President's Management Advisory Board

Meeting Materials

July 11, 2012

Today's Agenda

10:00 a.m. to 11:15 a.m.

Agenda and Goals for the Day

Discussion of 2012 PMAB Focus Area: Strategic Sourcing

Break – Guest Speaker and Lunch

12:15 p.m. to 1:30 p.m.

Discussion of 2012 PMAB Focus Area: Improper Payments

Review of Progress on 2011 PMAB Recommendations

- IT Management Initiatives – Vendor and Portfolio Management
- SES Initiatives – Executive Development and Performance Appraisal

Adjournment by 2:00 p.m.
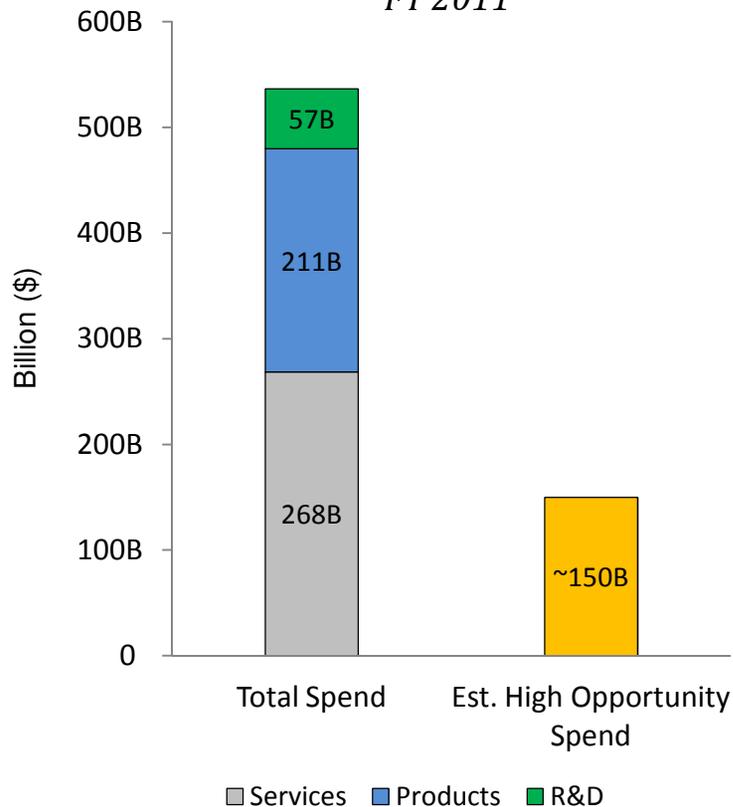
Strategic Sourcing

Joe Jordan
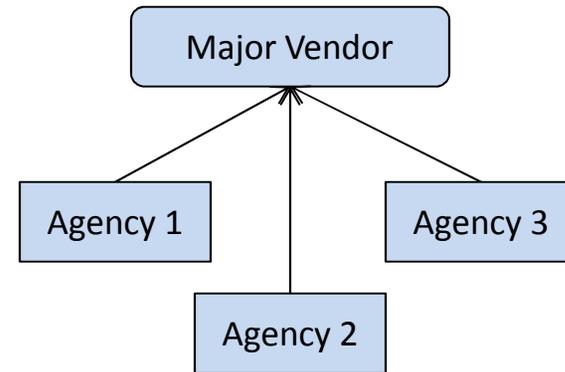Administrator, Office of Federal Procurement Policy

Significant Strategic Sourcing Opportunity Available

Federal Government Contract Spending
FY 2011

Billion ($)

- 600B
- 500B — 57B (R&D)
- 400B — 211B (Products)
- 300B
- 268B (Services)
- 200B
- 100B — ~150B
- 0

Total Spend | Est. High Opportunity Spend

Legend: Services | Products | R&D

Decentralized and fragmented spend...

Major Vendor

Agency 1 | Agency 3

Agency 2

...results in varying prices for same item

Monthly cost of unlimited smart phone data plan in same metro area

Agency 1	$39
Agency 2	$94
Agency 3	$120

PMAB's Guidance and Best Practice Sharing
A Key Input to Our Efforts

Lessons Learned	Potential Tactical Application
Senior Leadership is key	• Establish a strategic sourcing advocate at each agency • Issue agency-wide strategic sourcing vehicle use policies
Cross functional development and implementation teams	• Establish a Strategic Sourcing Advisory Council • Ensure there is broad functional and agency representation on existing and future commodity teams
Collect and analyze transaction level data	• Mandate that solicitations include requirements for price, usage, and other critical data • Create a prices paid portal • Expand current data capture systems (knowledge management portal) to other commodities
Set aggressive goals	• Establish 5 new government-wide strategic sourcing vehicles in 2013 and 5 in 2014 • Require that agencies use or establish at least 2 new strategic sourcing initiatives in 2013 and 2 in 2014 • Deliver $10 billion in savings by 2014
Continuous improvement	• Office of Federal Procurement Policy oversight • Chief Acquisition Officers Council review • GSA Federal Strategic Sourcing Initiative Program Management Office

Strategic Sourcing in Practice

Cummins In Brief

Structure: 4 related business units with a centralized purchasing function.

