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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FRIDAY, OCTOBER 12, 2012

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The Board met in Room 252 of the Eisenhower Executive Office Building, 1650 Pennsylvania Avenue, NW, Washington, D.C., at 9:00 a.m., Jeff Zients, Chair, presiding.

PRESIDENT'S MANAGEMENT ADVISORY BOARD MEMBERS

JEFF ZIENTS, Chair
GREG BROWN
JEFF KINDLER

DEBRA LEE
GAIL McGOVERN
ENRIQUE SALEM
LIZ SMITH
ALSO PRESENT

SCOTT WINSLOW
JOHN BERRY
DICK GREGG
SETH D. HARRIS
JOSEPH G. JORDAN
BERNARD MAZER
DANIEL PONEMAN

DAN TANGHERLINI
STEVE VANROEKEL
DANNY WERFEL

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

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

 2   (9:11 a.m.)

 3   CHAIR ZIENTS: All right. Let's

 4 officially start. So the agenda for our - for

 5 our meeting this morning is to review our 2011

 6 initiatives which we're taking government-wide

 7 - IT and the SES initiatives - get an update

 8 on strategic sourcing, an update on improper

 9 payments.

10   We'll build in a break or two and

11 I think this will last a couple of hours or

12 so.

13   And let's start by handing it over

14 to Scott to get a sense of where we are

15 overall. You're now on Page 3, Scott?

16   MR. WINSLOW: Just following Tab 2

17 Page 3. Thank you everyone for today's

18 meeting of the President's Management Advisory

19 Board.

20   We are going to be in an open

21 meeting today and as each of these meetings

22 takes place it's obviously going to be webcast

 1 so all of the conversation will be broadcast

 2 simultaneously.

 3   Just a couple of housekeeping

 4 things. If anyone's looking for restrooms,

 5 just out the door to the right or to the left

 6 is at the end of each hallway.

 7   CHAIR ZIENTS: So the men's is

 8 both directions and women's is both

 9 directions?

10   MR. WINSLOW: I've been told

11 that's the case by Roxanna.

12   MR. WINSLOW: Additionally, coffee

13 is outside if you want coffee. Water is in

14 here as well. We are seated today in this

15 office.

16   It's a little bit closer quarters

17 than what we are typically used to so

18 apologies. We're a little bit on each other

19 but we're all friends and it'll all be fine.

20   What I wanted to do on Page 3 is

21 just walk through the work that's gone on

22 across the force in 2012. This really kind of

1   mirrors the time that I've been working with

2   the President's Management Advisory Board.

3   We met back in March, chose the

4   two topic areas, the two focus areas for 2012

5   - improper payments and strategic sourcing.

6   A number of meetings have taken place across

7   the first year.

8   Obviously, back in September we

9   approved the recommendations from each of the

10   two subcommittees.

11   You can find those recommendations

12   behind Tab 5 if you are not familiar with what

13   those were.

14   And today, we're really going to

15   be reviewing progress that's been made against

16   those recommendations across the last six to

17   eight weeks as well as looking at some of the

18   early successes that have come out from the

19   recommendations that you all have delivered.

20   And then looking forward, you'll

21   see in the new year we'll be meeting again for

22   a meeting of the President's Management

 1 Advisory Board.

 2   We'll be talking again about some

 3 of the ongoing work against the 2012

 4 initiatives as well as some of the new focus

 5 areas for 2013.

 6   CHAIR ZIENTS: We haven't set the

 7 date yet for the early 2013 -

 8   MR. WINSLOW: We have not set the

 9 date yet, no.

10   CHAIR ZIENTS: We will do that

11 soon, yes? We'll be cognizant of ski season.

12   MR. WINSLOW: Excellent.

13   CHAIR ZIENTS: This is getting to

14 be a bit much.

15   MR. WINSLOW: With that, let me go

16 ahead and get started. Steve VanRoekel, who

17 has just joined us, is going to be talking

18 about information technology updates from the

19 2011 initiatives. Anything else before we

20 start then?

21   CHAIR ZIENTS: No. Hey Steve,

22 just - it's been about a year now that you've

1   been in this position?

2   MR. VANROEKEL: Yes. Year and

3   three months.

4   CHAIR ZIENTS: I wanted to -

5   remind folks quickly where you - you know,

6   your private sector experience, your FCC

7   experience. Then just give a minute or two on

8   life 15 months in.

9   MR. VANROEKEL: Great. So we - I

10   came from about two decades in the private

11   sector on the West Coast working for a large

12   software company and had -

13   CHAIR ZIENTS: Microsoft.

14   MR. VANROEKEL: It was a startup

15   when I got - when I joined. Spent a bit of

16   time there as Bill Gates' assistant and then

17   the last job was part of the leadership team

18   running the Server and Tools Division, which

19   was a great - a great experience.

20   We - in my tenure in Server and

21   Tools we had 26 consecutive quarters of

22   double-digit growth and I only say that

  1   because the applicability to government was

  2   keeping the cost line low and keeping the

  3   value line going up and to the right and just

  4   a maniacal mind set.

  5   And the difference, I think, I saw

  6   when I came from private sector to public

  7   sector was, you know, the sense of the greater

  8   whole was there in that, you know, my budget

  9   never went up.

 10   We never saw, you know, massive

 11   increases as our - as our profit line went up

 12   and to the right.

 13   It was always funding other

 14   aspects of the enterprise to scale the

 15   business - Xbox, Mobile other things that were

 16   happening in the company - and it - you know,

 17   that isn't as apparent in government.

 18   You know, you have a lot more mind

 19   set where I'm going to be insular in my silo.

 20   I'm going to, you know - whatever of value I

 21   provide I'm going to provide here and many

 22   times looking at a return on investment, if

 1   the ROI is not realized in the silo the effort

 2   won't be there to realize to drive the ROI.

 3   And so you get a lot of that mind

 4   set. So we've been, you know, running - this

 5   administration, I think, has been running an

 6   exhaustive process to think about how do we -

 7   how do we normalize all of that and pull that

 8   forward.

 9   I came to the government and to

10   the administration in 2009. I came out to the

11   inauguration not looking for a job but a job

12   found me after a lunch with a friend out here

13   that encouraged me to join the team and join

14   the Federal Communications Commission for the

15   first two years running operations there, and

16   found an agency which should have been on the

17   avant garde of technology given the oversight

18   spectrum Mobile, to some extent Internet and

19   other things and found an agency that was very

20   behind the times.

21   A operating system that I had

22   actually launched almost a decade before was

 1 waiting for me at my desk when I showed up and

 2 we had just so many - so many bad things going

 3 wrong with a very low ranking on the Best

 4 Places to Work scale in government.

 5   I think we were second or third

 6 from the bottom, right above Selective

 7 Service, coming in.

 8   So it was a tough go from kind of

 9 bringing culture and efficiency and other

10 things and the magic mixture of, you know,

11 improving IT, improving employee relationships

12 and other things was sort of essential.

13   It's an interesting thing and I

14 think a lot of times when we sit in these PMAB

15 meetings you get the question around

16 incentives.

17   You know, that's one of the most

18 difficult things in government as you come in.

19 You don't have the financial tools, financial

20 incentive tools. You don't have a lot of the

21 other things.

22   But what I've found to be most

1 powerful in that motion of going to the FCC

2 was looking at the strategic plan for the

3 agency which every year you're required by

4 statute to kind of put out your strategic plan

5 and list your priority objectives.

6   About every third year reform the

7 agency was listed on the strategic objectives

8 and then the next year it would disappear.

9   And so there was just sort of this

10 constant drumbeat - it's like let's sort of

11 mess things up and then let's reform and let's

12 mess things up and let's reform again.

13   And there wasn't sort of that

14 captured spirit of continuous improvement,

15 like wake up every day and think about how we

16 do things better.

17   And that reform and that sense of

18 improvement wasn't in the hands of the

19 employees from the incentive standpoint.

20   And so thinking about it, you

21 know, probably as you go through today I think

22 you're going to get even more questions about

 1   incentives as we think about that. It's sort

 2   of one of the things that we struggle with in

 3   government is how do you incent people.

 4   Patriotism gets you only so far.

 5   Gets you a long way. It's amazing. But it's

 6   - there's other things we can do.

 7   And so I've spent - I came to the

 8   White House, as I said, a year and about three

 9   months ago on the - into an administration

10   that I think had done amazing work on really

11   slowing down bad behavior in the spending on

12   federal IT.

13   We were growing at about a 7

14   percent KGR for the last 15 years spend and

15   without tools like depreciation, without using

16   the balance sheet as a strategic tool, using

17   it solely as an auditing tool, you know,

18   growing spend was the only way to really

19   deliver new value.

20   And so we froze that spend in 2009

21   and actually on my watch we've taken it down

22   just a little bit.

 1   Not that I think that hard times

 2   are not the time to invest in technology

 3   because I think it actually is. But this is

 4   the time to stop bad behavior and to promote

 5   good behavior.

 6   And so the last year in the

 7   process we've run through this - through our

 8   learning and Investment Review Boards, vendor

 9   management -

10   CHAIR ZIENTS: You're on 5 now,

11   Page 5?

12   MR. VANROEKEL: Yeah, Page 5. And

13   Portfolio Stat was really about, you know, how

14   do we - how do we innovate with less.

15   How do we steal from the OpEx

16   column to give to the CapEx column, to

17   actually do new things in the context of a

18   flat or declining budget?

19   How do you keep that cost line low

20   and value going up and to the right and kind

21   of keep that theme going?

22   And so we - you know, on the heels

1   of this have institutionalized a process that

2   I launched - Jeff and I actually launched two

3   meetings, two PMAB meetings, ago.

4   Last meeting I gave you an update

5   to talk about that we had sort of started to

6   see the glimmers of some potential.

7   This Portfolio Stat process, which

8   is Page 6, we basically went out and asked

9   agencies to, first, gather a bunch of data for

10   us.

11   Look left to right across the

12   organization and understand, you know, what's

13   going on inside the organization from an IT

14   investment standpoint and, you know, with a

15   particular focus on looking in the dark

16   corners because we know that only headquarters

17   only gets a view into certain things and we

18   needed to look and cascade information across.

19   So we did that.

20   We then asked each agency to then

21   develop - or each department to develop a plan

22   for consolidation with a particular focus on

1   commodity consolidation.

2   We thought that was a low-hanging

3   fruit even though there's - departments and

4   agencies are kind of all over the board on

5   where they are.

6   And we then, over the months since

7   I've seen you last and we were in the midst of

8   that data gathering I think when I saw you

9   last, spent the entire month of July meeting

10 with 28 agencies face to face. And Deputy

11 Secretary Poneman was in one of those meetings

12 and -

13   CHAIR ZIENTS: Everybody remembers

14 Dan, Deputy Secretary of Energy.

15   MR. VANROEKEL: Yeah. And -

16   MR. PONEMAN: Good morning.

17   MR. VANROEKEL: - and we - so we

18 had a face to face meeting with senior

19 leadership all at the table - deputy

20 secretary, CFOs, CIOs, in some cases component

21 CIOs, acquisition, human capital - all the

22 people around the table with the secret agenda

1   of teaching agencies how to run an Investment

2   Review Board really based on what we had

3   learned from a lot of the - my experience on

4   the part of the secretary and especially the

5   time we had spent with your companies learning

6   how to do this, with vendor management as an

7   underpinning and other things.

8   And what, you know - we saw some

9   really - had some amazing conversations and

10   saw some really amazing results on

11   opportunities for people.

12   So we sat down, kind of fine tuned

13   their plans coming in and then - and then at

14   the end of September required that they all -

15   at the end of August into September required

16   that they all submit final plans with cost-

17   saving targets and what they were doing.

18   And we also dovetailed these

19   efforts with a new approach to enterprise

20   architecture and a new approach to some

21   modular contracting, some other things that

22   are all moving parts that have to be satisfied

1   to get this stuff done.

2   And what we saw across the whole

3   of government was really a spectrum of places

4   where people were as an agency, kind of on the

5   far extreme the department of fiefdoms that -

6   where everybody were highly siloed, where

7   everybody was doing separate things, where

8   there were a thousand ways of buying a mobile

9   device. There were, you know, 20 different

10   email systems - there were all those sort of

11   things - to an emergence on the other extreme

12   which was starting to see real service

13   orientation - embracing cloud computing,

14   starting to say okay, when somebody in the

15   corner of my organization comes to me and says

16   I need to develop a mobile app you say great,

17   I've got a development environment as a

18   service.

19   I've got a test environment

20   service. I've got a platform to host it on,

21   and I always think about that as good

22   parenting, right, where you give your two-

 1   year-old the choices you want and they could

 2   choose between them and pulling that in

 3   together, I think, is a good thing.

 4   We're starting to see that on the

 5   other extreme in small glimmers across

 6   government, and agencies and departments are

 7   kind of somewhere between those two spectrums

 8   from starting to consolidate their commodity

 9   stuff to looking at kind of rationalizing

10   their use of apps at the missing level and

11   looking.

12   I think the nirvana at the far

13   extreme is when we start doing this across

14   government, think about where are we sharing

15   across.

16   Our goal now is just let's just

17   focus on the departmental level and think

18   about how to get that done.

19   The key elements, I think, to a

20   lot of this - if you turn to Page 7 - I'll

21   talk about the earlier results and some of the

22   - some of the learnings we had on this process

1   where there were sort of three essential

2   elements to doing this process right.

3   One was just the establishment of

4   these Investment Review Boards, making -

5   institutionalizing that in a way that can

6   drive the right behavior, the right look,

7   cascade decision making in the way that can do

8   it and we applaud your help on that and that's

9   been - that's been - and there's been follow-

10   on help where you actually helped to deliver

11   training and looking at some of this stuff,

12   thinking about how that - how that rolls up

13   and institutionalizes inside these

14   organizations is essential to getting the job

15   done.

16   The other - the other secret

17   ingredient of that that we - that we uncovered

18   through this process and I think you - and it

19   was very apparent in the meetings we had with

20   all of you - is that Investment Review Boards

21   aren't IT Investment Review Boards. They're

22   enterprise-wide Investment Review Boards.

 1   You know, we had to have, you

 2   know, the - looking at human capital, real

 3   property, other infrastructure, IT - all

 4   should be laid on the table as levers we get

 5   to pull as the leadership team and think about

 6   pulling that stuff together.

 7   And so the second level, the

 8   second essential piece other than IRBs, are

 9   evaluation models, thinking about how do I get

10   a common view across my enterprise to value

11   these different investments.

12   And so we learned a lot in our

13   trip to Adobe on valuation models and some of

14   our other visits and we're now delivering

15   training to agencies on actually how to

16   establish a rigor behind valuing this people

17   investment versus this IT investment versus

18   this other investment and normalize that

19   across.

20   So you can actually stack grant

21   this stuff and understand where you draw the

22   line and where to invest and where not to

 1   invest.

 2   And then the third component, and

 3   this is probably more relevant in government

 4   is the role of the CIO and the authority of

 5   the CIO to actually reach into the dark

 6   corners - to have the authority, have the seat

 7   at the table in the Investment Review Board

 8   and then reach down and look at that.

 9   And so we're looking at, you know,

10   starting to institutionalize that. We put out

11   - Jeff put out a or this office put out a memo

12   about a year ago.

13   It was the first one that was

14   issued from me on this topic and we've been

15   really working hard to figure out how to drive

16   that behavior.

17   CHAIR ZIENTS: CIOs are weak

18   staffed at many agencies.

19   MR. VANROEKEL: Many agencies, if

20   they were in a component, they had more budget

21   and more authority than they maybe now have at

22   the top of the org chart, which is an

 1   interesting notion, as you can imagine.

 2   So there are some agencies out

 3   there that are doing really great things.

 4   Department of Interior is a great example

 5   where there's now one CIO, this guy right to

 6   my right, Bernie Mazer, at the department.

 7   The component CIOs have a

 8   different title. They have a different

 9   structure and senior leadership has really

10   kind of bought into it.

11   CHAIR ZIENTS: Bernie, contrast

12   that to four years ago.

13   MR. MAZER: Can I - this is a Cole

14   Porter song, "Night and Day."

15   (Laughter.)

16   MR. MAZER: Contrasted to four

17   years ago is the tenor of the CIO within the

18   Department of the Interior was as a policy

19   shop.

20   There was no service delivery, no

21   showing the delivery of results or

22   measurements or looking really at the

1   investment from a strategic or a mission

2   driver perspective.

3   CHAIR ZIENTS: How many bureau

4   CIOs were there?

5   MR. MAZER: We had 30 people that

6   nominated themselves as CIOs.

7   CHAIR ZIENTS: These guys had gone

8   from one guardrail to another, right? They're

9   just now looking -

10   MEMBER KINDLER: Kind of gives new

11   - gives new meaning to the word chief and CIO.

12   MR. MAZER: I suppose from a human

13   element perspective there a lot of significant

14   driven people but -

15   CHAIR ZIENTS: But, I mean, Steve,

16   this has now become a model.

17   MR. VANROEKEL: Yeah. Yeah.

18   CHAIR ZIENTS: Gone from a worst

19   practice to a best practice.

20   MR. VANROEKEL: Yeah, and we're

21   starting - we've seen this at a few agencies

22   in different extremes. The Veterans

1   Administration actually did this through

2   statute a couple years ago and other things.

3   The Clinger-Cohen Act that

4   actually creates the role of CIO in government

5   actually begins by saying the head of agency

6   shall and has all the information, and I think

7   we're just now getting at that inflection

8   point where the view of IT as sort of more of

9   a discretionary thing tipping over into more

10   of a strategic thing is starting to be

11   realized.

