

UNITED STATES OF AMERICA

THE PRESIDENT'S MANAGEMENT ADVISORY BOARD

+ + + + +

MINUTES OF THE PUBLIC MEETING

+ + + + +

WEDNESDAY,  
JULY 11, 2012

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.

**PMAB MEMBERS PRESENT:**

GREG BROWN  
SAM GILLILAND  
JEFFREY KINDLER  
DEBRA LEE  
GAIL McGOVERN  
ENRIQUE SALEM  
ELIZABETH SMITH  
TIM SOLSO  
RONALD WILLIAMS

**ADMINISTRATION MEMBERS PRESENT:**

JEFFREY ZIENTS, Chairman, Acting Director, Office of Management and Budget  
JOHN BERRY, Director, Office of Personnel Management  
CAROLYN COLVIN, Deputy Commissioner, Social Security Administration  
BILL CORR, Deputy Secretary, Department of Health and Human Services  
GAY GILBERT, Administrator, Department of Labor  
SETH HARRIS, Deputy Secretary, Department of Labor  
JANE HOLL LUTE, Deputy Secretary, Department of Homeland Security

MAURICE JONES, Deputy Secretary, Department of Housing and Urban Development

JOSEPH G. JORDAN, Senior Advisor, Office of Management and Budget

KATHLEEN MERRIGAN, Deputy Secretary, Department of Agriculture

JOHN PORCARI, Deputy Secretary, Department of Transportation

DAN TANGHERLINI, Acting Administrator, General Services Administration

STEVEN VanROEKEL, US Chief Information Officer, Office of Management and Budget

DANNY WERFEL, Controller, Office of Management and Budget

SCOTT WINSLOW, Executive Director, The President's Management Advisory Board

NEAL WOLIN, Deputy Secretary, Department of Treasury

**Agenda and Goals:** Chair Zients called the meeting to order at 10:10 a.m. The objective of the meeting was to further discuss strategic sourcing and the aggregation of purchasing power to achieve lower pricing, the progress made in curbing improper payments, as well as updates to the 2011 PMAB IT management and SES initiatives.

**Strategic Sourcing Subcommittee Briefing and Discussion:** Mr Jordan said staff hoped to get further thoughts from the PMAB on how to take private sector best practices and make them real in government.

There is tremendous opportunity in buying smarter. Some \$535 billion dollars are spent annually on federal contracting, though about \$150 billion in annual prime contracts seem ripe for strategic sourcing. Part of the problem is decentralized and fragmented spending. Differences in agency sophistication and quantity needs have yielded wide price variances across and within Departments. The federal government does not act as the world's largest purchaser of goods and services and therefore is not leveraging that power.

Commitment from the top levels of management is key to the success of the project, along with buy-in across functions in an agency. Data is key, and will be the

driver of innovation. Aggressive benchmarks will be set with the goal of continuous improvement.

Mr Jordan proposed the creation of a strategic sourcing advocate position at GSA. Mr Solso said calling the position an advocate set a tone in which agencies could opt in or out, a bad thing. Mr Corr said government departments have disparate divisions, different missions and competing priorities. Member Smith asked whether placing the onus on vendors to bundle goods and services to the government might be a better arrangement, one that has worked for some very large corporations. Government should obtain price and transaction data from its vendors on its own purchasing. Member Williams asked whether an integrated purchasing plan with employee accountability is being developed. Mr Jordan replied that investment review boards are being implemented, though they are presently ancillary. DOT has created a strategic sourcing executive steering committee. Mr Harris, chair of this committee, said savings realized by the divisions of DOT are reinvested therein to serve their mission priorities, easing buy-in. Member Solso said, if the government could implement a centralized purchasing function, it would save hundreds of billions of dollars, though to do so takes software development and a very long time to fully realize savings.

In a site visit to Cummins, there were four key observations for government practice extracted from Cummins' operations. **First**, reduce the total number of purchasing systems utilized. **Second**, given the sheer volume of their purchasing, the Department of Defense must be aligned somehow with the government's purchasing strategy. **Third**, find a way to reconcile a new purchasing strategy with the annual budget process. **Fourth**, use the recent GSA troubles to show why new arrangements need to be developed.

Mr Tangherlini said GSA was originally created to help the government buy smarter. Over time, it was felt that their service had deteriorated and, in the 1990s, acquisitions were pushed out to the agencies in order to increase competition, and GSA was maintained as a buying option for agencies that wanted to use it.

Member Kindler recommended that GSA should take control of the sourcing that everyone can agree it ought to have. Mr Jones said some agencies decide not to use GSA because of concerns about control, price and trust. Member Salem said GSA should be seen to have expertise in its mission, and Member McGovern said GSA positions could be seeded by procurement experts from other agencies, increasing trust. Member Gilliland said GSA must begin by analyzing available data on its purchasing and then implement plans, firstly, for the acquisition of commodities. Mr Tangherlini said GSA's biggest challenge is data. Ms Holl Lute said government must be mindful of its ability to distort markets by its size. Marginal costs and savings must be accounted for; sometimes higher marginal costs can yield overall savings.

Member McGovern described how the Red Cross streamlined its procurement structures and activities. Initially, procurement was decentralized to the various chapters. Red Cross implemented a shared-services model. Instead of aligning around contracts or payment, they aligned around business units so that area experts were involved in procurement. Mandate use of the system so that users are forced to engage and see its superiority.

Mr Jordan said the federal goal is to save \$10 billion over the next two years, a very aggressive target. To do this, "we've got to drive increased utilization of our current federal strategic sourcing issue vehicles." Accountability and data will be improved, and steering committees will be implemented. Vendors will provide price and volume data under new contract stipulations. At the upcoming October meeting, the Federal Government will provide a progress report as well as a list of new targets for improvement.

Member Solso said employees must understand that the strategies apply to them. Member Brown said the test projects need to be specific, composite, inspected and incentivized.

**Improper Payments Subcommittee Briefing and Discussion:** Mr Werfel said the federal government makes about \$115 billion

in improper payments annually, with Medicare, Medicaid, unemployment insurance and the Earned Income Tax Credit (EITC) the programs having the largest volume of improper payments. A number of different errors are encompassed under the broad category of improper payments: money sent to the wrong recipient, sending the wrong amount, improper documentation, as well as recipients using funds improperly. Improper payments can be very difficult to assess, such as Medicare claims and how many qualified children are in a family filing under the EITC. Government should use the data it already has to more properly disburse funds. Individual fraud is a concern. The underlying software and the sophistication developed for law enforcement use at the Treasury Department may serve as a model and the same development and operating approaches can be brought to bear in this area.

Mr Harris said some 53 systems are presently in use to determine eligibility for unemployment insurance payments. Although the rate of improper payment is down, more needs to be done. The largest causes of improper payments are: benefit year earnings, work search, separation errors and employment service registration. For 2011, improper payments due to fraud constituted about 3% of total benefits paid. The toolbox of available measures to reduce improper payments is limited. The median age of a state unemployment insurance system is 20 years. Cross-matching databases is one of the most important things that the government can do to address the issue. Federal money is helping three states develop programs with banks to determine when claimants return to work. The SIDES application was developed to enable quick communication between states and employers to establish the reason for separation of an employee from an employer.

DOL would like PMAB's feedback in several areas, including: data analytics, more effective organizational structures, communications and messaging within the Department, to state partners, and also to potential claimants. Penalties are only assessed in the case of fraud. Each state has its own unemployment insurance trust fund. "It's sort of aggregated to a federal trust fund." Neither States nor the Federal Government has a large incentive to retrieve improper payouts in UI.

Treasury has contracted with the Kansas City Fed to develop programs to reduce improper payments. Work remains to be completed in IT, functionality and governance. The PMAB may be of help in these areas. The government is more inclined to make an incorrect payment than to fail to make a proper payment. Mr Wolin estimated that the project will be 80% complete in about 18 months. Cutting down on improper payments can lead to reduced budgets for agencies, a perverse outcome.

Member Brown said a structural shift cannot occur until government finds a way to reward top performers in a meaningful way. Member McGovern suggested that "skin in the game" for government could consist of serving a greater good, rather than a savings-retention program. Member Williams suggested a co-sourcing arrangement wherein, a weakness having been identified in the contracting agency, a vendor is brought in to handle that gap area, while simultaneously bringing staff into the contracting agency and training them to take over the task after a few years. Member Smith recommended that time be taken to contemplate a new system's architecture and governance so that the shape of the tool may flow from that contemplation. Member Brown recommended re-scoping the problem to ensure it is well understood.

Next steps include development of an implementation plan, pressure-testing the government's critical path, promoting organization alignment to attack the problem and an interim conference call with at the least the Subcommittee members to talk more about ideas and progress.

#### **Update on 2011 Initiatives:**

**IT Management Initiatives: Vendor and Portfolio Management:** Mr VanRoekel said maturity models have been established across several agencies (including the VA, USPTO, GSA and Treasury) since the PMAB last met. The next step is setting goals and aligning the agencies to them. About \$40 million have been saved by renegotiating contracts through the new model. The PortfolioStat Initiative was established in the last PMAB meeting and was

kicked off earlier in the week prior to the present meeting. There are two goals, "to run through the rationalization of their portfolio" and to "teach them how to run an investment review board." The six agencies with which Mr VanRoekel will be meeting represent about \$6.2 billion in IT spending, about 16% of the portfolio. The savings potential for these agencies is about \$500 million. Following the meetings, agencies will submit a final plan on their rationalization and an implementation time frame.

**SES Initiatives: Executive Development and Performance Appraisals:** Mr Berry said two executive training programs have taken place to date, three more are scheduled (PMAB Members' participation greatly appreciated). Leading Edge has been started for on-boarding new executives. The program contains elements crafted by the PMAB. The new SES appraisal system, to which PMAB contributed, is running at the VA, Labor and OPM. Eighteen agencies have committed to implementing the system. Uptake on employee viewpoint surveys is about 40-50%. Member Salem recommended a more carefully crafted survey, emphasizing one question, "Would you recommend it?" An email blast will be created for PMAB members to respond with recommendations on survey practitioners and methodologies.

The meeting was adjourned at 1:32 p.m.