Purchasing Function: Organized by Direct Material (Engine and System Components) and Indirect Material and Services.

Indirect Material and Services: Includes Corporate Services, Construction and Facilities Services, IT, Manufacturing support, Engineering Services, Transportation and Logistics.

Procurement In Brief

- Cummins has been on a strategic sourcing journey since mid 1980s

- An intensive focus on driving cost out of the system began in 1998 for direct and indirect materials.

- Procurement is considered part of the Supply Chain network at Cummins. The primary role of procurement is to drive lower total cost of ownership (TCO) for goods and services needed to meet customer requirements.

Strategic Sourcing Enhancements, Results

"Balanced Scorecard" Evaluation: Strategic Sourcing process recently updated to include review of sourcing within four dependent frameworks: Market Risk, Technology, Market Power, and Financial Impacts.

Annual reviews: Strategic sourcing reviews for direct material have been occurring since 2003. Strategic sourcing reviews for indirect material and services have been occurring since 2009.

Continual Improvement: Procurement function delivers savings that exceed costs of inflation.

Strategic Sourcing in Practice

Red Cross In Brief

Disaster services: From preparedness through clean up

Biomedical Services: Collection, testing, processing and distribution of blood products

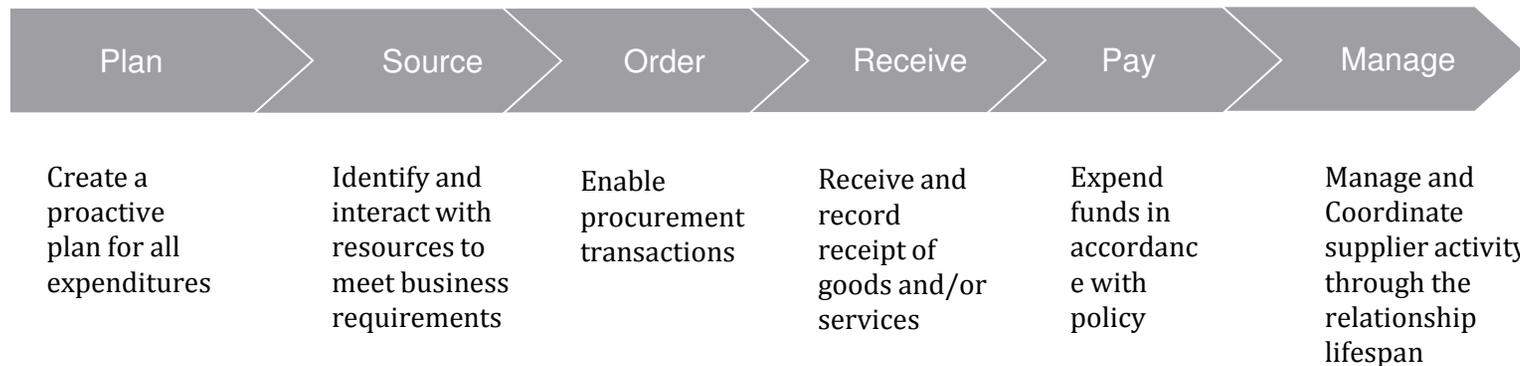**Structure:** Confederation of over 700 independent Chapters

Procurement In Brief

•An intensive focus on driving cost out of the system began in 2009 with the creation of a shared services center and a focus on Strategic Sourcing

•A Chief Procurement Officer hired and the team was restructured to focus on service; a new strategy was defined around the S3 model:

- **S**ynergize process
- **S**implify approach
- **S**ave Money

The Strategic Sourcing Process

| Plan	Source	Order	Receive	Pay	Manage
Create a proactive plan for all expenditures	Identify and interact with resources to meet business requirements	Enable procurement transactions	Receive and record receipt of goods and/or services	Expend funds in accordance with policy	Manage and Coordinate supplier activity through the relationship lifespan

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Strategic Sourcing Activity and Results

- