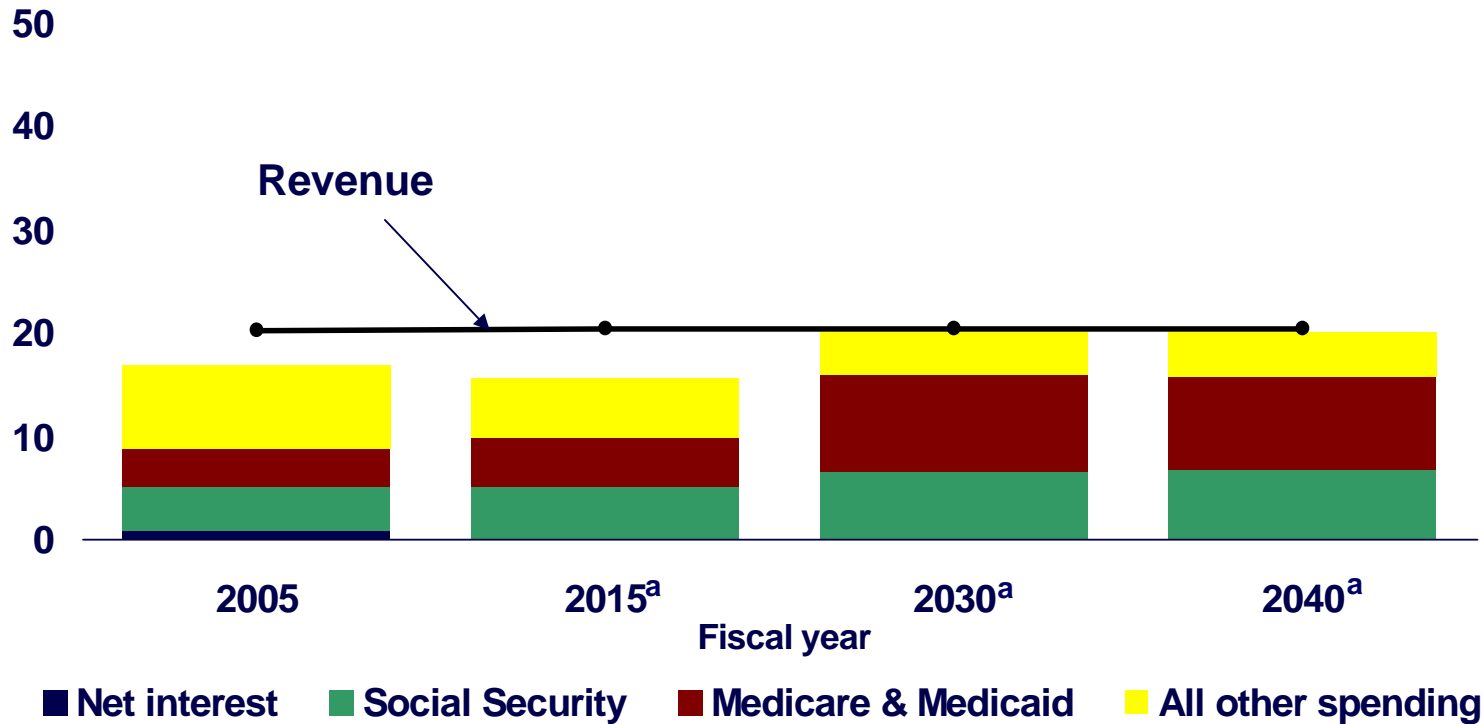
Notes: (1) Federal Reserve Board, Flow of Funds Accounts, Table B.100, 2006:Q2 (Sept. 19, 2006); (2) Burdens are calculated using estimated total U.S. population as of 9/30/06, from the U.S. Census Bureau; full-time workers reported by the Bureau of Economic Analysis, in NIPA table 6.5D (Aug. 2, 2006); and households reported by the U.S. Census Bureau, in [Income, Poverty, and Health Insurance Coverage in the United States: 2005](#) (Aug. 2006); (3) U.S. Census Bureau, [Income, Poverty, and Health Insurance Coverage in the United States: 2005](#) (Aug. 2006); and (4) Bureau of Economic Analysis, [Personal Income and Outlays: October 2006](#), table 2, (Nov. 30, 2006).

# Potential Fiscal Outcomes

## Under Baseline Extended (January 2001)

### Revenues and Composition of Spending as a Share of GDP

Percent of GDP



Source: GAO's January 2001 analysis.