12   And it's leadership at Interior,

13   leadership at many agencies are starting to

14   see this and realizing wow, I can do things

15   not only better, faster, cheaper, in my

16   operations - I can connect with constituents.

17   I can help the productivity of my

18   employees. I can do all those things that all

19   of you have certainly realized, I'm sure, in

20   your organizations many years ago.

21   And so we're right at that

22   inflection and IRBs valuation and CIO

 1 authorities are sort of the - what we feel are

 2 sort of in this first wave of the

 3 institutional elements of that.

 4   And the future of this process is

 5 we learned a lot, you know, in the way we

 6 gather data, the way we're going to do this.

 7   We're going to - this is going to

 8 be a continuous thing. The government's just

 9 going to start doing Portfolio Stats every

10 year.

11   We're going to pull it in earlier

12 in the year to - so it better aligns with our

13 budget cycles and start to just encourage

14 through both inspire and push to move the -

15 move the departments up that maturity model

16 into getting there.

17   Some of the early results - we're

18 actually going to be announcing kind of the

19 macro results in the very near future but

20 we're going to - and I mentioned sort of a

21 window of about $500 million last time we met.

22   By the results I've seen, we are

 1   going to greatly, by orders of magnitude,

 2   exceed that and you will - you'll see that

 3   happen. But some early results on Page 7.

 4   You know, Social Security

 5   Administration is doing enterprise purchasing

 6   for their computer refresh.

 7   It's a 56 percent savings per

 8   unit. I mean, it's just incredible what's

 9   waiting out there, about $60 million next year

10   happening in this -

11   MEMBER SALEM: Could I just you on

12   that for a second?

13   MR. VANROEKEL: Yes.

14   MEMBER SALEM: You know, what's

15   interesting is, you know, when I see these

16   words computer refresh, you know, you

17   mentioned the word architecture.

18   MR. VANROEKEL: Yeah.

19   MEMBER SALEM: And so the question

20   is have we adopted kind of the most current

21   architecture as you think about this computer

22   refresh, and we're not going to necessarily

 1   just replace what we had because you used the

 2   word architecture earlier appropriately and I

 3   think that's the - one of the biggest

 4   opportunities if we think about how state of

 5   the art is changing -

 6   MR. VANROEKEL: Yes.

 7   MEMBER SALEM: - with

 8   virtualization and other things. Are we

 9   taking advantage of that or are we kind of

10   replacing what we had?

11   MR. VANROEKEL: Very much so and

12   there's a - in May I also, about the same time

13   as launching this, launched this very grand

14   digital strategy for government that just put

15   out bring your own device guidance, talks

16   about sort of thinking about the - that

17   refreshing enterprise architecture,

18   virtualization, at-home use - all this stuff

19   in a secure and private way.

20   And so there are - yeah, this is

21   all - this is all lining up. They're all

22   rubber ducks all in the same stream from a

1 delivery standpoint.

2   MEMBER SALEM: The reason I say

3 that is because $58 million may not represent

4 the full savings.

5   MR. VANROEKEL: That's right.

6   MEMBER SALEM: If you think about

7 what should happen is you hope those costs

8 should go down.

9   All the other things around it

10 should go down. It may be actually a bigger

11 number. This may be almost like the capital

12 cost and you're seeing the system some cost

13 saving.

14   MR. VANROEKEL: It is.

15   MEMBER SALEM: It's the whole -

16 your total cost of - the total cost of

17 ownership is probably -

18   MR. VANROEKEL: Absolutely. I

19 know, Bernie, if you want to add anything to

20 that because you're the last example on the -

21   MR. MAZER: The - you know, when

22 we're - the aspects, when we look at

 1   architecture in the U.S. government, it's been

 2   a - it's been a promising effort for ten years

 3   and we're really looking at what - we're using

 4   the term architecture you can use.

 5   So when we look at it from a

 6   business perspective, like within the

 7   Department of Interior we are using enterprise

 8   architects to create business domains for

 9   things like financial management, procurement

10   systems, human resource systems.

11   And then also with our mission

12   drivers like we're a revenue collection agency

13   for oil and grazing, you know, cattle and all

14   that. So we're looking at an architect's

15   perspective all those applications there.

16   When they - when you get into the

17   technical architecture this goes - when we're

18   looking at cloud first in the digital strategy

19   what - there what we're looking at is all

20   right, we've got these life cycles of three to

21   five years - we need to swap out some of this

22   equipment.

1   But some of the things that we're

2   looking at is that's really from an asset

3   mentality perspective. We're moving towards

4   a service delivery.

5   We want to really - our customers

6   and the constituents within Department of

7   Interior they just want data and information,

8   and who is hosting that physicality of where

9   those things are we're indifferent to that.

10   So we are embarking upon a lot of

11 activities following OMB's guidance and

12 actually leadership as where are those things

13 that we can move out to the cloud or where are

14 those things that we can look at from a

15 federal or a private market space to look at

16 those types of things.

17   So we mentioned aspects like with

18 virtualization. You know, we are in the midst

19 of a data center consolidation initiative.

20 That's a physicality.

21   A lot of times consolidation in

22 and of itself we save 10 to 15 percent of cost

 1   but then if you look at new models of

 2   delivering those things like from the cloud

 3   and the like, you know, the savings could be

 4   realize 20, 30, 40, 50 percent on those

 5   things.

 6   MR. VANROEKEL: And a lot of the

 7   Portfolio Stat conversations were around

 8   service delivery as a model to think about

 9   kind of the inflection. Many times -

10   Investment Review Boards have been around in

11   government for some time.

12   They were more of a budget scrub

13   tool where people would get together and say

14   okay, you know, central management of the

15   White House told us we need to cut 5 percent

16   from our budget - let's figure out how we

17   peanut butter that in the least painful way

18   across the organization when instead, you

19   know, those things should be viewed as

20   opportunities to depreciate and opportunities

21   to deliver service.

22   It's not just a take motion. It's

 1   a give-take motion. And so you - thinking

 2   about how do we - how do we do more service

 3   delivery after the end points from a

 4   centralized way, I think, and that inflection

 5   from asset management to service delivery is

 6   a great thing.

 7   And the productivity gains that

 8   are going to come from a lot of these things,

 9   both embracing smarter and better mobile

10   technology to at-home use and virtualization,

11   I think, are all going to phase in and we

12   truly believe that many of these are under

13   representing the true savings that will be

14   seen from both productivity gains and being

15   able to absorb work through that as well as

16   real cost saving because if you rationalize

17   your apps and think about that it's likely

18   you're probably going to optimize a data

19   center because of it.

20   It's likely you'll probably take

21   some percentage of that and move it to the

22   cloud and cut 30 to 40 percent of your costs,

 1   and those aren't represented in just a -

 2   thinking about an email box, how much it costs

 3   per employee.

 4   And so there's going to be

 5   cascading of benefits, I think, that we see

 6   across the board.

 7   Treasury is another example where

 8   they've - they're actually consolidating

 9   across the enterprise some of their fraud,

10   waste and abuse systems and they're going to

11   see about a 14 percent savings out of that.

12   And so we have a lot - over a 150

13   examples of very specific tactical things that

14   are going to be done that were yielded out of

15   Portfolio Stat and we'll talk about more of

16   that the next couple weeks.

17   So part of the, you know, request

18   for feedback and sort of started the dialog

19   here is, you know, if you - if you think about

20   the role of the CIO or as you think about the

21   role that an Investment Review Board plays in

22   your enterprise, you know, the ability to

1   engage and kind of monitor those dark corners,

2   you know, one of the biggest problems we have

3   and one of the things we think Portfolio Stat

4   V2 will pick up is something I'm calling

5   shadow IT.

6   You know, it's the IT that's being

7   put on purchase cards or credit cards in your

8   case - you know, the little fiefdoms of people

9   that say I need a - I need this and the - you

10   know, Bernie doesn't find out he's got a new

11   data center until the PO comes across his desk

12   and somebody has bought and set something up

13   in a far corner field office or something like

14   that.

15   Are there mechanisms that you can

16   employ to kind of engage at that level -

17   policy, penalty, incentives? Would love to

18   kind of understand that because that's the -

19   that's the next wave for us is tackling that.

20   MEMBER SALEM: I think you should

21   ask yourself why shadow IT exists and so you

22   got to get to the root cause.

 1   The root cause of shadow IT is

 2   really driven by people feeling they're not

 3   getting enough service from the existing

 4   capability.

 5   And so you've got to help people

 6   understand how do you deal with that problem

 7   because instead of - the classic issue is I've

 8   got money in my budget, I need service so I'm

 9   going to go spend that money to get the

10   service I need.

11   When you think about it more

12   holistically you say if I take my - the piece

13   of the budget I have, put it into the central

14   pot I may get efficiencies by doing that.

15   And you've got to change the mind

16   set that it isn't necessarily your money that

17   you spend on shadow IT, right.

18   It's the business' or the agency's

19   financial resources. And so you've got to get

20   to - the bottom line is the service delivery

21   isn't where it needs to be is what creates the

22   issue.

1   MEMBER KINDLER: Go ahead, Liz.

2   MEMBER SMITH: I think in addition

3   to that, though, you see that people want

4   control and want their system - to design it

5   exactly as they want it.

6   So yes, it is - I totally agree

7   with you that - Enrique, that it is having to

8   do with I'm not getting the service I want.

9   But oftentimes they all want to

10 have a very prescribed architecture and they

11 use that as a reason to opt out of what will

12 get them 80 percent of the way there and how

13 much you really need that 20 percent

14 customization.

15   So it is a matter of control and I

16 just - the one thing I would just say, you

17 know, in response to that real-world example

18 is we had to move the approval process to get

19 rid of the C, D and E priorities out.

20   We had to remove - that's not - we

21 had to remove the approval process from PO to

22 actual green lighting of it, right. So the

1 first time you see it shouldn't be when a

2 purchase order comes across your desk.

3   It's literally you can't issue a

4 purchase order without a sign off and we had

5 to move to that, and even though it was

6 administratively burdensome we delegated it to

7 an administrative assistant who then would

8 kind of go in and say these are the ones - are

9 you familiar with all of these because of just

10 that reason.

11   MR. MAZER: Right, and what we're

12 doing within department and actually it's also

13 a reflection within the Portfolio Stat is, you

14 know, it's the procurement or whatever the

15 procurements are we don't want to see them

16 after the fact.

17   MEMBER SMITH: Exactly. You can't

18 green light anything until a signature is on

19 it.

20   MR. MAZER: So what we've done in

21 the department is any procurement over $2,500,

22 which seems extraordinarily small, is subject

 1   to the CIO's approval and some of those things

 2   - we have exemptions for emergency requests

 3   for things like that.

 4   But what we're encouraging the

 5   bureaus and the offices to do is give us

 6   yearly plans of where they are.

 7   And one of the things that we're

 8   doing with the yearly plans - this is where

 9   I'm paying homage and just an endless

10   gratitude for the PMAB is when you guys

11   invited us out to look at how you were doing

12   things.

13   And, you know, as with me, I don't

14   know if your initial impulse is to say is the

15   government allergic to, like, private sector

16   practices or not.

17   We were certainly not doing that

18   and one of the things I want to reflect on and

19   it's related - it's so complex - is the vendor

20   management function that we have created

21   within the Department of Interior.

22   Its classic thing is of within -

 1   and I'll just use this as a small example with

 2   Vendor Management Office - our officer is we

 3   have multiple disciplines within the U.S.

 4   government.

 5   So we've got a computer specialist

 6   that just focuses on the box. We have a

 7   procurement specialist that assures that the

 8   administrative record is okay so we're not

 9   subject to, you know, an unfair procurement.

10   We have others that are looking at

11   it from a strategic sourcing aspect and all

12   that. But there's a hybridization of skills

13   that were never there within our work force to

14   say I need to have someone that has the

15   interplay that knows some contracting and

16   knows about technology and that also knows

17   about the landscape of who those technology

18   vendors are.

19   And so one of the things that we

20   did with you all was to say okay, how could we

21   stand up the Vendor Management Office, and our

22   first pass at the - at the gate when we did an

1 announcement we didn't get the right

2 candidates.

3   We had candidates emerging out of

4 what we call our capital planning activities,

5 our enterprise - our architecture activities

6 or a contract specialist.

7   So we had to redo the whole

8 application again and then really focus on

9 what we call the skills and abilities about do

10 you know about licenses - do you know about

11 what - who are the players like in a

12 particular sector like telecommunication - do

13 you know how to work with other people -do you

14 know how to work with contracting offices - do

15 you know how to work with budget specialists -

16 do you know how to work with a financial

17 management specialist.

18   And I can say that, based on your

19 insights that you provided from the visits and

20 everything is, you know, this month we're

21 going to be paneling some candidates for that.

22   But we are - it's a work - it's a

1   labor of love that we're doing in terms of

2   removing this attitude it's my money - I have

3   the right to do whatever I want with it, and

4   we're really moving it into - and I don't say

5   it publicly too much but as we're looking at

6   it from a architectural or a strategic

7   perspective on these are the things that are

8   necessary to accomplish the mission and then

9   how can we look at it from the more enterprise

10   or horizontal perspective of helping you to

11   accomplish that mission.

12   MEMBER KINDLER: Can I - just

13   following up on that comment, a question. I

14   was going to make the same comment that Liz

15   did.

16   My experience with the shadow IT

17   has to do with the desire for customization

18   and this notion that - and it relates to

19   Enrique's point. It's I can't get exactly

20   what I want, therefore I'm going to go do it

21   myself. So they're kind of related points.

22   And I'm wondering - and it goes to

 1   your question here about how do we ensure that

 2   Portfolio Stat plans are executed upon

 3   effectively - my question is to what extent

 4   are the financial goals that are being

 5   identified in these plans built into the

 6   budget process such that they have to deliver

 7   on them so that it doesn't become a sort of

 8   nice to do, go see what you can get and we'll

 9   do it.

10   To what extent is it actually

11   built into the process? Because it seems to

12   me if you actually establish these savings

13   goals and they can only achieve it through the

14   kind of rigor you're describing and it doesn't

15   allow for customization and freelancing and

16   doing your own thing, they'll have to achieve

17   those goals and it ensures the plans are

18   executed and it minimizes - it's a virtuous

19   circle.

20   It does require a little bit of

21   command and control, no doubt. But so my

22   question is, is this embedded in the budget

 1   processing or is this a sort of collateral

 2   exercise?

 3   MR. VANROEKEL: Glad you asked.

 4   This is the first year, in sort of an

 5   unprecedented way, we have dovetailed this and

 6   the way we did it was our budget guidance that

 7   is being played out right now was basically

 8   that departments in a cascading way had to cut

 9   10 percent out of the OpEx column.

10   And we just said - and we gave

11   them categories of here's the stuff we want to

12   see cut. You can reach it through Portfolio

13   Stat. We're going to sit right with you and

14   we're going to work on getting 10 percent out.

15   We're going to automatically give

16   you 5 percent back. It just - but you have to

17   spend that 5 percent in these other categories

18   of things - citizen-facing, productivity,

19   things that align with kind of our

20   architectural principles and sort of the

21   spirit of what we're doing here.

22   And then we asked departments to

1   give us 5 percent of priority add-backs - you

2   know, tell us in a prioritized list what

3   additional 5 percent of things you would do to

4   net to zero and then that gives us a lever at

5   sort of senior leadership levels to look

6   across the whole of government and say, you

7   know, these guys are getting smarter here -

8   they're smarter here.

9   We can aggregate based on

10   presidential priorities. We can do other

11   things that we look at to sort of think about

12   how we shape the macro budget from a federal

13   level.

14   But it's - it sort of gave us the

15   tools to basically incent this behavior. I'd

16   say, you know, on the whole, looking through

17   a lot of the government and seeing what's

18   coming through Portfolio Stat, we've been

19   pretty successful in that.

20   I think that's - it's starting to

21   do - it's very much a crawl-walk-run thing to

22   change culture and I think we're still in the

1 crawl stage. But I think as we get to V2 of

2 this and V3 it's great learning.

3   The question, you know, kind of is

4 beyond that. We do budgeting once a year.

5   How do you instill this culture of

6 like sort of where ROI is realized, you know,

7 throughout the years is sort of what we're

8 probably struggling with the most.

9   MEMBER KINDLER: So there's two -

10   CHAIR ZIENTS: I want to make sure

11 - I'm playing a little bit of the timekeeper

12 here.

13   MEMBER KINDLER: There's two -

14   CHAIR ZIENTS: Major hard wirings.

15 One, Jeff, which we just did, which is budget,

16 and the other Steve talked about earlier,

17 which is the CIO that really is like Bernie

18 now, a strong CIO according to Dan, who's the

19 COO or CEO of the organization.

20   I think we're pretty convinced

21 that we want to really push on that and this -

22   we have the ability to take it from a concept

 1   to 25 Bernies across the government.

 2   We believe it's the right answer

 3   because it's how we're going to ultimately get

 4   strategic sourcing done. It's how we're

 5   ultimately going to have strong Portfolio

 6   Stats.

 7   It's also, importantly, how we're

 8   going to attract the very best and brightest

 9   to do the job because in policy shops you're

10   not going to get lots of Bernies.

11   But before we do that real hard

12   push, is there any hey, slow down, caution

13   here about what I guess could be, to pick up

14   on what you just said, Jeff, could be

15   characterized a little bit as command and

16   control. I think it is.

17   MEMBER KINDLER: But it's what it

18   needs to be, right?

19   CHAIR ZIENTS: I just want to make

20   - I want to make sure before we make that push

21   because we're about to gear up and really go

22   toe to toe and get it done.

1   MEMBER SMITH: I mean, in this

2   area I think we all say our experience is that

3   it took that to get it done and this is one

4   area where it does take that -

5   MEMBER KINDLER: I mean, to me

6   it's very similar to the conversation we had

7   last time about strategic sourcing. There are

8   some things that require customization.

9   There are some things that are

10 strategic that should be agency determined or,

11 in our world, business unit focused. And

12 there's some things that shouldn't be and, you

13 know, you got to make the call and be honest

14 about it, it seems to me.

15   MEMBER BROWN: And I think the way

16 to - the way to reinforce that is - because it

17 is command and control and we've all

18 experienced it but as much as possible, even

19 though it may seem insignificant, sprinkle the

20 stories, examples and vignettes as to why.

21   So it's the constant in our world

22 well, corporate wants to do it.

1   CHAIR ZIENTS: Right.

2   MEMBER BROWN: And it's lack of

3   empowerment and $2,500 approval and goes

4   against autonomy and you hear all the

5   objections.

6   CHAIR ZIENTS: Twenty-five dollar

7   approval. (Simultaneous speaking) You

8   thought the numbers were big in government.

9   MEMBER BROWN: The flip side - the

10 flip side is any reinforcement and examples -

11 illustrative, simple examples of -

12   MEMBER SMITH: Exactly. Where

13 everyone has benefitted. Right.

14   MEMBER BROWN: - Interior does

15 this. Social Security does this. Treasury

16 does this. And even though we're doing X

17 contraction the life cycle total cost of the

18 ownership is Y.

19   And don't assume that people know

20 that, and so to draw that linkage is really,

21 really, really important because it takes you

22 from a Big Brother punitive - I'm smarter than

1   you are - to a we're all in this, I need your

2   help.

3   MEMBER MCGOVERN: Yeah. And I was

4   going to make a comment about the command and

5   control. Sign me up for it but I have a

6   feeling that your employees are probably more

7   similar to Red Cross employees than for-profit

8   employees, and there is a combination here of

9   setting the budget to be restrictive enough

10   that people can't go off on the customization

11   route because this is why you get the shadow

12   IT, and customization is really expensive.

13   But rather than saying thou shalt

14   not do this, that or the other thing, if the

15   budget is set in such a way they'll say whoa,

16   I can't - I can't afford the shadow IT.

17   So in a way you're almost forcing

18   the issue for them to abandon the shadow IT.

19   And then there's the appeal.

20   You don't have financial

21   incentives. You don't pay as well as the for-

22   profit world and there the appeal is, along

 1   with stories, you know, is this a good use of

 2   our taxpayers' dollars.

 3   I mean, I always ask that question

 4   over and over again - is this a good use of

 5   our donors' hard-earned dollars.

 6   You know, if they were in the room

 7   with us right now would they be pleased to see

 8   that we have 700 different IT departments

 9   sprinkled around the American Red Cross.

10   That appeal that I said once

11   literally everybody started saying no, we've

12   got to centralize it. We've got to purchase

13   together. I mean, people are working here for

14   a reason.

15   CHAIR ZIENTS: And the reason

16   they're working here is the mission of their

17   agency.

18   MEMBER MCGOVERN: Exactly.

19   CHAIR ZIENTS: It's not the back

20   office of their agency. (Simultaneous

21   speaking)

22   MEMBER MCGOVERN: Exactly. They

1   hate the back office of the agency, really.

2   CHAIR ZIENTS: And we're capped in

3   terms of how much money we can spend, which I

4   think is a good thing and therefore it forces

5   our back office to be as efficient as it

6   possibly can so we can spend more money on the

7   mission. So that's the - that's the

8   incentive.

9   MEMBER MCGOVERN: That's the

10 appeal. Right. So there's the carrot, the

11 mission, and the stick is just set the budget.

12 So and this is what we wound up doing at the

13 American Red Cross and then it was amazing.

14   Our chapter said take this - take

15 all the IT - centralize marketing - centralize

16 our HR systems because it was an affordability

17 issue and everyone wanted to fulfil the

18 mission and didn't really care to Jeff's point

19 about the back office so -

20   MEMBER LEE: There's another - I

21 would just add another important carrot is

22 back to your point, Steve, earlier, is if

1 people see the systems improving - that if you

2 had antiquated systems and you aren't able to

3 get your work done and all of a sudden, you

4 know, new folks are coming in and they may be,

5 you know, laying down the law but at the same

6 time they're making things better so you can

7 be more productive and the systems work

8 better. I think that's an important part of

9 it.

10   MR. VANROEKEL: It gets to the

11 stories thing, too.

12   MEMBER LEE: Right. So you're not

13 just, you know, being punitive. You're

14 actually helping people and assisting them and

15 that's an important part of it.

16   CHAIR ZIENTS: So we should - we

17 should look at the - you know, the first

18 couple of years we spent a fair amount of time

19 getting - indeed, piloting - picking some low-

20 hanging fruit.

21   We started to shift, as Steve

22 arrived in IT terrain, to how do we start to

1 hard wire in so the things go beyond the time

2 we're here.

3   I think Portfolio Stat, which

4 would not have happened but for PMAB's input,

5 is one of - across all of government one of

6 the top five hard wiring in things we've done.

7   So but for this group it would not

8 have happened. Steve's had a little role in

9 that too. But I just wanted - I want to thank

10 you and we ask you just keep pushing on it

11 (simultaneous speaking).

12   MEMBER KINDLER: Can I ask one

13 quick question?

14   CHAIR ZIENTS: Please. Please.

15   MEMBER KINDLER: I know we're time

16 constrained but this question I'm going to ask

17 a lot and we're - maybe as we go through this.

18   There is going to come a point in

19 time - maybe it's soon or maybe it's four

20 years from now - when there's going to be a

21 transition of some kind, okay. This is a

22 nonpolitical comment.

1   CHAIR ZIENTS: Yes.

2   MEMBER KINDLER: How do we sustain

3   something like this so it continues beyond the

4   tenure of the great people that have done it?

5   MR. VANROEKEL: Yeah. I think,

6   you know, part of it is policy, budget

7   formulation, starting to get it in.

8   The key, though, is culture - you

9   know, teaching agencies how to run an

10   Investment Review Board, teaching discipline

11   how to - how to institutionalize the notion of

12   depreciation, steal from the bottom of the

13   list and give - to give to the top, you know,

14   steal from the OpEx column to give to the

15   CapEx column.

16   You know, that - there are

17   pressures applied to our government right now

18   that will drive that behavior.

19   We're just trying to fast track

20   it. You know, cyber security, fiscal

21   pressure, consumerization of technology - all

22   those things are applying so much pressure to

 1 the function of IT in government.

 2   CHAIR ZIENTS: But Jeff -

 3   MR. VANROEKEL: We'll get there.

 4 I think it's -

 5   CHAIR ZIENTS: And something like

 6 Portfolio Stat, if we were to stop now I'd be

 7 worried about it because we're not as, Debra,

 8 what you were talking about, it hasn't quite

 9 gotten all the way through the cycle of wins

10 and in the - assuming we have a little more

11 time to do it -

12   MEMBER KINDLER: Right.

13   CHAIR ZIENTS: - it'll get there

14 because remember, you know, Steve's great

15 deputy, Lisa, is here. At OMB, Steve comes in

16 - comes and hopefully stays for a long time

17 and then eventually goes but the bulk of

18 Steve's team is here to stay. The bulk of

19 Bernie's team is there to stay.

20   So as long as we can get at a

21 macro level, Debra, what you were talking

22 about, which is success, I think it will be

1   hard wired in.

2   MEMBER KINDLER: That's great.

3   That's great.

4   CHAIR ZIENTS: And OMB and the

5   agencies working together. But it's hard and

6   that's why we got to pick our few things and-

7   MEMBER KINDLER: Fantastic.

8   CHAIR ZIENTS: - bang on them

9   hard.

10   MEMBER KINDLER: That's great.

11   CHAIR ZIENTS: Good job.

12   MEMBER KINDLER: Thank you. Great

13   job.

14   MR. VANROEKEL: Thank you, guys.

15   CHAIR ZIENTS: John Berry, who all

16   of you know well. How are you, John?

17   MR. BERRY: I am doing great.

18   Thank you all and before some good news and to

19   thank you all for the training program that we

20   now have up and fully running for our senior

21   executives sort of - and three components of

22   it.

1   We have sort of an immediate on-

2   boarding training which is, you know, you come

3   in the door. Rather than just being given the

4   keys to the office you now have a welcome

5   approach in some of the core briefings that

6   you need to achieve success.

7   And then we had a program that

8   you've heard from our - Dan and my colleague

9   at the VA, Scott Gould, the deputy secretary

10   there, who's helped us to put together a

11   program called Leading Edge which is focusing

12   more on career development for senior

13   executives who have been in for a longer

14   period of time.

15   And but we had this critical

16   juncture and as many of you have pointed out

17   to us was that the periods you've really got

18   to focus where you've got - you know, they're

19   excited, they're wanting to make a difference,

20   they're coming in the door - is empower your

21   people in that first 18 months and really hit

22   them hard with a formal training program that

1   is rigorous and effective.

2   We piloted that over the past year

3   with - working with each of you and your HR

4   shops and I'm extremely grateful for that. As

5   a way to get to the last question, which was

6   just how do you keep these things alive, we

7   have formally now embedded this in the Federal

8   Executive Training Institute so that they have

9   assumed the responsibility and therefore sort

10   of, you know, this program will keep going.

11   MEMBER KINDLER: Terrific. That's

12   great.

13   MR. BERRY: And yesterday was our

14   inaugural - you know, we're out of the pilot

15   phase and into a formal, you know, career

16   phase and we launched it yesterday and it was

17   about leading people.

18   It was a five-hour very intensive

19   program and our very own Debra Lee was our

20   keynote speaker and I will just highlight -

21   these are a few of the comments that we

22   received from the 75 senior executives who

 1 were in attendance.

 2   CHAIR ZIENTS: Debra says to go

 3 slow here.

 4   (Laughter.)

 5   CHAIR ZIENTS: Are there any

 6 graphics, John, of Debra?

 7   (Laughter.)

 8   MR. BERRY: I just got these this

 9 morning so I apologize. You know, it was just

10 yesterday. I mean, I've done them for

11 nothing.

12   Debra's inspiring and thoughtful

13 presentation - refreshingly different and

14 informative. Critical private sector insights

15 but also her personal story doing the Q & A

16 session was very powerful and having the

17 business perspective and the case study was a

18 true home run.

19   So Debra, there's a -

20   (Applause.)

21   MR. BERRY: It was really

22 wonderful and so we're very grateful and -

 1   MEMBER LEE: I must say I was very

 2   impressed with the group. The questions, even

 3   - John opened up the session and, what was it,

 4   8:30?

 5   MR. BERRY: Yeah.

 6   MEMBER LEE: 9:00 o'clock? And

 7   opened it up by saying, you know, I'll take

 8   any questions and there were lots of questions

 9   before anything, and really good questions.

10   MR. BERRY: They really -

11   MEMBER LEE: Yeah, and -

12   MR. BERRY: - it's an engaged

13   powerful group.

14   MEMBER LEE: Right, and I was

15   impressed with the questions, obviously. So

16   I was very - it's a good group.

17   MR. BERRY: Well, you know, this

18   is - you know, you could see - and the overall

19   rating of this, not just of the speakers but

20   the effect in this in the organization and the

21   program was very high and we'll be able to

22   share with you all - we're going to break this

 1 down.

 2   By next week we'll have all the

 3 stats and the numbers and we'll be able to

 4 share that through the email to each of you so

 5 you can see the direct results from this.

 6   But, you know, again, wouldn't

 7 have happened without your help. The quality

 8 level, the focus areas to hit on, and I think

 9 what was really - one of the comments we also

10 received and I received this doing a break

11 from someone is the divergence of a - you

12 know, of experience that came together in that

13 five hours of retired senior execs who had

14 been award winners, prestigious - you know,

15 Presidential Distinguished Rank Award winners.

16   These are, like, one of ten people

17 in the government who win this level of award

18 - you know, Nobel prize type of achievement.

19   One of our federal employees won

20 the Nobel prize this past week, I should point

21 out, at the National Institute of Standards

22 for his work in quantum physics.

1   You know, so, you know, conveying

2   that level of quality and of energy but also

3   having the leadership of a CEO, a major CEO,

4   take the time to come in and bring the private

5   sector coming along. It's been a phenomenal

6   success. So, you know, we're just grateful.

7   Tim is in the batter's box. I

8   think our next one and this is kind of - and

9   this goes to that last comment too about, you

10   know, potential transition.

11   The next course we're planning

12   specifically on November 8th and the thematic

13   is, you know, leading change, you know,

14   amidst, you know, organizational change.

15   Whether it is a second term or a

16   new administration, there will be a transition

17   and there will be new people.

18   There will be new leaders, new

19   teams, and how do you maintain that focus and

20   energy throughout that.

21   So that's going to be our focus of

22   the next one. Tim is, you know, going to be

 1   our main speaker at that one from the PMAB.

 2   So November 8th we'll be hitting off with

 3   that.

 4   And then moving into the March

 5   program, which will be business acumen,

 6   building coalitions, and then the final one of

 7   the program, results - driving results.

 8   MEMBER SALEM: How do people get

 9   selected to go to these different sessions?

10   MR. BERRY: It's - each agency

11   solicits - we solicit from their senior

12   executives and the agencies - we tell them the

13   age - the group we're aiming at here, that

14   we're looking at -

15   CHAIR ZIENTS: Tenure.

16   MEMBER SALEM: Okay.

17   MR. BERRY: We're looking at the

18   senior executives who have - who are within an

19   - who are within their first 18 months so

20   we're looking at that cadre of your workforce

21   and then agencies look at, you know, okay, can

22   - is this person in town that day, et cetera.

 1   So -

 2   CHAIR ZIENTS: So we're able - our

 3   goal is to be able to fill all that demand,

 4   right, for that first 18-month period -

 5   MR. BERRY: Absolutely.

 6   CHAIR ZIENTS: - (simultaneous

 7   speaking) cycle throughout.

 8   MR. BERRY: And so yesterday we

 9   hit about - I think that final count ended up

10   being about 82.

11   So it was a pretty good turnout

12   and, you know, and we had - what we're getting

13   better at is the last-minute slots. So

14   finding people who then have been pulled off

15   for some emergency who have created an

16   opening.

17   We have a back-up team now that we

18   can immediately slot in there so we don't

19   waste seats.

20   So it's been - it's been very

21   effective. So can't thank you enough and,

22   Debra, any - would you like to add anything?

1 I mean, you were there so -

2   MEMBER LEE: Yeah, and I did think

3 a lot of the executives there were very new.

4 You know, people told me stories about moving

5 from North Carolina or other places. So that

6 was refreshing.

7   But, you know, I really could feel

8 the commitment and their desire to be better.

9 I mean, even though they were new to SES, you

10 know, they were mid-career people.

11   So they had had experiences other

12 places and they were, you know, excited about

13 bringing those experience to bear in helping

14 with the country and the government but also

15 the desire to be better.

16   And you could tell that by the

17 questions - you know, I mean, just really

18 thoughtful questions and the question of

19 incentives did come up a couple of times.

20   MEMBER KINDLER: In what context?

21 What were they questioning?

22   MEMBER LEE: You know, are there -

1   I think you were asked what other incentives

2   are there other than - you know, since there

3   is not a lot of money to be passed around in

4   government and John gave a very good answer.

5   And I loved your statement about,

6   you know, being upbeat and if you have a bad

7   day stay at home because it - because this,

8   you know, leadership requires passion and

9   commitment and, you know, everyone's looking

10   up to you. So I thought that was very good.

11   But I was just really impressed by

12   the group - the diversity of the group, their

13   backgrounds, you know. It's very impressive.

14   So I was glad to do it.

15   CHAIR ZIENTS: Thank you. Very

16   well.

17   MEMBER LEE: And they - you know,

18   they seemed interested in BET. You know, you

19   worry that an entertainment industry company

20   may seem very far removed from what they do in

21   government.

22   But you realize that management is

1   management and, you know, passion is passion

2   and, you know, their stories translate. So it

3   was a lot of fun.

4   MR. BERRY: Really great, great

5   stuff. And then on the next program - the

6   standardized appraisal system - we've gotten

7   that out into sort of the top ten - the

8   largest agencies of the government all up and

9   running now.

10   You see there on this sheet, the

11   one - Page 13, the one thing that I'm going to

12   try to really press hard on is I believe that

13   we can get '14 done in '13 and so my team is

14   just hearing that right now but I've really

15   been looking at this.

16   And I think we can - we can push

17   this up a year and get it done. The success

18   rate, the buy-up, the take-up of this has been

19   phenomenal.

20   Everybody who's done it has come

21   away and said why didn't we do this before.

22   You know, the point of - you said, you know,

1   the continuity and the consistency for this

2   group is, as you all know, it's, you know, in

3   a 1.8 million size workforce of something we

4   call the federal government, you know, we have

5   this veneer of 6,000 people that are senior

6   executives.

7   And, you know, so treating them

8   more with greater consistency and holding that

9   standard of professionalism it's so important

10 that we do that.

11   And so I think we can - you know,

12 our goal should be to achieve the 96 percent,

13 you know, almost 100 percent of the government

14 in the '13 time frame.

15   CHAIR ZIENTS: That's fantastic.

16 Jeff, to take on your right question this is

17 great because it'll get done and it won't get

18 replaced.

19   MEMBER KINDLER: It's embedded

20 now.

21   CHAIR ZIENTS: It's embedded.

22 However, that's an important step. The real

1 value will be in managers taking these

2 seriously by putting in the time and energy.

3 So it's the right base for it and it's a hell

4 of an accomplishment. But then off that base

5 -

6   MEMBER LEE: The quality of the -

7   CHAIR ZIENTS: - we've got to get

8 people focused on this to make it a priority.

9   MEMBER KINDLER: Well, but they

10 see the value, right, presumably?

11   CHAIR ZIENTS: Yep.

12   MEMBER KINDLER: So that becomes a

13 virtuous circle.

14   CHAIR ZIENTS: Yes. But we've got

15 to get that humming. But to get this

16 foundation in place -

17   MEMBER KINDLER: Great

18 accomplishment.

19   CHAIR ZIENTS: - that is great.

20 Right answer, and no one's going to undo that.

21 No one's going to say, I want to undo -

22   MEMBER LEE: Management.

1   MR. BERRY: That's our hope. You

2   know, with things like just going to something

3   like the resume, I mean, you know, anybody who

4   comes in who wants to go back to knowledge,

5   skills and ability essay questions would be

6   nuts, you know, so -

7   CHAIR ZIENTS: We just has to

8   (simultaneous speaking) John's move to a

9   resume basis for recruiting, which is so right

10   answer.

11   MEMBER MCGOVERN: Well, moving to

12   consistency, I think also it's a signal to the

13   SESs that they have a career in government and

14   it doesn't start all over again in another

15   branch of government.

16   So it's just a way that is telling

17   them you care about them, I think. So -

18   MR. BERRY: But the movement that

19   - you know, one of the things we discussed at

20   a previous meeting and it - you know, I have

21   tried this now in three different positions in

22   my government career over the past 25 years.

 1   It is real hard to, you know, to

 2   get the movement of the people that you really

 3   want to move.

 4   You want to be able to move your

 5   best. But because what you have at the top of

 6   agencies is so few people who are there that

 7   you can - you know, who have the depth and

 8   that you can really lean on and count on and

 9   there's a tendency of I can't spare - you

10   know, I'm here for 18 months, two years. I

11   can't spare this person for a nine-month

12   rotation type of thing, even though we know

13   the importance of it.

14   We know the criticality of it. So

15   one of the things we've been working with the

16   DepSecs on is, you know, it may not work in

17   our case at the SES because what you don't

18   want is people saying well, I have this SES

19   that I'd love to move and, you know, would but

20   that's the exact wrong person we want to be

21   shifting that boat. So -

22   CHAIR ZIENTS: What we have done

 1   is we've hard wired in rotation before SES.

 2   MR. BERRY: And so that's where

 3   that focus has been to take sort of pre - at

 4   the - what we call our 13, 14, 15 level and

 5   are now focusing that rotational effort at

 6   that level and we're finding better -

 7   MEMBER MCGOVERN: That's when

 8   you've got to move then.

 9   MR. BERRY: We're finding better

10   success there than -

11   CHAIR ZIENTS: (Simultaneous

12   speaking) at the right agency.

13   MEMBER MCGOVERN: Exactly.

14   CHAIR ZIENTS: John, any questions

15   or a request for counsel from this group?

16   MR. BERRY: No. And I also want

17   to thank you. I asked for your help on some

18   of our - and it was - you gave me very

19   important feedback on our employee viewpoint

20   survey and how you approach what actual tools

21   and mechanisms you use.

22   And we're actually going to be

1   coming out to a couple of the firms and

2   kicking the tires more directly with - our

3   detail people with your detail people.

4   But even just the initial input

5   you gave us since the last meeting I think

6   helped us to recraft a direction we were

7   moving.

8   So very, very helpful and grateful

9   for that.

10   CHAIR ZIENTS: Dan, do you want to

11   jump in here?

12   MR. PONEMAN: Yeah. I might just

13   add that that conversation we had at the last

14   meeting about the painfulness of going through

15   a real review really informed what we were

16   doing because what we found, as Jeff and John

17   just said, you're not going to see people go

18   back to, you know, these old-fashioned ways of

19   doing business.

20   We, in the implementation of this

21   reform, had to really overcome deep

22   institutional biases in two - at least two

1 dimensions.

2   Number one, we are par excellence

3 a technical agency. So the already present

4 predilection to sort of take SES away from its

5 roots to thinking about areas of expertise as

6 opposed to your top veneer of leaders.

7   We had gone pretty far down that

8 road, and working very closely with John we

9 came up with other approaches. What we found

10 you really had institutional concerns to begin

11 with.

12   People were not comfortable, first

13 of all, making a shift to a leadership

14 orientation and, secondly, being candid with

15 themselves, with their superiors - this is the

16 conversation we had last time - and with the

17 people they're evaluating.

18   This goes together with the phrase

19 - I think you just used it - peanut buttering.

20 There tend to be this sort of homogenization

21 of evaluations which became sort of empty,

22 relatively speaking.

1   And so actually when we went from

2   the four levels to the five levels it

3   facilitated moving away from that because you

4   were able to acknowledge specific nuances that

5   otherwise you're making a pretty draconian

6   choice and people don't want to fall, you

7   know, too far into the next bin.

8   So what it took in our case was

9   really going to workshops. We had to make

10   training in the initial instances mandatory

11   because there was a lot of inertia against

12   these kinds of things.

13   And then people, as they were

14   forced to face - and I guess Greg was making

15   the point about specific examples, with the

16   names removed to protect the innocent -

17   specific personnel challenges that had been

18   faced and how people dealt with them, then the

19   people - our SESs came back and says, you know

20   what, this actually - this actually is

21   helpful.

22   And I think it facilitated the

1 whole integration and I think we're all of us

2 preoccupied by how you leave something into

3 the culture and DNA of the organization beyond

4 changing the forms, which was absolutely

5 indispensable.

6   I would call that a necessary but

7 not sufficient condition. So I think that it

8 is now well launched. It's going to take a

9 couple of cycles to get there but then you

10 will ideally end up with this kind of cadre

11 where you can take this that - there and put

12 her over there and so forth and really get the

13 benefits of management.

14   I guess the only other thing I

15 would say is we had already been starting to

16 move in that direction because we recognized

17 in interviewing our own people about their

18 level of job satisfaction that although they

19 had become sort of inured to this rating

20 system that was pretty undifferentiated and

21 not really sort of painful wire scrubbing we

22 have found that now that people are going

 1 through this process they are actually getting

 2 the cultural acceptance.

 3   It didn't take as long as I

 4 feared. People, especially SESs, are used to

 5 being head of the class and when you do it

 6 from the top with them then it's easier for

 7 them to carry out down through their

 8 organization.

 9   So I think that it's going to

10 continue to be a static process. We'll

11 continue to - we should take feedback and push

12 that through. If it doesn't, it gets stale,

13 I think.

14   But I really think that we have

15 now turned a corner in terms of moving SES

16 back toward the original conception that John

17 has been working so hard for the last couple

18 of years to do.

19   CHAIR ZIENTS: Anything before we

20 switch gears?

21   MEMBER KINDLER: I just would make

22 the comment this is fantastic how far this has

 1   come. I mean, when we started talking about

 2   this whenever it was, a year or so ago, this

 3   was an area I personally have some passion for

 4   and I just congratulate you guys on great

 5   achievements.

 6   MR. BERRY: Well, we're really

 7   going to - we're already - looking forward in

 8   terms of building the great - the framework of

 9   work that we believe will help regardless of

10   what happens in November.

11   Going forward, what do we need in

12   the civil service, in the work force of the

13   21st century, and one of the key questions

14   we've started to wrestle with I was out in

15   Portland, Oregon, last week with Nike and were

16   looking at the classification system which has

17   - you know, it was developed in the, you know,

18   19th century and it governs, you know, issues

19   of great complexity in the federal government.

20   But one of the things that - you

21   know, and it gets into very sensitive areas

22   of, you know, how do you - how do you achieve

1 equal pay for equal work and but still have

2 enough flexibility to achieve some of the

3 hybridization that Interior was talking about

4 and recognizing, you know, people need

5 multiple skill sets in the 21st century, not

6 silos.

7   And, you know, so we're started

8 working on that program looking forward and,

9 again, I think this is one where each of you

10 have - there is no right magic answer here

11 and, you know, wanting to learn from your

12 experience and how you've wrestled with these

13 very interesting and difficult topic is going

14 to be, I think, critical for us going forward.

15   So I'll be working with Jeff on -

16 we'll have to figure out how we tee this up in

17 such a way that we don't waste your time but

18 yet I think it would be a next one where your

19 input early on could revolutionize this

20 approach.

21   CHAIR ZIENTS: All right. So

22 let's - thank you, John. Let's take a ten-

 1 minute break. Restrooms, BlackBerrys, naps,

 2 whatever.

 3   (Whereupon, the above-entitled

 4 meeting went off the record at 10:12 a.m. and

 5 resumed at 10:25 a.m.)

 6   CHAIR ZIENTS: Let's spend about

 7 20 to 25 minutes on strategic sourcing.

 8   MR. JORDAN: Okay.

 9   CHAIR ZIENTS: I think we're

10 making good progress.

11   MR. JORDAN: Yes.

12   CHAIR ZIENTS: And then improper

13 payments. We're going to give this to Joe.

14 I just got called across the street. I

15 shouldn't be more than 20 minutes.

16   Danny, you want to make sure that

17 you keep this moving and on pace for 20, 25

18 minutes on each and, Joe, I'd love to get

19 conversation going within five to seven

20 minutes.

21   MR. JORDAN: Great.

22   CHAIR ZIENTS: - for counsel and

 1   strategic -

 2   MR. JORDAN: Yeah. And we'll have

 3   some interstitial questions too.

 4   CHAIR ZIENTS: I should be right

 5   back.

 6   MR. JORDAN: Thanks, Jeff, and

 7   thanks again to everyone for coming. Most

 8   importantly, thanks to you and your teams for

 9   all your help.

10   It's really made a difference.

11   We've gotten some really great progress since

12   we last talked.

13   The site visits were really

14   informative and I'm excited to go through and

15   kind of get your feedback on some of the

16   things that we've done.

17   So we're on slide 14 in the

18   binder. Flipping to the next slide,

19   basically, what I wanted to go through today

20   is briefly recap the recommendations here and

21   before I begin I'd be remiss not to introduce

22   Dan Tangherlini, the acting administrator from

 1   GSA who's partnering with us on all of this

 2   and will be helping to walk through some of

 3   this as well.

 4   We have three kind of strategic

 5   and tactical elements that we want to talk to

 6   around strategic sourcing. The first is the

 7   key components of our focused federal effort

 8   that we've stood up around strategic sourcing

 9   for the last few months.

10   The second is some tactical

11   potential targets for commodity areas for this

12   year based on a lot of feedback and

13   conversation we had at the last full board

14   meeting, looking at kind of the combination of

15   dollar amounts, which higher is better.

16   Complexity and commodity kind of

17   move towards the lower end of the value chain,

18   and where the sweet spots to start as we build

19   inertia and go forward.

20   And then, lastly, I wanted to talk

21   a little about a prices-paid information

22   sharing tool, prices-paid portal that we want

1   to create based on one of the best practices

2   we heard over and over around price

3   transparency, and you guys gave us some

4   feedback about how we can move forward there

5   on dealing with vendors and others.

6   So the recommendations that you

7   all gave us and formally adopted on the call

8   fell into these three buckets.

9   Make sure that we have government-

10 wide policy directives and that those mandate

11 the use of these vehicles where appropriate

12 and have a senior accountable official at each

13 agency on the hook for results.

14   Secondly, we've got to step up our

15 data collection our utilization of that data

16 both through request of the vendors themselves

17 and then also some internal standardization

18 around the way we track and measure

19 performance here.

20   Lastly, we have to make sure we're

21 communicating these things. Top down

22 communications and the importance here - all

1   of you talked about the importance, the

2   critical nature to the success of your

3   endeavors when the head of the organization

4   said, this is important to me - this is not an

5   ancillary function - this is core to us

6   capturing savings, driving value into our

7   mission - as well as once you had successes

8   highlighting those and syndicating those

9   around, lifting them up.

10   So the point is, and I was

11 watching the previous segments on the White

12 House website and, Gail, you and Jeff had the

13 whole conversation about the carrot is you

14 save these dollars you can invest a number of

15 them in the mission.

16   Now there's a huge carrot for the

17 taxpayer because we're going to put a bunch of

18 this back into the Treasury and towards

19 deficit reduction.

20   But it's really a win-win on that

21 point and we need to create the framework that

22 I'm hesitant to say stick but creates, you

1 know, very limited room for leakage and those

2 types of things and encourage best practices.

3   So moving to slide 16, here are

4 the key components of our effort right now.

5 We're really targeting three areas as we

6 implement this.

7   The first is, and this slide lays

8 out, standing up some commodity teams in

9 targeted categories which will create

10 additional government-wide vehicles and is

11 populated by senior leaders from the key

12 agencies like the folks at this table who

13 commit their spend-through.

14   So it's - you know, looking at the

15 slide it's a focused effort.

16   Instead of boiling the ocean,

17 addressing every agency, focusing on the top-

18 spending agencies, partnering with GSA as a

19 lead agency on a number of these cost savings

20 initiatives.

21   Secondly, having this body both at

22 a senior level but across functional level.

1   You know, Steve VanRoekel talked about

2   Portfolio Stat in the first session.

3   Well, IT is an $80 billion segment

4   of the government procurement pie so we

5   absolutely need to partner with the CIOs.

6   Danny's going to talk about

7   improper payment and all of his great work

8   with the CFOs. We need those CFOs, those

9   purse string holders, in the room too.

10   So we've populated not just with

11   acquisition professionals. Those contacts,

12   first of all, CFOs, CIOs and other senior

13   leaders.

14   Lastly, you under Jeff's clear

15   direction we're setting very aggressive goals.

16   You know, we're looking for transformational

17   change here, not just baby steps.

18   So the way that we're kind of

19   creating the framework is, first, set up these

20   commodity teams governed by these core

21   components.

22   Secondly, let's capture some

1   initial wins. Let's get some quick wins both

2   through some targeted commodity areas and

3   improved demand management, and Dan's actually

4   going to walk through a bunch of that in just

5   a minute.

6   And then lastly, again, this

7   prices-paid portal to increase the internal

8   government transparency of the price we paid.

9   We've just seen huge impacts from even the

10   incremental steps we've made there already.

11   So when we meet early next year,

12   what I'm hoping is that we'll be discussing

13   new vehicles we've stood up, the increased

14   adoption of the vehicles we already have and

15   all the increased savings that we'll be

16   driving.

17   You know, that's kind of the path

18   as you help us kind of give us more input as

19   we mature down this road.

20   So slide 17 talks a little bit

21   about - when I say we're targeting, we're

22   being focused, what does that mean?

1   Well, of the $535 billion that

2   government spends we can't just look at

3   everything. You know, we're not going to

4   strategically source necessarily fighter

5   planes, tanks, war ships - all of these types

6   of things.

7   So let's look at what's really

8   addressable and that's where we come up with

9   about $150 billion pie, a big sizeable meaty

10   chunk where we can drive significant savings.

11   Okay. So that's being focused in

12   what segments and industries we look at. We

13   also need to be focused in the buyers.

14   So we took the big seven agencies.

15   DoD, in any conversation about buying, is the

16   big dog in the room. They're about 70 percent

17   of all procurement.

18   But then the next six agencies

19   represent an additional 20 percent. So by

20   just focusing on the seven agencies we cover

21   90 percent of this kind of classic, you know,

22   Pareto model right there and we feel that that

 1   can both cut through any bureaucracy in

 2   decision making.

 3   Again, spend commitment is huge,

 4   and also cover the vast majority of the

 5   spending and we're still absolutely opening up

 6   these vehicles to the smaller agencies so they

 7   can leverage the great prices we'll get

 8   predicated on DoD and other agency spending.

 9   So the go forward plan, and I know

10   I'm going a little bit quickly given Jeff's

11   time but I want to ask a few questions here is

12   as I transition to Dan we've got a few

13   solutions that we've stood up on the right

14   hand side of this page.

15   We've got to - we've got about

16   five more that we're ready to sprint on right

17   now and then, again, I'm convening this

18   Strategic Sourcing Leadership Council group to

19   stand up even more all in this year.

20   But I wanted to get kind of a few

21   perspectives from you on the savings

22   themselves. You know, Debbie, you - something

 1   that resonated with me and that we've kind of

 2   used as an operating mantra is put the dollars

 3   on the screen.

 4   This exactly translates to all of

 5   our agencies have different missions. You

 6   know, Rafael is trying to protect and secure

 7   the homeland.

 8   NASA is trying to do things. You

 9   know, everybody's got a different mission but

10   they all jointly can - you know, that message

11   resonates. Put the dollars to the mission,

12   put the dollars to the screen.

13   When we do things like this at

14   cost saving we want to put most of those

15   dollars back into the coffers, you know, for

16   the taxpayer.

17   But some of it we want to - we

18   want to reinvest. How do you guys make that

19   decision when you think about you do a cost

20   savings initiative - how much do you give back

21   to the shareholders or the donors and how much

22   do you reinvest in programs that you think

 1 will still be - accrue to the value but make

 2 that trade-off?

 3   MEMBER SMITH: I think you said

 4 it. It's the value of the programs. Don't

 5 spend the money just for the sake of spending

 6 the money.

 7   The compelling part - the

 8 compelling items on the table that you can't

 9 do that you need to find the money to do will

10 drive it and some years you don't have a good

11 idea to spend it against and you should drop

12 it all and other years you really need to make

13 an investment to move something forward.

14   So I would - I would not be in

15 favor of the percentage spend-back approach

16 because I do think that's a peanut butter

17 thing.

18   You need to invest to the idea,

19 okay, and some years there's just not any

20 things on the table that need to be done that

21 should take priority over returning those

22 dollars.

 1   Other years, you need the whole

 2   thing because you have a really important

 3   initiative.

 4   MR. JORDAN: So match the

 5   individual and potential investments against

 6   the savings -

 7   MEMBER SMITH: Yeah, and it's a

 8   good (simultaneous speaking).

 9   MR. JORDAN: - as opposed to

10   saying a percent automatically gets - okay.

11   MEMBER SMITH: I've never liked

12   the percent status for that exact reason

13   because it's not - what you find is that funds

14   are spent on projects that aren't worthy of it

15   just because they're being turned back.

16   MEMBER MCGOVERN: You could just

17   create a war chest. So if you're trying to

18   save 10 percent and you want - you have in

19   your head you're going to give 5 percent back

20   to the taxpayers, you take that other 5

21   percent and you have people construct project

22   asks against it.

 1   MEMBER SMITH: Right. If they're

 2   worthy they're worthy.

 3   MEMBER MCGOVERN: And I've done

 4   that in the for profit space and the nonprofit

 5   space where you look at the return on

 6   investment for each of these projects and, you

 7   know, if it's worthy you dole out the money

 8   and if not then more goes back to the

 9   taxpayers.

10   But in terms of incenting people

11   for it, you know, you could have a blend of

12   examples of projects that are funded because

13   we were able to cut the money and the

14   interesting thing is so much of this is other

15   people's money.

16   It's not - it's not their money.

17   So it's all goodness. So part of it is

18   examples of projects that are going to get

19   funded as a result because then more people

20   want to save more money and then other parts

21   of it is there just some way to translate what

22   it means to the taxpayer.

 1   And even if it's, you know, like a

 2   half of one cent it somehow becomes more real.

 3   You know, if every department did this it

 4   could be, you know, because that's a really

 5   good way to talk to people that work in

 6   government, I mean, because they really do

 7   care about the citizens in this country.

 8   MR. JORDAN: No, I think that's

 9   right. I mean, that's a constant messaging

10   challenge that I have is the first sense hey,

11   I want to talk to you about procurement.

12   People's eyes might glaze over a

13   little bit. But when I talk about the dollars

14   that we can really save here people get really

15   excited because these are - this is real

16   money.

17   MEMBER MCGOVERN: I like to do it

18   in terms of meals, blankets - you know, the

19   things that the Red Cross does every day and

20   there's got to be some translation here.

21   MEMBER LEE: What's the

22   equivalent. What's the equivalent.

 1   MR. JORDAN: Absolutely, and I

 2   think that's great. And then one other

 3   question before we transition to Dan to walk

 4   through some of this is we've culled from some

 5   of your teams especially who are doing this

 6   every day some of the ways that you

 7   incentivize your folks to really focus on this

 8   - you know, making - again, that top down

 9   approach is big but then making them feel like

10   this is part of my job. I know I'm a mission-

11   oriented - you know, my primary duty is to

12   care for these people who have been displaced

13   by a disaster or to put on a great show but

14   this is important to the boss. This is

15   something I want to do and it translates.

16   And how do you do that without any

17   monetary incentives - you know, some of the

18   challenges that we have there? I was thinking

19   things like, you know, just Jeff sending

20   emails or, you know, congratulatory notes or

21   we highlight these things in newsletters.

22   We put a blog on whitehouse.com.

 1 You know, there's some of the things that we

 2 have in our tool box for sure and we've got a

 3 great bully pulpit but I don't know if you had

 4 best practices there that you'd maybe already

 5 seen or thought of.

 6   MEMBER SMITH: Is it - is it in

 7 their performance goals?

 8   MR. JORDAN: We are - that's -

 9   MEMBER SMITH: Because if it's not

10 -

11   MR. JORDAN: Yes.

12   MEMBER SMITH: - you know, you got

13 to start with it's in their performance goals

14 and so at least they'll be recognized for -

15 you know, for playing ball and exceeding the,

16 you know -

17   MR. JORDAN: And that's one of the

18 ways that we intersect with John Berry's team.

19 We talked about the SES evaluations. That's

20 one of those areas as well.

21   And then I've actually - next week

22 is my last one - I mean, with every single

1 agency one on one and similar to Portfolio

2 Stat we like the stat title there. So it's

3 AcqStat, Acquisition Status updates, and this

4 has been in every single one where they give

5 us all of the data for what they've done to

6 date.

7   They've heard the priorities and

8 have obviously seen the conversation we've

9 been having and your recommendations and so

10 that's fostered a good conversation too.

11 That's another -

12   MEMBER LEE: Another way to do it

13 - because we just had a presentation on IT and

14 how much different agencies had already

15 pinpointed - is to make it competitive and -

16   MEMBER SMITH: I agree.

17   MEMBER LEE: - have people that

18 uncover the most savings be recognized by Jeff

19 or in a productive way.

20   MEMBER SMITH: And also don't

21 underestimate. I think Debra's point is

22 great because we've done that.

 1   We've set up contests among our

 2   five divisions and five contests and people

 3   take it personally. You don't get money at

 4   the end of the say but it is about, you know,

 5   who pulled - and you have all the visuals.

 6   You know, you have the pot being

 7   filled and the temperature and, you know,

 8   let's face it. We're all wanting to do that

 9   and do well and that works. You know, people

10   want to succeed in a common mission.

11   MEMBER BROWN: I think that's a

12   huge point and we've always heard since we've

13   been on PMAB, you know, the limitations on

14   compensation and the difference between the

15   public and private sector. I totally think

16   that's a great idea. If you can't pay them,

17   a plaque.

18   MEMBER SMITH: We set up as a

19   horse race where we literally, like in an

20   arcade you have the horses moving forward.

21   Believe it or not, people were obsessed.

22   The first thing they did was stop

 1   and see where the horse was at the end of that

 2   month, like where are we at the end of the

 3   month towards - it was called, you know, Race

 4   for the Dollars and, you know, and then they

 5   could have fun against it, like, you know,

 6   it's like you pulled up lame, you know, et

 7   cetera.

 8   MEMBER MCGOVERN: This

 9   conversation is reminding me when I was a

10   branch manager - God, I was so young. But I

11   had a hundred sales people working for me and

12   they were highly compensated if they made good

13   sales.

14   And just almost like a throwaway

15   thing I said if every one of you makes your

16   objectives we'll have a huge pizza party -you

17   know, pizza on me.

18   And this was more motivational

19   than the huge paychecks they were going to get

20   from the company. But it was like this spirit

21   of teamwork and, you know, they started poking

22   at each other - how come you didn't make it -

1   I'll go makes calls if you - if you can't make

2   it. It's that psychic gratification.

3   MEMBER SMITH: I'm fine with it.

4   MEMBER MCGOVERN: Yeah, exactly.

5   MEMBER LEE: I'll give you another

6   example. I'm on a not-for-profit board and we

7   have a gala every year in D.C. and it had kind

8   of stagnated in terms of fundraising.

9   Well, I got a whole new group of

10   vice chairs and just on the email system

11   people started shouting out when they got a

12   donation. And it kind of really jumped - you

13   know, he had sold a $10,000 table and everyone

14   said congratulations and then someone came

15   back five minutes later, I sold a five to -

16   and then, you know, just that excitement of

17   immediate recognition of having done -

18   MEMBER SMITH: At the end of the

19   day - you're right. Everyone wants the star

20   from the teacher - the gold star from the

21   teacher we're now getting that we were when we

22   were seven or eight.

1   MEMBER LEE: Right. Yeah.

2   MR. JORDAN: And (simultaneous

3 speaking) way to simultaneously do the -

4 foster the competition but build camaraderie

5 simultaneously.

6   MEMBER MCGOVERN: Yeah.

7   MEMBER LEE: Because everyone's

8 pulling for the same thing and I think you had

9 said this before. There never is enough

10 budget and I see it all the time in my

11 company.

12   One year we'll focus on

13 programming because that's important. But you

14 get the programming to where it needs to be

15 and it's like oh, we don't have enough money

16 for marketing.

17   So, you know, when executives see

18 that and they know each year you set

19 priorities and that there's a limited pot, if

20 you can grow that pot by saving on things that

21 you don't really, you know, necessarily need

22 or are done -

 1   MR. JORDAN: And the same thing

 2   for a little price.

 3   MEMBER LEE: Right. Right.

 4   Another example, we had - you know, when

 5   BlackBerrys came out for a while we had

 6   executives - everyone was carrying a cell

 7   phone and a BlackBerry and no one liked to use

 8   BlackBerrys for calls.

 9   So they're walking around with two

10   devices. Then iPhones come out and then the

11   phone gets better. So one day our IT

12   department just said the new rule is you can't

13   have two devices.

14   You have to have a BlackBerry.

15   You have to use the phone on the BlackBerry

16   and we're only - you can't have unlimited

17   calls. I mean, you can have unlimited calls

18   but we're just going to reimburse you $100 a

19   month for the calls you make.

20   So those family calls that we know

21   everyone makes or calls, you're going to have

22   to pay for them.

 1   MR. JORDAN: You're on your own

 2   dime.

 3   MEMBER LEE: And it just amazing

 4   the amount of savings we got from that simple

 5   rule.

 6   MR. JORDAN: And I think that's a

 7   perfect transition because we're going to -

 8   Dan's going to walk through some of the

 9   potential commodities but also the demand

10   management that you just - you just outlined.

11   MEMBER LEE: Yeah.

12   MR. TANGHERLINI: So thanks, Joe,

13   and I'd have to say I'm not one of those

14   people whose eyes glaze over when you start

15   talking -

16   MR. JORDAN: I can appreciate

17   that. Thank you.

18   MR. TANGHERLINI: And I'm really

19   glad that this group isn't either and now I

20   want to start where you started.

21   Frankly, having the leadership of

22   this group, having the support of Jeff and

1   having the support of Joe, really sends a

2   signal in to the entire organization that we

3   take this very seriously, we're committed to

4   these outcomes and it really gets people to

5   come to the table and really cooperate.

6   You can't underestimate the power

7   of executive leadership in any organization

8   but certainly in government.

9   What we've been doing is working

10 collectively with Joe, OMB and the entire

11 agency portfolio as really exploring the

12 places where we think we can continue to push

13 and make progress within strategic sourcing.

14   We've identified five commodity

15 areas that we want to pursue in FY '13.

16 Desktop software - that's the - that's the

17 office supply equivalent of computer software.

18   Wireless - looking just along the

19 exact point you make, thinking about ways that

20 we can better manage our wireless

21 communication.

22   Janitorial and sanitation products

 1   - so that is, you know, again thinking about

 2   the office supply model, thinking about those

 3   commodities, where there are places where we

 4   can very easily and without really - you know,

 5   without really getting into anyone's

 6   particular line of business that we deeply

 7   care about find places for savings.

 8   Maintenance repair and operations

 9   - that's spare parts, that's filters, spare -

10   you know, spare parts for heating systems.

11   And then rental cars for official government

12   travel.

13   What we've done is let's think

14   about kind of three dimensions by which we can

15   explore the entire field of commodities that

16   we could go and look and see where there are

17   opportunities.

18   And we've set a kind of a list of

19   parameters - value, complexity, strategic

20   impact. Value - the potential for reducing

21   total cost of ownership in the near term;

22   complexity - just difficulty to develop and

1 implement; and strategic impact - does this

2 align the solution with other OMB and

3 administration priorities.

4   And I would like to stop for a

5 second and say is that the right approach for

6 us to pursue.

7   MEMBER SALEM: Well, I like - I

8 like the value complexity total cost. But the

9 question I ask is how would you select - how

10 did you select these five? Because one that

11 we had talked about which seems to go hand in

12 hand with rental cars is hotel rooms.

13   MR. TANGHERLINI: We actually -

14   MEMBER SALEM: Airfare, travel.

15   MR. TANGHERLINI: Airfare is

16 actually one of the things we already

17 strategically source with our City Pairs

18 Program.

19   We just announced a new travel

20 program, a single combined travel system by

21 which reservations will be made. And on hotel

22 rooms, that's a broader policy issue that I'm

1 going to be working with these guys on.

2 There's some actual legal limitations on our

3 ability to compete with hotel rooms.

4   We do have something called

5 FedRooms, which is a competition within the

6 limitations we have. We would think that

7 there's some savings and we're working with

8 OMB and with the agencies to see if we can

9 move more business towards it.

10   MEMBER SALEM: And just to pick up

11 on a comment Deb made, when she - when she

12 talked about a switch to, you know, using

13 BlackBerrys that was a bit of a vision. You

14 know, like somebody had a vision - this is how

15 we're going to do things.

16   A similar question is are we also

17 thinking about how we become not just doing

18 what we used to do and doing it more cost

19 effective.

20   So the great example is on - you

21 have an example about printing. You know, get

22 rid of printing. I mean, most people are

 1   getting some form of tablet device.

 2   I mean, we could PDF this whole

 3   presentation and not have to reproduce it.

 4   So who's got the - who's thinking

 5   about the vision of not just getting better

 6   pricing but also -

 7   MEMBER MCGOVERN: Changing.

 8   MEMBER SALEM: - changing?

 9   MR. JORDAN: I think that's a

10   great point and it's something that we're

11   working on collectively and why this group

12   isn't just a bunch of acquisition folks. It's

13   the CIOs who are thinking about where is this

14   going, one-device policy stuff that Steve's

15   team is working on.

16   You know, GSA has actually been a

17   leader in the use of tablets and so how do you

18   do that sort of thing.

19   And then having folks like Rafael

20   from Homeland Security and other leaders in

21   this community who have a broad management

22   portfolio at the user perspective, the agency

1 perspective, to say what's really working -

2 how can we do things better. That whole kind

3 of, you know, save award.

4   And somebody raises their hand and

5 says look, I don't know if anybody's going to

6 hear me but I've got a better way to do this,

7 and then quickly grabbing that and circulating

8 it, syndicating it to all the other agencies.

9   MEMBER SALEM: See, that's what -

10 see, you say you know how much everybody is

11 printing, for example, and make it a contest.

12   As you said earlier, to say, you

13 know, you print less, you get the prize. I

14 mean, it's not - it's not just - I think you

15 should do the print saving as you're

16 describing. Don't get me wrong.

17   MR. TANGHERLINI: You're exactly

18 right.

19   MEMBER SMITH: The whole war on

20 waste thing goes very well in organizations.

21 You know, it's a source - because also you

22 have a whole - the whole sustainability issue.

 1   It's not just cost. It's like

 2   stop using - you know, we got to - we got to

 3   address the paper issue and we relate - we

 4   know how to hoard our money.

 5   MR. WERFEL: (Simultaneous

 6   speaking) a good thing to cut waste and we've

 7   made printing part of that and we talk about

 8   double sided and we talk about number of

 9   printers per employees, trying to get to a

10   ratio that makes sense.

11   But, Enrique, you said no

12   printing. I'm wondering is there a corporate

13   best practice here.

14   We're not at that point but if

15   there's a way to get down to a very de minimis

16   level of printing that's something that we

17   would like to track with.

18   MEMBER SALEM: Go there. I mean,

19   it's - invent it pretty quickly. Make it a

20   contest.

21   MR. TANGHERLINI: I think actually

22   we have a good example. My last assignment

1   over at Treasury, the adopting one of our

2   high-priority goals - a paperless Treasury.

3   And that actually freed us up for

4   an opportunity to look at policy and ask

5   ourselves do we really have to mail benefit

6   checks to everyone, and we actually have a

7   proposal. At the end of - middle of next year

8   we'll be eliminating paper benefit checks.

9   It's actually a better result for

10 the customer, a huge cost reduction for the

11 organization.

12   And so that's the trick is finding

13 those places where we actually have within the

14 organization thought the next dimension,

15 support it with the strategic sourcing.

16   MEMBER SALEM: Absolutely.

17   MR. TANGHERLINI: Support it, but

18 I think you get me to my next slide which is,

19 is this idea of demand management places where

20 we can explore best practices in agencies and

21 best practices in the private sector - setting

22 rules, sharing best practices and experiences.

1   We've set up this print-wise

2   activity which is not just a strategic

3   sourcing mechanism for buying stuff. It's

4   actually a strategically-sourced mechanism for

5   people to share best practices and

6   information.

7   Knowing what this industry

8   standard ratio of desktop printers are per

9   person, six to 12, and then beginning to get

10   agencies to see where they stand against that

11   benchmark has a very powerful impact on the

12   agency.

13   I know where I am. I'm at 6.5. I

14   want to be up at 12. I want to be at 12.5.

15   I want to be better than the industry

16   standard.

17   And I think to your point,

18   everyone who takes one of these jobs and is in

19   a leadership position they want to be the best

20   at what they're doing.

21   We just need to give them some

22   scorecard by which they can measure.

1   MEMBER MCGOVERN: Yeah. A random

2   thought on the printer side, that we were

3   having to table two-sided, less coloring, the

4   whole routine, and this grass roots group of,

5   you know, millennial types -

6   MEMBER SMITH: Yeah.

7   Sustainability.

8   MEMBER MCGOVERN: - pulled

9   together and basically shamed us into doing

10   this across the board. Everything from how

11   many paper towels you use in a - I mean, if

12   you just aim them at this and there's nothing

13   more compelling than a group of over

14   passionate, and they're in the government.

15   There is no doubt in my mind you've got a

16   handful of them.

17   So it's a - you know, you've got a

18   lot of do-gooders in your organization and if

19   you do this in terms of not just dollars saved

20   but carbon footprint or whatever, you know,

21   it's going to make a difference.

22   MR. TANGHERLINI: Are there other

1   ways we can, you know, monetize it or measure?

2   MEMBER MCGOVERN: Absolutely.

3   MR. TANGHERLINI: And that

4   actually gets to slide 20.

5   MR. JORDAN: I was going to say,

6   quickly, on your print-wise website, you know,

7   for the internal folks it shows agencies okay,

8   if you've done this how many dollars you

9   saved.

10   That's great, but also how many

11   trees you've saved and I know, you know,

12   that's somewhat made light of at times but it

13   resonates with them. That's a big deal.

14   That's a great number.

15   MEMBER SMITH: The one thing I

16   would just, you know, say is that it's very

17   hard to take stuff away, right.

18   So, you know, just taking a page

19   from, you know - as you launch new programs

20   launch them without a printing option, okay,

21   because it is very difficult to take it away.

22   So I'm just thinking about an

1 example like, you know, we have that brochure

2 180 pages and so when they launched in Finland

3 they - the brochure was only available online

4 type of thing.

5   So taking it away is very

6 difficult but everything you do from now on

7 make it electronic only so that you never have

8 that era of how do I transition this, and it's

9 amazing that people figure it out.

10   MR. TANGHERLINI: No, that's fine

11 and I think that gets us actually to my last

12 slide, which is slide 20, which is really in

13 order to do it we need to be smarter about

14 having the data, really understanding where

15 our spend is and how much we spend.

16   So one of the things we're working

17 on is developing a prices-paid portal.

18   It's the old adage, you know, if

19 we only knew what we knew or we know, and

20 that's the idea is to try to figure out what

21 agencies are paying, even in janitorial and

22 sanitation, without a strategically-sourced

 1   initiative.

 2   We know that the GSA vehicle saves

 3   agencies about 17 percent over the average

 4   that they're already paying.

 5   So if we could move people just to

 6   the existing system while we then bring that

 7   scale together and then push that scale into

 8   the marketplace we think that there's actually

 9   savings to be reaped immediately and then

10   savings that could be built on.

11   MEMBER SALEM: You know, we went

12   back to the original value ownership

13   complexity. Transparency and visibility may

14   be something they care about because that's

15   what you actually just described. You said

16   this is about visibility and transparency in

17   what people are doing.

18   MR. TANGHERLINI: Yes, absolutely.

19   And we think that actually what we need to do

20   is have visibility into how each of us are

21   acting because, again, it gets to this contest

22   nature.

 1   I know DHS doesn't want to pay

 2   more than HHS and I think that that's the

 3   trick is if - and particularly if we have a

 4   vehicle where we have a price point that's

 5   better than what any other agency has, when

 6   the agency has permission in a way to not

 7   spend the time, effort and energy in building

 8   their own structure for going out and making

 9   that purchase it backs people into strategic

10   sourcing in a way that they're actually moving

11   towards the goal in a measurable way and then

12   they can bring those results to their

13   leadership and say hey, look what I found - it

14   was sitting on the street in the form of

15   savings.

16   MR. JORDAN: So I know we're up at

17   our -

18   MR. WINSLOW: Any last questions,

19   Enrique?

20   MEMBER SALEM: Well, one comment I

21   had - so we talked about $150 billion

22   estimated -

 1   MR. JORDAN: Yes.

 2   MEMBER SALEM: - and we're talking

 3   about incrementing $9 billion.

 4   MR. JORDAN: So there are - there

 5   are about 20 different categories. So we put

 6   together this group of cost functional

 7   leadership.

 8   They met about a month ago. Then

 9   in two weeks after that they set up

10   implementation case to build a bunch of kind

11   of profiles of other commodity areas.

12   We've got about 20 of those that

13   they're going to present back to the

14   leadership group next week and that'll be all

15   - on top of those, the three we've already

16   started and the five that GSA is running with,

17   so that we can keep going after them.

18   But we just wanted to show you

19   kind of that first tranche of quick wins and

20   things stood up and then the second piece, you

21   know, is still in its leadership phase.

22   So they'll be getting the other,

 1 you know, just a few days now..

 2   MEMBER SALEM: This feels like

 3 sort of -

 4   MR. JORDAN: Yeah.

 5   MEMBER SALEM: It seems like

 6 there's a lot more.

 7   MR. JORDAN: Yeah. It was like to

 8 the point - and Jeff made this point at the

 9 last meeting is hey, start down here - move up

10 the complexity chain and that's exactly what

11 we're trying to do because we'll get - we'll

12 build that - cause inertia.

13   MEMBER SALEM: Well done.

14   MR. TANGHERLINI: Thanks. I do

15 want to - just a quick plug. I've got our

16 acting commissioner of Federal Acquisition

17 Service, Mary Davie, here.

18   We've got our chief acquisition

19 officer, Ann Rung, and we got Rick Miller,

20 who's been helping out a lot too. So I wanted

21 them to have a chance to -

22   MEMBER MCGOVERN: Well done.

1   MEMBER KINDLER: Good job, guys.

2   MR. WINSLOW: Why don't you just

3   go ahead and swap out, slap hands with the

4   strategic sourcing folks (simultaneous

5   speaking).

6   MR. WINSLOW: Great. Why don't we

7   get - why don't we go ahead and get started

8   again? Apologies for a quick out and back in,

9   swapping out some of the folks.

10   I just wanted to make sure that we

11   recognize all the folks who have just joined

12   us. Obviously, we have Danny Werfel, the

13   federal comptroller who's been leading our

14   efforts.

15   We are also joined by Seth Harris,

16   the deputy secretary of the Department of

17   Labor, and Dick Gregg, who has joined us from

18   the Treasury Department.

19   MR. GREGG: Hi.

20   MR. WINSLOW: Why don't you go

21   ahead and take us -

22   MR. WERFEL: We're on the next

 1 page over from strategic sourcing, the

 2 improper payment section. Let me - let me

 3 start with a little bit of context and

 4 background before I get into the specifics?

 5   I didn't want to spend a lot of

 6 time detailing the slides, the history of

 7 improper payments. We've been through that

 8 before. Just recall that the - there's a

 9 broad spectrum of root causes of errors that

10 we make.

11   At one end of the spectrum we

12 still continue to make the more basic errors.

13 Someone is ineligible because they've been

14 suspended or debarred.

15   Someone owes a delinquent - has a

16 tax delinquency or other technical

17 delinquency. They might be imprisoned.

18   They might be dead. And we make

19 those payments and those are what we sometimes

20 call the more basic errors that we make.

21   And then at the other end of the

22 spectrum is a much more complex scenario in

 1   terms of validating eligibility, like is the

 2   person back at work - what is the person's

 3   household size or their adjusted gross income

 4   for their family.

 5   These are relevant elements to

 6   determine whether a benefit should be paid out

 7   and we don't always have a trusted available

 8   source to tap in to know as soon as someone is

 9   back at work and then Seth knows okay, stop

10   the UI, the unemployment payment. We don't

11   have that real-time information often.

12   So what we have learned over time

13   is that there are ways to use data

14   strategically to build risk profiles and

15   analysis that can help us make more informed

16   decisions because we don't have perfect

17   information.

18   Now, the other point I wanted to

19   make is we've had a variety of different

20   interactions with the working group and

21   they've ranged from driving principles, which

22   we'll talk a little bit about here.

 1   We've been given specific tools.

 2   For example, Motorola provided us a primer on

 3   how to provide different risk judgments and

 4   looking at data anomalies and that was

 5   helpful.

 6   I think that a lot of the work of

 7   the PMAB really synthesized the improper

 8   payments team when we did a site visit to

 9   Aetna and met with their - they spent an

10   entire day with us and gave us a fantastic

11   presentation on how they use data and

12   analytics to look for error trends and fraud

13   and drive their mission and their service

14   delivery.

15   And there was a lot to take from

16   that - from that presentation. It blended

17   some of the guiding principles. It blended

18   the specifics.

19   What impacted me was seeing how

20   many different parts of the organization came

21   together. It was - there was no sense at all

22   that the data analytics team was out on an

 1   island.

 2   It was very clear to me that the

 3   data analytics team was very integrated into

 4   the business lines and so there was a common

 5   understanding of what the customer needed.

 6   And that was important. But I

 7   think the biggest thing that I took away from

 8   it was how clear the bottom line was for

 9   everyone involved.

10   They all - and some of them

11   weren't in the room at the same time but when

12   they came in the room to give their

13   presentation they were on the same exact song

14   sheet in terms of what the bottom line thing

15   that the business was trying to achieve and

16   how the metrics were helping inform that

17   bottom line.

18   And that is something that we want

19   to make sure that we're embracing within the

20   federal context and having this combination of

21   greater integration to the people that are

22   actually in charge of making the payment and

1   determining eligibility with the folks that

2   can help them do the data analytics and that

3   we all have a common understanding of what

4   we're trying to achieve, which has not proven

5   easy to have that type of clarity sometimes in

6   government and in particular in federal

7   financial management.

8   So with that, turning to the

9   slide, which my slide isn't numbered but it's

10   slide 22, you know, at the top, you know, just

11   the overarching questions.

12   We wanted to learn best practices

13   from corporate organizations and using data to

14   drive down error and we wanted to make sure

15   that we were getting feedback based on you

16   learning about our challenges, what you think

17   we should be doing to more effectively tackle

18   this issue.

19   At the bottom here you see kind of

20   a relationship that we're starting to see

21   between various input that you've given and

22   the actions that we've taken.

 1   You know, there was a big push

 2   from the Working Group on prioritization so we

 3   have focused our efforts over the past several

 4   months on unemployment insurance and our

 5   government-wide Do Not Pay solution that we'll

 6   talk about in a bit.

 7   Another thing that came across

 8   from the PMAB was to try new things, to pilot

 9   game-changing approaches and to, you know,

10   kind of break the glass ceiling, so to speak,

11   on things that we've been doing and in doing

12   so there was an undercurrent of thinking about

13   incentives and governments and piloting those

14   game-changing approaches.

15   So one of the things that Seth is

16   going to talk about is that we are launching

17   a new state-led model for addressing UI

18   errors, which is trying to encapsulate

19   innovation with kind of a different government

20   model because this is going to be owned by the

21   states who we need to feel more ownership of

22   the errors because these are programs that are

 1   essentially administered by the states.

 2   There was a - from almost the

 3   first meeting, in particular when you handed

 4   us off to some of the folks on your staffs, it

 5   was a lot about standardization -

 6   standardization of data, standardization of

 7   business processes - that, in other words,

 8   data analytics will hum more freely if you

 9   enable the foundation to be standardized in

10   terms of systems and data.

11   Treasury is initiating an effort

12   to standardize all disbursement data which we

13   think, obviously, is going to be - we're not

14   going to - we're not going to wait until

15   that's done because we're already working on

16   the issue.

17   But we believe that will free up a

18   whole host of new analytics that will help us

19   be more effective.

20   And then - and then, obviously, I

21   mentioned the site visit and other types of

22   discussions that are providing us more input

1 on how to do data analytics - how to evaluate

2 risks differently - how to determine the top

3 ROI opportunities.

4   As I transition into Seth's

5 presentation, I think the key for us is, in

6 particular, the way the department works with

7 New York State, who's going to shepherd in

8 this new data center, is how do we make sure

9 that we take what we learned at Aetna, for

10 example, and make sure that there isn't a

11 barrier between those learnings and what's

12 going to happen with the UI new Integrity

13 Center.

14   So with that, let me turn it over

15 to Seth.

16   MR. HARRIS: Great. Thanks,

17 Danny. Thanks to all of you. Happy to

18 provide an update on how we're doing with UI

19 improper payments and I want to pick up on

20 Danny's point that we are doing our very best

21 to follow your advice, which is very good

22 advice.

1   So one of the pieces of advice you

2   gave us was prioritize. So Danny talked about

3   the government prioritizing UI, which they

4   most certainly have, and it's become a

5   priority in my life as a result.

6   But even within UI we are

7   prioritizing. So we have been able - I think

8   we gave you this description last time - we

9   have been able to identify what are the root

10   causes of the improper payment and we've taken

11   on three of the top four causes because we

12   think that's where we're going to get the

13   biggest yield.

14   Interestingly, we didn't - we've

15   taken on root causes one, two and four. We've

16   skipped over number three because - which is,

17   by the way, work search because it's just - we

18   don't know what the right thing to do is yet.

19   We don't really have a solution.

20   So we're focusing on those places where we

21   think we can actually get a yield quickly.

22   You also told us to pilot some

```
 1    game-changing approaches and to invest in data

 2    analytics and data mining and so, as Danny

 3    mentioned, stepping on my big announcement -

 4              MR. WERFEL:  I'm sorry.

 5              MR. HARRIS:  - because my notes

 6    say I'm pleased to announce but now it's

 7    announced already.

 8              (Laughter.)

 9              MR. HARRIS:  But the Labor

10    Department ran a competition in which six

11    states competed to run the new UI Center for -

12     UI Integrity Center for Excellence.

13              New York State won that

14    competition and will be receiving $15 million

15    for - over the course of two years to be the

16    lead organization in running a UI Integrity

17    Center.

18              MEMBER KINDLER:  Seth, what was

19    the basis of the competition?  On what basis

20    were the -

21              MR. HARRIS:  You know, we had - we

22    had a number of criteria for the states.
```

 1 First of all, have they already demonstrated

 2 a leadership role. Two was did we think that

 3 they had a grasp of their own situation.

 4   The other was their proposal with

 5 respect to how they were going to go after

 6 this big problem of data analytics and data

 7 mining.

 8   Interestingly, I won't - I won't

 9 point any fingers but there was one state that

10 competed that has one of the worst UI improper

11 payment rates in the country.

12   That was relevant to the decision.

13 They don't yet have a grasp of what's going on

14 in their own state and how to solve those

15 problems.

16   So we - here's what we're going to

17 ask this Integrity Center to do or Integrity -

18   we got to come up with another name.

19 Integrity Center of Excellence maybe is too -

20 a little too loaded.

21   So what are they going to do?

22 They're going to identify building on their

 1   own experience, picking up on your question.

 2   They're going to identify what

 3   they think are promising techniques and tools

 4   that deter - not only deter fraud but identify

 5   fraud.

 6   That is going to be done in

 7   partnership with Treasury's Do Not Pay

 8   initiatives. Since we have these two things

 9   running in parallel we're going to bring them

10   together through this initiative.

11   It's going to be a clearinghouse

12   for best practices and I'll talk about how

13   they're going to get other states involved in

14   just a second.

15   Technology is going to be a very

16   important issue. UI - the UI system or the 53

17   UI systems that we have in our country are at

18   varying levels of technological

19   sophistication.

20   Some of them are using COBOL.

21   Some of them are using the most sophisticated

22   2012 data. It's just a matter of resources,

1 what they have available to them.

2   So they're going to identify

3 technology tools that are readily deployable

4 across all the states and they're going to

5 focus a good bit on training.

6   Since most of this work is done by

7 live human beings, once you have the requisite

8 data they're going to focus on training staffs

9 on fraud solutions and integrity strategies.

10   I just want to spend one second on

11 why we did a state-led initiative. We are -

12 the UI system looks more like Medicaid than it

13 does like Medicare in this regard.

14   Medicare, the checks are cut at

15 the federal level. Medicaid, they're cut by

16 the states. In UI, we don't cut the checks at

17 the federal level.

18   Fifty-three different state

19 systems using 53 different sets of rules cut

20 the checks for varied reasons at varied levels

21 according to different caps. It's very

22 complicated.

1   So the idea of putting a fraud

2   center in the Labor Department sort of dealing

3   with - addressing Danny's question of data

4   analytics being integrated with the actual

5   decision making - the claims processing system

6   - it made no sense because we don't do any of

7   the claims processing. It's all done at the

8   states.

9   MEMBER KINDLER: I'm sorry to

10   interrupt but -

11   MR. HARRIS: Sure. Go ahead.

12   MEMBER KINDLER: - but to use your

13   own analogy, you do have CMS doing Medicaid

14   fraud in HHS.

15   MR. HARRIS: Well, but they are

16   focusing on how to get the states involved and

17   how to address that fraud problem.

18   Having a - having a centralized

19   system would have required them and us to have

20   data taken out of the existing systems that

21   operate in processing in the states and sent

22   to us for analysis.

 1   It's not only inefficient. It

 2   wouldn't have worked.

 3   MEMBER KINDLER: Right.

 4   MR. HARRIS: It wouldn't have

 5   worked.

 6   MEMBER KINDLER: Right.

 7   MR. HARRIS: You would have to

 8   build a whole new system in order for - to

 9   help. It wouldn't have been very helpful.

10   So the idea was and, again, rather

11   than having a - having 53 states try to do it

12   or having an organization that tried to

13   organize all 53 states, we want to have a

14   vanguard state working with a small number of

15   other states and then working with the

16   National Association of State Workforce

17   Agencies, which is the trade association of

18   the state government agencies that do this

19   work, be responsible for proliferating the

20   knowledge out through the various states.

21   So that will be the mechanism by

22   which we get it into each of the states.

1   MEMBER KINDLER: But the end state

2   is each state will have its own center?

3   MR. HARRIS: No, no, no. We're

4   going to have the one center that is going to

5   be a knowledge center, essentially, and a

6   testing ground, and New York will be the

7   guinea pig for a lot of the work that we're

8   going to do.

9   And then that - and those

10   decisions will be made - I'll talk about the

11   Steering Committee in just a little bit - with

12   a small group of other states and us

13   participating in the decision making.

14   And then the National Association

15   of State Workforce Agencies and the Steering

16   Committee will be responsible for getting that

17   knowledge out to everyone.

18   So rather than having - spending

19     $750 million on 53 of these, we're going to

20   have one and they're going to share the

21   knowledge that they develop and they'll be the

22   guinea pig. They'll be the testing ground.

1   MR. WERFEL: So I've got two

2   points in response to that. One is, you know,

3   Seth referenced earlier a state that applied

4   but had a high error rate.

5   The notion is because New York's a

6   leader they're going to help that state and

7   then hopefully all their centers can

8   proliferate but not 50 or 53, and we'll have

9   to figure out what the amount is.

10   MR. HARRIS: Right.

11   MR. WERFEL: But back to - I think

12   you had raised a really good question about,

13   you know, the Medicaid analogy because I think

14   there is an open question for the, you know,

15   looking at my work very closely with the Labor

16   Department is what is the right thing that

17   they should be doing with the states to ensure

18   that the analytics program is thriving.

19   MR. HARRIS: Right.

20   MR. WERFEL: Now, CMS has this -

21   has a certain, even different or unique role

22   than Labor because they're doing all this

 1 Medicare work.

 2   They're learning about doctors

 3 that are stealing licenses or, you know, the

 4 types of services that occur in which, you

 5 know, they reimburse.

 6   And I was at a presentation

 7 recently and they were showing that one of the

 8 fraud things that comes up is they reimburse

 9 for ambulatory services.

10   But they were able to find that

11 some of these ambulatory services aren't

12 connected with an actual visit to a doctor.

13   So someone's overbilling on the

14 ambulatory services. That has relevance to

15 the states in their Medicaid efforts and so it

16 all feeds in.

17   MR. HARRIS: So we don't have a -

18 we don't have a Medicare analogue although the

19 reason that we're integrating this process

20 with Treasury's Do Not Pay is that's the

21 closest analogy.

22   That's the closest analogy. So

1 when there's information that we gather from

2 the Do Not Pay process that will be fed

3 through the Integrity Center to provide that

4 information.

5   MEMBER KINDLER: Makes good sense.

6 Great.

7   MR. HARRIS: So let me talk -

8 actually, since we just picked up on it let me

9 talk a little bit about the governance

10 structure. We're going to have a Steering

11 Committee that will include, obviously, New

12 York State, which will be the lead.

13   They will also do the staffing. We

14 will be on the Steering Committee. The

15 National Association of State Workforce

16 Agencies will both sit on the Steering

17 Committee and they will help to identify a

18 small number of additional states to sit on

19 the Steering Committee to help New York in its

20 decision making and to help to disperse the

21 learning.

22   So they'll be involved in things

1   like RFPs and they'll be involved in

2   development of metrics. They'll be involved

3   in assessing the progress in New York State.

4   We will be involved in that

5   process and I'm going to talk a little bit

6   about how we want you - are hoping that you

7   will be involved in that process.

8   So what's the center going to do

9   and what are our priorities for what the

10   center is going to do? Again, following onto

11   your advice, we're not going to try and boil

12   the ocean.

13   We're going to try and focus on

14   the biggest priorities first and the places

15   that we think are going to yield to effort

16   most quickly and that's going to be our big

17   push, the Labor Department's big push.

18   So one of the requirements is that

19   they're going to establish the strategic plan

20   that's going to identify project deliverables

21   for every priority that we identify - that the

22   Steering Committee identifies with our advice

 1   - and then we're going to have time lines and

 2   we're going to have metrics for each of those

 3   pieces of the project.

 4   Standardizing data elements and

 5   related process to facilitate efficient data

 6   use - this is one of the biggest problems in

 7   UI. As I said, 53 systems, 53 different

 8   technology applications.

 9   There is - it understates the case

10   to say that standardization of data is a big

11   issue in this area. So we're going to try and

12   go after that.

13   That's going to be a very

14   complicated problem. The goal - we need to

15   get to a data analytics and data mining model

16   that can proliferate across all the states

17   using whatever technology they have.

18   So what we want to there is

19   identify fraud but we also want to identify

20   those folks who are likely to do something

21   that may not be fraud, just inadvertently

22   continuing to receive UI benefits, for

1   example, after they go back to work.

2   And then we want to be deeply

3   involved in getting the states to clearly

4   identify responsibility in organizational -

5   set up systems of organizational

6   accountability.

7   We have succeeded in getting every

8   state to establish a UI integrity task force

9   in the state that brings together all the

10   folks - the state tax agency, the state

11   workforce agency.

12   They are now all working together

13   but we want to make sure that you don't end up

14   defusing responsibility by bringing everybody

15   together but making sure that you clearly

16   define responsibility and held each part of

17   the organization accountable.

18   And also we have to take our share

19   of the responsibility. As Danny was saying,

20   we're not out of the loop here. We have to

21   take responsibility for the system as a whole

22   and Danny holds us accountable for the numbers

 1   that we produce every year on the UI rate.

 2   So that was slide number - I

 3   should have said that was slide number 23 that

 4   I just walked you through.

 5   Slide number 24 - let me talk

 6   about where we're going and where I'm hoping

 7   you're going to be - continue to be involved.

 8   So we have to finalize the

 9   organizational structure for both the Steering

10   Committee and the center itself. The

11   cooperative agreement, which is the mechanism

12   that we're using here between U.S. DOL and New

13   York DOL, will be executed, we think, in the

14   next - sometime in the next six weeks. It's

15   a fairly complicated drafting exercise

16   whenever we do business.

17   And we have to have a charter for

18   the Steering Committee that's going to govern

19   membership and responsibilities for the

20   Steering Committee.

21   So we're hoping that will be done

22   in the next six weeks. We're going to conduct

 1   an organizational staff assessment for the

 2   center. The deadline for that is March 31st

 3   of 2013.

 4   Then we want to identify

 5   strategies that will engage all the states.

 6   I mentioned that NASWA will play a role and

 7   that the Steering Committee will play a role.

 8   That's the level of depth that we

 9   have on exactly how we're going to proliferate

10   this knowledge.

11   We have to have a plan that's

12   going to get the knowledge out, sharing

13   products, deliverables and knowledge with the

14   other states. So that's going to be

15   developed.

16   So let me talk about how we're

17   hoping that you will remain involved in this

18   process.

19   MEMBER MCGOVERN: Seth, can I ask

20   a question?

21   MR. HARRIS: Gail, please. Yeah.

22   Go ahead.

1   MEMBER MCGOVERN: Is your end

2   state that the - that you stand up a few of

3   these centers for excellence for each type of

4   improper payment and they become the

5   centralized location that states use and they

6   share the resource or how does it look at the

7   end? Does every state stop doing everything

8   they were doing or -

9   MR. HARRIS: That's a terrific

10   question and the answer is we don't know yet.

11   MEMBER MCGOVERN: Okay.

12   MR. HARRIS: I think we need to

13   stand up this center and see how much they can

14   bite off before we decide whether we

15   proliferate centers and if so how many we need

16   and what their focus is going to be.

17   I don't want to be too glib about

18   this because this is a big complicated problem

19   and we are - and I'm going to tell you a

20   little bit about how we're seeing a response

21   to effort, we're seeing in ROI so far. But we

22   don't know yet what the barriers are so -

 1   MEMBER MCGOVERN: And the states

 2   don't mind ceding all this responsibility to

 3   another state? Are they going to pay?

 4   MR. HARRIS: Well, they haven't -

 5   the other states know that we competed this

 6   and they know that we're making a big push on

 7   improper payments. What we're offering is

 8   lots and lots of help.

 9   MEMBER MCGOVERN: Got it.

10   MR. HARRIS: So it - what this

11   does is this will reduce - for the other

12   states this will significantly reduce

13   transaction costs and knowledge acquisition

14   costs and maybe technology testing and

15   identification costs.

16   So what we're hoping is that we're

17   going to get - this is all voluntary on their

18   part - we're hoping we're going to get them

19   involved because it's the path of least

20   resistance.

21   MEMBER MCGOVERN: Got it.

22   MR. WERFEL: So let me add - let

 1 me add to that. I think we - our assumption

 2 and we've got to recognize that we don't need

 3 a lot of centers for geographic purposes.

 4   MR. HARRIS: Right.

 5   MR. WERFEL: We don't need a - the

 6 world has changed to the point that California

 7 could just as easily leverage New York. They

 8 don't need a West Coast version.

 9   What I'm hoping to see is that the

10 centers, to the extent we need more than one,

11 develop expertise around solutions that are

12 proving effective. So I'll give you one

13 example.

14   Right now, on a separate work

15 stream, we're piloting an approach with a few

16 states where they're partnering with financial

17 institutions, banks, to figure out whether

18 they can get information on hey, this is now

19 a direct deposit for this individual.

20   This individual is receiving

21 direct deposits and wasn't three weeks ago.

22 This is an indicator they might be back at

1 work. That might be helpful information to

2 the state.

3   Now, maybe the New York center

4 develops expertise in that. Maybe we need a

5 center in Florida or something like that to

6 develop that type of expertise. And so I'm

7 California and I'm interested in knowing this

8 - about this bank thing.

9   I go to that center and they give

10 me the corporate cookbook on how to deal with

11 it. So that could be a model that we're -

12 that we are interested in.

13   MEMBER SALEM: Can I ask question

14 on that? I mean, I completely agree with

15 using financial services but the employer

16 knows.

17   So you're catching it at the bank

18 level. Why aren't employers more involved in

19 helping this whole process?

20   MR. HARRIS: That's an excellent

21 point. There are two different employers

22 involved, right.

1   There's the employer who is the

2   payor of the UI benefit, which is paid through

3   taxes directly to the state. Then there's the

4   new employer.

5   MEMBER SALEM: That's what I'm -

6   MR. HARRIS: So there's - right.

7   So there is a system that we, through our

8   grant-making process, have incentivized and

9   really required every state to adopt called

10   SIDES, which is exactly about - it's about the

11   reason for separation and then there's a

12   second system called the NDNH, which tells you

13   when people are newly employed.

14   The problem is there's a

15   significant data lag. You don't get that

16   information immediately. Usually -

17   MEMBER SALEM: Sorry. What I'm

18   trying to figure out is the bank knows. The

19   bank knows because the employer, the person

20   making the payment, has actually contacted the

21   bank.

22   MR. HARRIS: Right. But the

 1   employer then - the employer then at some

 2   later point, not right away, notifies the

 3   NDNH, which is the National Directory of New

 4   Hires. So -

 5   CHAIR ZIENTS: So one hour prior

 6   to the (simultaneous speaking) sooner. What

 7   I'm saying - what I'm saying there's a

 8   process. So what happens in direct payment,

 9   right, is the employee says, I want direct

10   deposit.

11   The company that's actually going

12   to issue the check says okay, I'll set that

13   up. Isn't that - I mean -

14   MR. WERFEL: Yeah, so here's - the

15   answers to that question is the same reason

16   why we have a much bigger overpayment problem

17   than an underpayment problem because, you

18   know, if we - if we underpay an employee's

19   salary we learn that really quick, okay - not

20   in a year, okay.

21   So going to your point, I'm an

22   employer and I have - I have paperwork to do.

1 I have to do the SIDES thing or this national

2 - I get to it but I might not get to it

3 eventually.

4   But the notion that the employee

5 is starting and the paperwork is going to be

6 done on exactly how they're going to get paid

7 and how that pay is going to transfer, that

8 typically happens very consistently and very

9 quickly.

10   So for the UI issue it really is

11 that time line and we get - we get burned on

12 that and (simultaneous speaking) to us.

13   CHAIR ZIENTS: And there's no way

14 to force employers to do it.

15   MEMBER SMITH: Yeah. I was going

16 to say why don't you put the - why don't - why

17 don't you put the burden on the employers? I

18 mean, because -

19   MR. HARRIS: Well, right now - the

20 only thing we have the authority to do right

21 now is to work - let me tell you where we are.

22 That's the ideal state. Most states were not

1 using the NDNH at all.

2   So we're trying to get every state

3 now to use the NDNH and we're close. We're

4 getting there. Then we have to get employers

5 to give their information more quickly.

6   We would have to have a law that

7 required them to file within a certain period

8 of time. I'll just give you my own political

9 assessment. That law will never pass. So -

10   CHAIR ZIENTS: Whereas you can go

11 to the banks and get the data.

12   MR. HARRIS: You can get -

13   CHAIR ZIENTS: You can do that

14 administratively (simultaneous speaking)

15 lawsuits.

16   MR. HARRIS: - administratively

17 where you don't have - now, we don't - what

18 will -

19   MR. WERFEL: Because human

20 behavior dictates that that -

21   CHAIR ZIENTS: But you can get

22 access to that data without a law and an

1   order.

2   MR. HARRIS: Right. But let me

3   also say it's a pilot in three states.

4   CHAIR ZIENTS: Right.

5   MR. HARRIS: We don't know yet

6   whether or not it's going to work and also

7   we're hearing from worker advocates that they

8   have concerns about privacy.

9   So there's still a lot to work

10   through. What Danny's point is there's a lot

11   of different pieces of this and we want to

12   learn a lot about each of the pieces and so

13   the idea of having several different centers

14   which we're not - we're not there yet but

15   we're thinking about it - where you have

16   different places that are expert like three -

17   the three pilot states, if it works in one and

18   it works really great they may now be the new

19   Center for Excellence with respect to workers

20   and financial services.

21   CHAIR ZIENTS: (Simultaneous

22   speaking) still have to fill out this little

 1   thing for the Treasury? Fill out this thing

 2   for the Treasury that's like a W-2? You don't

 3   have to actually go out and say as I become

 4   employed -

 5   MEMBER LEE: Taxes come out.

 6   CHAIR ZIENTS: - right, and so -

 7   MR. WERFEL: That information is

 8   protected in some way.

 9   MR. HARRIS: Right. I'm legally

10   prohibited from collecting that -

11   CHAIR ZIENTS: That would require

12   - I know that requires law, right?

13   MR. HARRIS: Also not going to

14   pass.

15   MR. WERFEL: We have no - you

16   don't have the ability to ask us that

17   information.

18   CHAIR ZIENTS: So it's like a lot

19   - that's a bigger issue. If you said

20   suddenly, and this violates all sorts of

21   privacy things and all the rest, but just as

22   a government we could have access to all the

 1   government information, we would have a huge

 2   ability to impact this situation.

 3   MR. HARRIS: Yes.

 4   MEMBER SALEM: But all I'm saying

 5   is the W-2 - all you - I fill out a W-2. This

 6   is what's going to happen. Taxes - Treasury

 7   knows I'm employed.

 8   MEMBER SMITH: But they can't talk

 9   to -

10   MR. WERFEL: They can't tell the

11   Labor Department -

12   MEMBER SMITH: They can't tell the

13   Labor Department.

14   (Simultaneous speaking.)

15   CHAIR ZIENTS: I don't want -

16   Enrique's employed.

17   MR. HARRIS: Yes.

18   MR. WERFEL: That's protected

19   under Section 6103 of the tax code.

20   CHAIR ZIENTS: Now, some of that

21   stuff (simultaneous speaking) we tried. We're

22   not giving up on that.

 1   (Simultaneous speaking.)

 2   CHAIR ZIENTS: And, Enrique, you

 3   are really not employed right now. You've

 4   bragged about that over and over again so we

 5   know your status.

 6   MEMBER SALEM: Exactly.

 7   MEMBER LEE: So why can the bank -

 8   I mean, are you asking the bank to volunteer

 9   to give you that information and why would

10   that success rate be better than asking

11   employers to give you that information?

12   MEMBER SALEM: It's one smaller

13   group of people you got to talk to.

14   MR. WERFEL: It's a - we've,

15   historically, across government - and again,

16   this is still being tested in many different

17   ways but as success in having banks report to

18   us information that's relevant to our payments

19   we have a whole program.

20   The Social Security Department is

21   an example where they have partnered with

22   financial institutions to figure out whether

 1   individuals are not reporting all the assets.

 2   So, for example, asset total is

 3   relevant to when you get a Social Security

 4   benefit, and let's say you reported a $5,000

 5   savings account at Bank of America and so

 6   that's relevant.

 7   Well, what happens is is that Bank

 8   of America can network with SunTrust and

 9   figure out if that same individual had another

10   account that he didn't report on.

11   And it just so happens that so far

12   this bank reporting relationship, the banks

13   tend to be more sophisticated. They use XTRL.

14   They have -

15   MEMBER SMITH: They have much

16   more. They have so much regulation. They

17   have so many regulations that they -

18   MR. WERFEL: Yeah. They have -

19   they have an unbelievable data network that's

20   very modern versus the states' (simultaneous

21   speaking).

22   MR. HARRIS: Liz, one other point.

 1 The end is a lot smaller, right. For

 2 employers you have to have every employer

 3 involved. For banks, it's a much smaller

 4 number of institutions. So it's just easier

 5 to deal with them.

 6   MEMBER SALEM: If we learn to pay

 7 - so if we paid less improper unemployment

 8 insurance don't businesses benefit? Wasn't

 9 that one of the discussions we had in one of

10 our strategic meetings?

11   MR. HARRIS: Yeah, it was. We

12 talked about it last time, yeah.

13   MEMBER SALEM: Right. That's what

14 you said to us.

15   MR. HARRIS: Right.

16   MEMBER SALEM: So businesses are

17 incented to make this accurate because they

18 will pay less in -

19   MR. WERFEL: It's a pay forward

20 because if you - if you do a good job as a new

21 employer you're helping out the previous

22 employer.

1   MR. HARRIS: But it's more -

2   you're right at a very high level of

3   abstraction. But in any individual case, the

4   connection is more attenuated.

5   So individual employers pay taxes

6   into the trust fund. The trust fund then pays

7   benefits out to the beneficiaries. That's the

8   connection.

9   Now, different employers have

10   different rates depending upon what their -

11   what their experience is.

12   If you lay off a lot of folks

13   you're at a higher rate than if you lay off

14   very few folks. That's the nature of every

15   unemployment system in the country.

16   So your saying more quickly to the

17   NDNH, I just hired Danny Werfel, NDNH - don't

18   give him any more benefits - that will

19   generally benefit the trust fund. But it

20   doesn't necessarily directly benefit you in

21   that particular case.

22   So there's an attenuated incentive

1 structure. That's a big part of why we're in

2 this problem in the first place is states

3 don't really have an incentive - a direct

4 incentive, an obvious incentive, and

5 individual employers don't have an incentive.

6   And let me just say the UI

7 beneficiaries don't have much of an incentive

8 to say hey, I'm working now - stop paying me.

9   CHAIR ZIENTS: But Danny and Seth,

10 we've got to get to the Do Not Pay, right, and

11 you've got to navigate us to the ten-minute

12 close.

13   MR. WERFEL: Right. So I think

14 the - I wanted to make one additional point

15 about PMAB's role -

16   MR. HARRIS: Yes, that's where I

17 was going. That's where I was going. So we

18 have this Steering Committee.

19   Role number one that we're hoping

20 you're going to agree to is to continue to

21 advise the Labor Department in its capacity as

22 a member of the Steering Committee and we will

 1   be the conduit for you in providing that

 2   private sector knowledge into the Steering

 3   Committee.

 4   Second is if you're willing, and

 5   for whoever would like to participate, we

 6   would like to engineer a very early meeting

 7   between the Steering Committee and the

 8   leadership of the center once it's identified

 9   and the members of PMAB so that you can

10   directly convey your (simultaneous speaking)

11   information.

12   CHAIR ZIENTS: For members of your

13   team.

14   MR. HARRIS: Right. Who would

15   ever like to participate. So those are the

16   two next steps that we'd particularly like you

17   to agree to if you're willing.

18   CHAIR ZIENTS: Any questions or

19   concerns before we - all right.

20   MEMBER BROWN: And get a better

21   word for integrity.

22   MEMBER SALEM: Just call it - just

1 call it ICE. Call ICE - call the Integrity

2 Center of Excellence ICE. Put them on ICE.

3   (Simultaneous speaking.)

4   CHAIR ZIENTS: All right. Do Not

5 Pay. Ten-minute run. Take it, Danny.

6   MR. WERFEL: So Do Not Pay is

7 pretty straightforward. Dick, do you want to

8 -

9   MR. GREGG: Yeah.

10   CHAIR ZIENTS: Did you get hear

11 this, Dick?

12   MR. WERFEL: Yes.

13   MR. GREGG: First of all, thanks

14 to the Advisory Board for all your help on

15 this. I went with Danny up to Aetna and that

16 was an incredible day.

17   One of the things, when you get

18 into this, was that you got to remember what

19 you don't know and there's a lot that we don't

20 know.

21   But I think from the private

22 sector we have learned a lot. I also

1   participated in the briefing from someone who

2   used to work at eBay but set up their

3   processes and that too was an incredible

4   briefing.

5   And the thing that I came away

6   from there is that what they were dealing with

7   and what they're dealing with in eBay is more

8   difficult than the payments world.

9   So but the processes, the

10   sophisticated software, and he said it's all

11   math, and then the people behind it were the

12   keys of making this work.

13   He also said that his CFO said

14   well, you know, what can you get my losses

15   down to. He said, anything you want, which

16   goes to the point of how much do you want to

17   invest and that's the return on investment to

18   make this worthwhile.

19   And that's something that, you

20   know, as we go through this how many resources

21   we put into this versus what the return on on

22   stopping improper payments.

1   On Page - on slide 25, Do Not Pay

2   is, of course, a centralized data matching

3   service and the key is centralized.

4   I think that way too often in the

5   federal government we have set up each agency

6   as having their own thing and I think that the

7   Do Not Pay is really a key to assisting

8   agencies like Labor and others to help them do

9   a better job.

10   We have access within Treasury to

11   numerous databases that are listed on that

12   slide.

13   There are some others that we

14   don't have access to yet and it's one of those

15   things that Danny and Seth alluded to is that

16   there's pretty strict laws on what you can

17   obtain and what you can't obtain.

18   And so for one part of my

19   organization we have access to the new hire

20   database. We don't have access to it for this

21   purpose so and that just gives you an extreme

22   example of the challenge.

 1   We also - since we're Treasury we

 2   make 85 percent of the payments. So we have,

 3   you know, the databases for excluded parties,

 4   for Death Master File, and we have the

 5   information on 85 percent of the government

 6   payments.

 7   So we have access to a lot of

 8   information that we can match and help

 9   determine whether or not payments should be

10   going out the door.

11   The Do Not Pay, in some ways, is

12   similar to what we've done in Treasury on debt

13   collection. Ten, 12 years ago, a little bit

14   longer than that, the law was passed where it

15   gave Treasury responsibility for collecting

16   delinquent debt. And you say well, why would

17   you do that.

18   Well, the reason is is that

19   because we make 85 percent of the payments and

20   so what we do today is we run all of our

21   payments through - just before they go out the

22   door through the Death Master File and if

1 there's a hit we take - assuming, you know,

2 every agency has a little bit different rule

3 but we may take - we may take all of a tax

4 refund payment. We may take part of the

5 Social Security payment, and that works very

6 well.

7   What we want to do is get Do Not

8 Pay where we can identify payments that are

9 questionable or we're quite certain are

10 erroneous before they go out the door.

11   We know what it's like to chase

12 people after the payment's out the door and

13 how difficult that is. But we really want to

14 be able to help agencies identify these are

15 potential payments that you need to look at

16 further, and maybe in some cases we can stop

17 them ourselves, depending on the type of

18 payment.

19   MEMBER SALEM: You know, just a

20 quick question. You make 85 percent of the

21 federal government payments but not related to

22 what Seth was saying on the UI side of your

 1 space.

 2   MR. GREGG: Right.

 3   MEMBER SALEM: And what's the

 4 linkage if any between what you're doing at

 5 the federal level on all this and what's

 6 happening at the state level?

 7   MR. WERFEL: There's a couple of

 8 things. There's - when we announced Do Not

 9 Pay the states were very interested because

10 when we - what the Do Not - when the president

11 directed us to create the Do Not Pay list that

12 came about because we were getting these

13 different IG reports or GAO reports saying

14 payments are going to prisoners incarcerated.

15   Payments are going to dead people.

16 Payments are going to people - states have

17 the same challenge, you know, because a UI

18 payment to someone who's dead -

19   MEMBER SALEM: So I'm just asking

20 about the sharing between what's -

21   MR. WERFEL: So the key for us is

22 and having it figured out, because all of this

 1   is in motion, is how do we establish a Do Not

 2   Pay center at the federal level so that the

 3   Department of Health and Human Services knows

 4   to who they're paying.

 5   At the same time, that benefits

 6   states and that's a relationship that

 7   potentially the UI center can help us explore

 8   for a particular segment of state payments.

 9   MEMBER SALEM: I mean, I'm just -

10   all I'm saying is Neal's got - I think he's

11   describing here - maybe I'm wrong - why is it

12   as simple as the state of New York saying I

13   want to be able to match my payment name - I'm

14   paying Enrique Salem. I'm going to match it

15   to Neal's database. Is that a privacy issue?

16   MR. GREGG: I think - I think the

17   potential is there because in the debt

18   collection area that I mentioned we do a lot

19   of work for the states in collecting state tax

20   debt. We collect child support payments and

21   so I wouldn't rule out the potential of some -

22

 1   CHAIR ZIENTS: I think it's

 2   absolutely a quick second generation. Right

 3   now, we get Do Not Pay for the 85 percent

 4   that's federal while we're piloting how do we

 5   work better with the states.

 6   But I think you're right. As soon

 7   as possible we should bring those two

 8   together.

 9   MR. WERFEL: But I hate - I hate

10   to always have the bureaucratic answer but the

11   answer is is that there are constraints.

12   So, for example, for HUD to tap

13   into Do Not Pay they - and they don't

14   automatically get all the data in Do Not Pay.

15   The more data they want that's in

16   Do Not Pay they have to sign memorandums of

17   understanding to the federal -

18   CHAIR ZIENTS: You're doing HUD at

19   the federal level.

20   MR. WERFEL: HUD at the federal

21   level.

22   CHAIR ZIENTS: Right.

 1   MR. WERFEL: So we have to

 2   establish to get - to comply with relevant

 3   privacy and data security issues state to

 4   federal -

 5   CHAIR ZIENTS: But I think what

 6   you're saying is pure logic. I mean, it's the

 7   -

 8   MR. WERFEL: Yeah. It's an

 9   overcomeable barrier but it's not something

10   that can happen overnight.

11   MR. HARRIS: These are all linked

12   together because, as Seth mentioned, the New

13   York State example they were one of the early

14   states that partnered with us on the debt

15   collection and we've collected quite a bit of

16   money from fraudulent unemployment payments

17   that went out the door.

18   Now, we want to stop them before

19   they go out but it's all - it is all linked

20   together. Let me just quickly jump to slide

21   26.

22   One of the things that we're also

1 going to be doing is doing some pilots because

2 I think it's important for us to kind of test

3 some of these areas quickly and see what the

4 potential return is.

5   You know, we have really

6 appreciated PMAB's emphasis on risk analysis

7 and we have - we're in the process of

8 developing some new data analytics approaches

9 and to measure the risk.

10   I think that's key and going back

11 to the return on investments, and we've also

12 been working to have well under way an effort

13 to standardize the data so we could do

14 computer matching a lot more readily.

15   So there's a lot going on. This

16 is a new program for us. We've stood it up

17 quickly but we also are at a point now where

18 I want to kind of step back a little bit and

19 say all right, do we have it right - what can

20 we add - what kind of analytic tools do we

21 need - what kind of people do we need to make

22 sure that we're really hitting this and

 1   hitting it hard.

 2   MR. WERFEL: And let me - and let

 3   me just summarize the bottom line on Do Not

 4   Pay from my perspective.

 5   I think there were - there were

 6   two critical key input points that are being

 7   integrated into the work - the emphasis on

 8   standardization and then the primer on risk

 9   analytics that we're using to build the

10   analytic base.

11   Going forward, I think one of the

12   big challenges that we have is figuring out

13   the type of information to provide to the

14   agency that is most helpful and relevant.

15   You know, so if I was back at

16   Aetna, as an example, where I'd want to pull

17   back some additional onion layers is around

18   the trade of information between the analytic

19   center that they have and the business line.

20   How has that information been

21   presented? Because we're not confident that

22   if we just give them - Dave down the hall the

 1   blow-up material that that's going to have an

 2   impact. Yet if it's too summary level as well

 3   we're trying to kind of figure out what that

 4   right report that Treasury sends back to the

 5   agencies that has the largest impact.

 6   So there's some - I think there's

 7   some additional corporate best practices that

 8   we want implemented.

 9   MEMBER SALEM: So the first thing

10   that we do is we are very anti copies of data.

11   We really work hard to not have

12   this central repository get replicated out for

13   everybody to use, create a synchronization

14   link there. And that's something that we're

15   very focused on.

16   Then we say what are the

17   interfaces that all the data users are going

18   to need. But it's centralized data with the

19   appropriate interfaces. Once you start making

20   replicas -

21   MEMBER SMITH: Yeah. One data

22   warehouse.

1   MEMBER SALEM: - one data

2   warehouse -

3   MEMBER SMITH: Not many.

4   MEMBER SALEM: - with the

5   interfaces that are needed and the interfaces

6   don't proliferate it's - you have a process

7   for adding new interfaces, meaning you can't

8   just say we'll add whatever anybody wants

9   because that becomes uncontainable.

10   MR. GREGG: And with the

11   improvement of the electronic payment system,

12   the ACH, you know, those are easily next day -

13   you know, you can make payments the following

14   day.

15   So we can build in some time to

16   have maybe a day to do analysis and really put

17   the red flag up on those where we think that

18   they shouldn't be making payments and maybe

19   the yellow for them to - for either us to

20   review initially and then for the agency.

21   MEMBER MCGOVERN: It also seems to

22   me like there's some 80/20 rule in here

1 someplace, you know, and if you go all the way

2 back to the chart on Page 18 there's - yeah,

3 the strategic sourcing chart - I'm not in the

4 improper payments group so this is a little

5 bit out of my bailiwick.

6   But if there was a snapshot of

7 something that looked like Chart 18 by the

8 categories of improper payments by state you'd

9 know what to go after. Do -

10   MR. WERFEL: We do - it has that.

11   MEMBER MCGOVERN: Okay.

12   MR. WERFEL: And, particular, in

13 UI we're trying to do - you know, turning back

14 to the metrics discussion during strategic

15 sourcing -

16   MR. HARRIS: And I'll send - I'll

17 send you that streamlined.

18   MEMBER MCGOVERN: Yeah. No, that-

19   MR. WERFEL: But we also had the

20 state by state, like we can tell you the

21 (simultaneous speaking) rate versus the

22 Michigan rate.

1   MEMBER MCGOVERN: Because if by

2   state - and that's the key. You want the

3   worst state with the biggest opportunity and

4   start with that first. But I'm sure you

5   figured that out already. Okay.

6   MR. HARRIS: We already have that

7   posted on our website by state by cause and

8   whether or not they have taken the ten steps

9   that we think are necessary to bring down

10   their improper payments.

11   So practically shaming is one of

12   our most important tools in this area and that

13   was the goal there.

14   MEMBER MCGOVERN: Dunce cap is a

15   powerful thing.

16   CHAIR ZIENTS: So when you think

17   about it's a $10 million or so investment,

18   the ROI initial investment - the ROI here is

19   hugely off the charts.

20   So what - I mean, you guys are

21   already on this but what you need is some

22   early wins. When you start showing states and

1 agencies the return on investment here this

2 thing is going to - you're going to have

3 people giving you money because they're going

4 to see a dollar spent has a 20, 30, 40 to 1 in

5 return.

6   So you just need to make sure that

7 you move to quick pilot and early results and

8 I think you'll have a -

9   MR. WERFEL: Absolutely.

10   CHAIR ZIENTS: Yeah. Anything

11 before we leave improper payments? Sorry to

12 have missed part of that.

13   MEMBER BROWN: Because you're on

14 the right - the right theme.

15   MEMBER MCGOVERN: Definitely on

16 the right theme.

17   (Simultaneous speaking.)

18   MR. WERFEL: Thank you.

19   CHAIR ZIENTS: Scott, do you want

20 to close the meeting just as to what's

21 happening the next couple of months? You're

22 on page what?

 1   MR. WINSLOW: Exactly. Page 27.

 2   We'd just like to (simultaneous speaking).

 3   Please. That's fine.

 4   What I was going to say is let me

 5   just go ahead and kind of take us to the end

 6   of the open portion of the meeting.

 7   PMAB Page 27 inside the slides -

 8   we'll have a meeting in early 2013. I think

 9   we've already alluded to the fact that we'll

10   put it the calendar. We just haven't picked

11   a date as of yet.

12   MEMBER KINDLER: Are we talking

13   the first quarter?

14   CHAIR ZIENTS: Yes.

15   MR. WINSLOW: First quarter,

16   definitely. And what we'll be doing is both

17   updating and discussing the initiatives that

18   we've been talking about as well as looking at

19   and choosing focus areas to focus our common

20   effort on across the course of 2013 and

21   really looking for continued engagement

22   between now and then and then on into 2013.

 1   As you heard, both the folks on

 2   the improper payment side as well as strategic

 3   sourcing as well as the 2011 initiatives would

 4   greatly benefit from your continued

 5   involvement and your continued engagement both

 6   personally as well as your teams.

 7   Provide some guidance to the Labor

 8   Department and the states that - New York

 9   State in particular and provide some guidance

10   to Joe and the Strategic Sourcing Leadership

11   Council.

12   With that, we will close this

13   meeting. So thank you very much. I think we

14   can go ahead and wrap up the meeting for the

15   day.

16   CHAIR ZIENTS: Great.

17   MR. WINSLOW: Thank you.

18   CHAIR ZIENTS: Thank you. Let's

19   take a five-minute break.

20   (Whereupon, the above-entitled

21   matter concluded at 11:41 a.m.)

22

A

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This is to certify that the foregoing transcript

In the matter of: President's Management Advisory
                  Board Meeting

Before: GSA

Date: 10-12-12

Place: Washington, DC

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_____
Court Reporter