<sup>a</sup>All other spending is net of offsetting interest receipts.



# Potential Fiscal Outcomes

## Under Alternative Simulation

### *Revenues and Composition of Spending as a Share of GDP*

Percent of GDP

50

40

30

Revenue

20

10

0

2006

2015

2030

2040

Fiscal year

■ Net interest

■ Social Security

■ Medicare & Medicaid

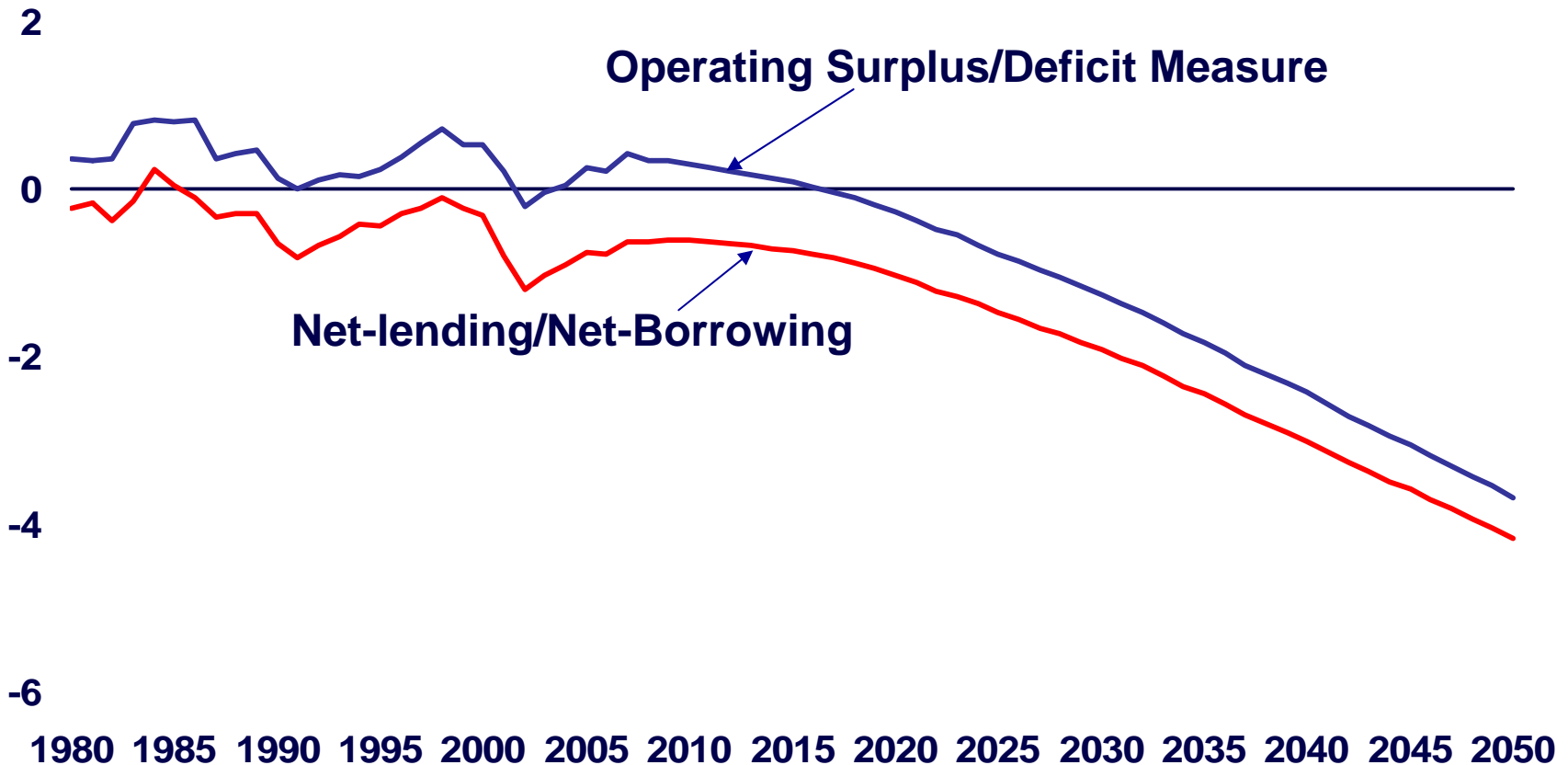
■ All other spending

Source: GAO's August 2007 analysis.

Notes: AMT exemption amount is retained at the 2006 level through 2017 and expiring tax provisions are extended. After 2017, revenue as a share of GDP returns to its historical level of 18.3 percent of GDP plus expected revenues from deferred taxes, i.e. taxes on withdrawals from retirement accounts. Medicare spending is based on the Trustees April 2007 projections adjusted for the Centers for Medicare and Medicaid Services alternative assumption that physician payments are not reduced as specified under current law.

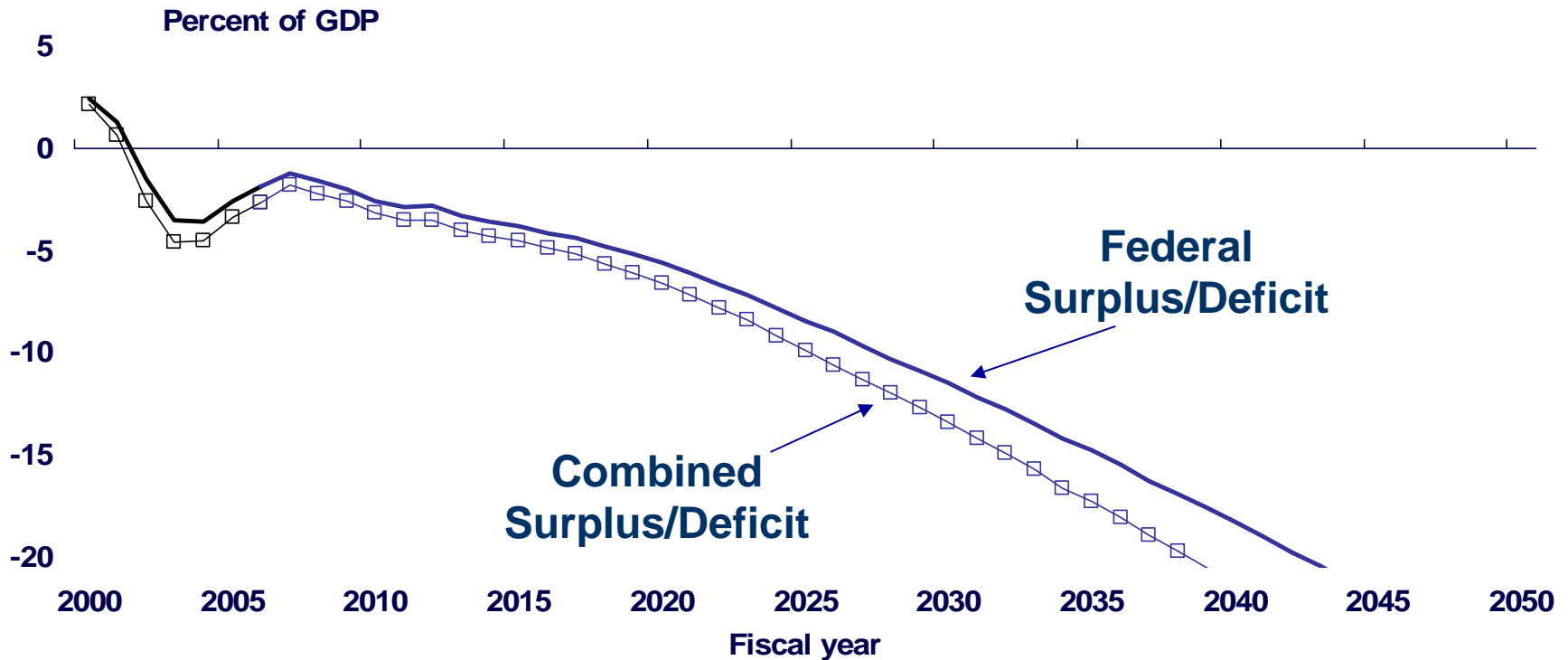
# State and Local Governments Face Increasing Fiscal Challenges

Percent of GDP



Sources: Historical data from National Income and Product Accounts. Historical data from 1980 – 2006, GAO projections from 2007 – 2050 using many CBO projections and assumptions, particularly for next 10 years.

# State and Local Fiscal Challenges Add to the Federal Government's Fiscal Challenge



Source: Historical data from National Income and Product Accounts, GAO Analysis

Note: Historical data from 2000 – 2006, projections from 2007 – 2050; state and local balance measure is similar to the federal unified budget measure. Federal Simulation Assumptions: Discretionary spending grows with GDP after 2007. AMT exemption amount is retained at the 2006 level through 2017 and expiring tax provisions are extended. After 2017, revenue as a share of GDP returns to its historical level of 18.3 percent of GDP plus expected revenues from deferred taxes, i.e. taxes on withdrawals from retirement accounts. Medicare spending is based on the Trustees' April 2007 projections adjusted for the Centers for Medicare and Medicaid Services' alternative assumption that physician payments are not reduced as specified under current law.

# Current Fiscal Policy Is Unsustainable

- **The “Status Quo” is Not an Option**

- We face large and growing structural deficits largely due to known demographic trends and rising health care costs.
- GAO’s simulations show that balancing the budget in 2040 could require actions as large as
  - Cutting total federal spending by 60 percent or
  - Raising federal taxes to 2 times today's level

- **Faster Economic Growth Can Help, but It Cannot Solve the Problem**

- Closing the current long-term fiscal gap based on reasonable assumptions would require real average annual economic growth in the double digit range every year for the next 75 years.
- During the 1990s, the economy grew at an average 3.2 percent per year.
- As a result, we cannot simply grow our way out of this problem. Tough choices will be required.

# The Way Forward: A Three-Pronged Approach

- 1. Improve Financial Reporting, Public Education, and Performance Metrics**
- 2. Strengthen Budget and Legislative Processes and Controls**
- 3. Fundamentally Reexamine & Transform for the 21<sup>st</sup> Century (i.e., entitlement programs, other spending, and tax policy)**

*Solutions Require Active Involvement from both the Executive and Legislative Branches*

# Key National Indicators

- **WHAT:** A portfolio of economic, social, and environmental outcome-based measures that could be used to help assess the nation's and other governmental jurisdictions' position and progress
- **WHO:** Many countries and several states, regions, and localities have already undertaken related initiatives (e.g., Australia, New Zealand, Canada, United Kingdom, Oregon, Silicon Valley (California) and Boston)
- **WHY:** Development of such a portfolio of indicators could have a number of possible benefits, including
  - Serving as a framework for related strategic planning efforts
  - Enhancing performance and accountability reporting
  - Informing public policy decisions, including much needed baseline reviews of existing government policies, programs, functions, and activities
  - Facilitating public education and debate as well as an informed electorate
- **WAY FORWARD:** Consortium of key players housed by the National Academies domestically and related efforts by the OECD and others internationally

# Key National Indicators: Where the United States Ranks

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

# 16 OUT OF 28

## OECD Categories for Key Indicators (2006 OECD Factbook)

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

Source: 2006 OECD Factbook.



# SERVING THE CONGRESS AND THE NATION GAO'S STRATEGIC PLAN FRAMEWORK

## MISSION

GAO exists to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people.

### THEMES

### GOALS & OBJECTIVES

Changing Security Threats

Provide Timely, Quality Service to the Congress and the Federal Government to . . .  
. . . Address Current and Emerging Challenges to the Well-being and Financial Security of the American People *related to . . .*

- Health care needs
- Lifelong learning
- Work benefits and protections
- Financial security

- Effective system of justice
- Viable communities
- Natural resources use and environmental protection
- Physical infrastructure

Sustainability Concerns

. . . Respond to Changing Security Threats and the Challenges of Global Interdependence *involving . . .*

- Homeland security
- Military capabilities and readiness

- Advancement of U.S. interests
- Global market forces

Economic Growth & Competitiveness

Help Transform the Federal Government's Role and How It Does Business to Meet 21st Century Challenges *by assessing . . .*

- Roles in achieving federal objectives
- Government transformation

- Key management challenges and program risks
- Fiscal position and financing of the government

Global Interdependency

Societal Change

Maximize the Value of GAO by Being a Model Federal Agency and a World-Class Professional Services Organization *in the areas of . . .*

- Client and customer satisfaction
- Strategic leadership
- Institutional knowledge and experience

- Process improvement
- Employer of choice

Quality of Life

Science & Technology

## CORE VALUES

Accountability

Integrity

Reliability



# Selected Sustainability Challenges

- Fiscal Deficits and Debt Burdens
- Health Care Quality, Access, and Costs
- Defense and Homeland Security Strategies
- Social Insurance Commitments
- Tax Gaps and Policies
- Energy, Environment, and Resource Protection
- Immigration Policies
- Infrastructure Needs

# 21<sup>st</sup> Century Challenges Report

- Provides background, framework, and questions to assist in reexamining the base
- Covers entitlements & other mandatory spending, discretionary spending, and tax policies and programs
- Based on GAO's work for the Congress
- Issued February 16, 2005



# Twelve Reexamination Areas

## MISSION AREAS

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

## CROSSCUTTING AREAS

- Improving Governance
- Reexamining the Tax System

# Illustrative 21<sup>st</sup> Century Questions: Homeland Security

Homeland security & defense questions relate to:

- **Homeland Security Risk:** What is an acceptable level of risk to guide strategies and funding?
- **Critical Infrastructure:** Are existing incentives and initiatives sufficient to support private sector protection of critical infrastructure they own?
- **Information Sharing:** How can intelligence and information on threats be shared with other levels of government and other stakeholders?

# GAO's High-Risk List 2007

	Year Designated
<b>Addressing Challenges in Broad-based Transformations</b>	
• Strategic Human Capital Management <sup>a</sup>	2001
• Managing Federal Real Property <sup>a</sup>	2003
• <b>Protecting the Federal Government's Information Systems and the Nations' Critical Infrastructures</b>	<b>1997</b>
• <b>Implementing and Transforming the Department of Homeland Security</b>	<b>2003</b>
• <b>Establishing Appropriate and Effective Information-Sharing Mechanisms to Improve Homeland Security</b>	<b>2005</b>
• <b>DOD Approach to Business Transformation<sup>a</sup></b>	<b>2005</b>
• DOD Business Systems Modernization	1995
• DOD Personnel Security Clearance Program	2005
• DOD Support Infrastructure Management	1997
• DOD Financial Management	1995
• DOD Supply Chain Management	1990
• DOD Weapon Systems Acquisition	1990
• FAA Air Traffic Control Modernization	1995
• Financing the Nation's Transportation System <sup>a</sup> <b>(New)</b>	2007
• Ensuring the Effective Protection of Technologies Critical to U.S. National Security Interests <sup>a</sup> <b>(New)</b>	2007
• Transforming Federal Oversight of Food Safety <sup>a</sup> <b>(New)</b>	2007
<b>Managing Federal Contracting More Effectively</b>	
• DOD Contract Management	1992
• DOE Contract Management	1990
• NASA Contract Management	1990
• <b>Management of Interagency Contracting</b>	<b>2005</b>
<b>Assessing the Efficiency and Effectiveness of Tax Law Administration</b>	
• Enforcement of Tax Laws <sup>a</sup>	1990
• IRS Business Systems Modernization	1995
<b>Modernizing and Safeguarding Insurance and Benefit Programs</b>	
• Modernizing Federal Disability Programs <sup>a</sup>	2003
• Pension Benefit Guaranty Corporation Single-Employer Pension Insurance Program	2003
• Medicare Program <sup>a</sup>	1990
• Medicaid Program <sup>a</sup>	2003
• National Flood Insurance Program <sup>a</sup>	2006

# Definition of Waste

Waste involves the taxpayers as a whole not receiving reasonable value for money in connection with any government funded activities due to an inappropriate act or omission by players with control over or access to government resources (e.g., executive, judicial, or legislative branch employees, contractors, grantees, or other recipients)

Importantly, waste represents a transgression that is less than fraud and abuse and most waste does not involve a violation of law. Rather, waste relates primarily to mismanagement, inappropriate actions, or inadequate oversight

# Examples of Waste

Illustrative examples of underlying causes of waste in the acquisitions and contracting area could include:

- Unreasonable, unrealistic, inadequate, or frequently changing requirements
- Failure to use competitive bidding in appropriate circumstances
- Failure to engage in selected pre-contracting activities for contingent events (e.g., hurricanes, military conflicts)
- Congressional directions (e.g., earmarks), and agency spending actions where the action would not otherwise be taken based on an objective value and risk assessment and considering available resources

# Systemic Acquisition Challenges

1. Service budgets are allocated largely according to top line historical percentages rather than comprehensive strategic assessments and current and likely resource limitations
2. Capabilities and requirements are based primarily on individual service wants versus collective national needs (i.e. based on current and expected future threats) that are both affordable and sustainable over time
3. Defense consistently over-promises and under-delivers in connection with major weapons, information, and other systems (i.e. capabilities, costs, quantities, schedule)
4. Defense often employs a “plug and pray approach” when costs escalate (i.e. divide total funding dollars by cost per copy, plug the number that can be purchased, then pray that Congress will provide more funding to buy more quantities)
5. Congress sometimes forces the department to buy items (e.g. weapons systems) and provide services (e.g. additional health care for non-actives) that the department does not want and we cannot afford



# Systemic Acquisition Challenges (cont'd)

6. DOD tries to develop high risk technologies after programs start instead of setting up funding, organizations, and processes to conduct high risk technology development activities in low cost environments (i.e. technology development is not separated from product development). Program decisions to move into design and production are made without adequate standards or knowledge
7. Program requirements are often set at unrealistic levels, then changed frequently as recognition sets in that they cannot be achieved. As a result, too much time passes, threats may change, and/or members of the user and acquisition communities may simply change their mind. The resulting program instability causes cost escalation, schedule delays, fewer quantities and reduced contractor accountability
8. Contracts, especially service contracts, often do not have definitive or realistic requirements at the outset in order to control costs and facilitate accountability
9. Contracts typically do not accurately reflect the complexity of projects nor appropriately allocate risk between the contractors and the taxpayers (e.g. cost plus, cancellation charges)

# Systemic Acquisition Challenges (cont'd)

10. Key program staff rotate too frequently thus promoting myopia and reducing accountability (i.e. tours based on time versus key milestones). Additionally, the revolving door between industry and the Department presents potential conflicts of interest
11. The acquisition workforce faces serious challenges (e.g. size, skills, knowledge, succession planning)
12. Incentive and award fees are often paid based on contractor attitudes and efforts versus positive results (i.e. cost, quality, schedule)
13. Inadequate oversight is being conducted by both the Defense Department and the Congress which results in little to no accountability for recurring and systemic problems
14. Some individual program and funding decisions made within the Department and by the Congress serve to undercut sound policies
15. Lack of a professional, term-based CMO at DOD serves to slow progress on defense transformation and reduce the chance of success in the acquisitions/contracting and other key business areas

# Challenges Faced by the Coast Guard

- Increasing demands upon all resources to conduct more maritime security missions.
- Need to continue legacy missions such as fisheries protection, law enforcement, search and rescue, marine safety, and polar ice breaking.
- Need to maintain aging fleet of ships and aircraft while at the same time move forward with plans to replace them through Deepwater acquisition program.



# Coast Guard Deepwater Acquisition Challenges

- Coast Guard's Deepwater modernization program experienced problems in:
  - program management, including ineffective management and oversight teams, inadequate staffing, and ill-defined roles and responsibilities
  - contractor accountability and linking contractor performance to awards; and
  - control of costs through competition





# Coast Guard Deepwater Acquisition Actions (cont'd)

- Coast Guard has announced and begun to implement actions to address these challenges, including:
  - taking over leadership of program management from the contractor
  - hiring acquisition staff and developing human capital improvements
  - revising award criteria to include incentives for performance; and
  - conducting business case analyses to ensure competition for future asset acquisitions



# DHS Acquisition Management Challenges

DHS has struggled to provide adequate support and oversight of its acquisition function. It remains important that it:

- integrate the acquisition functions of component organizations more effectively across the department
- develop clear and transparent acquisitions policies and procedures, along with an acquisitions workforce trained to implement and monitor them; and
- evaluate and work to mitigate risks associated with contracts for services that support inherently governmental functions

# DHS Progress Report: Acquisition Management

- DHS reported acquiring \$15.6 billion in goods and services in FY 2006,
- DHS has made modest progress in achieving the following acquisition management performance expectations
  - Organizing acquisition functions to meet agency needs.
  - Developing clear and transparent policies and processes.
  - Developing an acquisition workforce to implement and monitor acquisitions.
- Improved assessment and oversight needed to manage risks of contractors performing tasks closely supporting governmental functions.

# **Trans** **FORMATION**

## **Webster's definition**

**An act, process, or instance  
of change in structure  
appearance, or character**

**A conversion, revolution,  
makeover, alteration, or  
renovation**



# Four Key Transformation Dimensions

Key Actions	Primary Responsibility	Secondary Responsibility
1. To make prudent budget & long-term fiscal decisions	The President and the Congress	Agency leadership (both political and career)
2. To enable key transformation efforts while providing protection from abuse of authority	The Congress and the President	Agency leadership (both political and career)
3. To lead key transformation efforts with existing authorities and within existing resource levels	Agency leadership (both political and career)	OMB and other selected government-wide agencies
4. To evaluate reform efforts and conduct continuous improvement initiatives	Agency leadership (both political and career)	Congress, OMB and selected government-wide agencies

# Effective Management of Services Requires Both Strategic and Transactional Efforts

## Strategic Level

Effective service acquisition requires the leadership, processes, and information necessary for mitigating risks, leveraging buying power, and managing outcomes

## Transactional Level

Individual service transactions must focus on buying the right thing, the right way, while getting the desired outcomes

A comprehensive approach would use the strategic and transactional factors in a complementary manner to tailor management activity to ensure preferred outcomes

Source: GAO (analysis).

# The Objective of Transformation for the Coast Guard

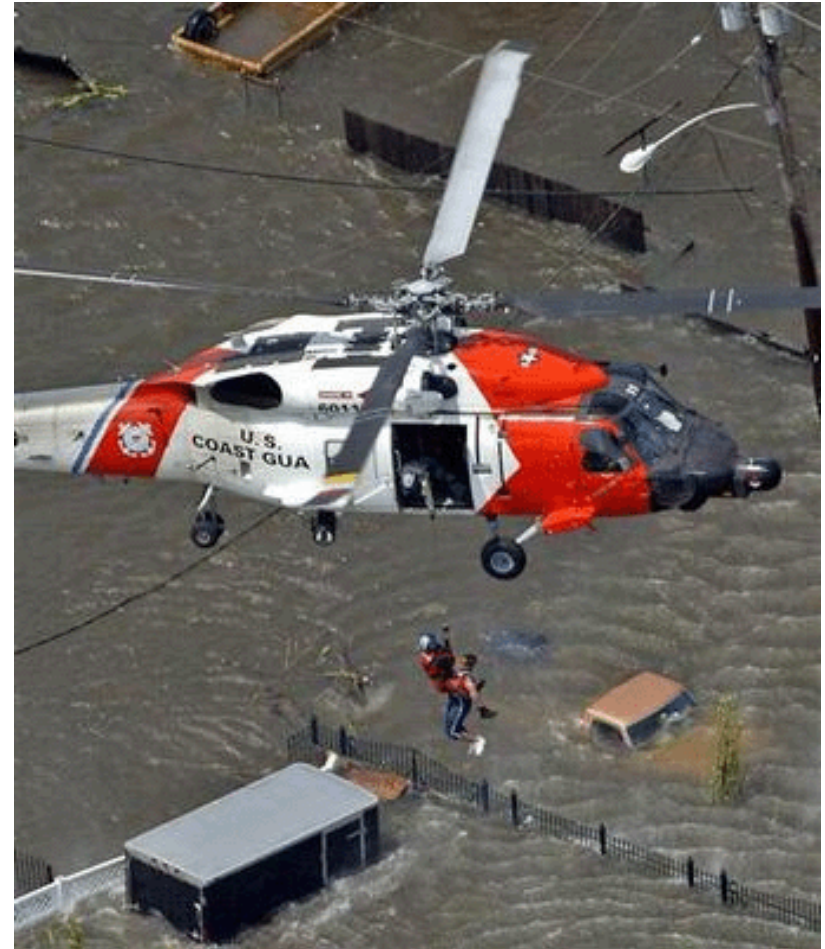
From the Commandant:

- Making the force structure more responsive to mission execution.
- Making support system more responsive to the operators.
- Making Coast Guard more responsive to the nation.



# Commandant Directed Coast Guard Next Steps

- Take immediate steps to reorganize operational forces
- Improve service and support systems
- Better align with departmental and interagency partners
- Make logistics and financial systems more efficient and accountable



# Three Key Illnesses

- ***Myopia***
- ***Tunnel Vision***
- ***Self-Centeredness***

# Four National Deficits

- ***Budget***
- ***Balance of Payments***
- ***Savings***
- ***Leadership***

# Five Leadership Attributes Needed for These Challenging and Changing Times

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



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# 21st Century Transformation Challenges and Opportunities

**The Honorable David M. Walker  
Comptroller General of the United  
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**The Coast Guard Innovation Expo  
New Orleans, LA  
October 30, 2007**

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## On the Web

Web site: [www.gao.gov/cghome.htm](http://www.gao.gov/cghome.htm)

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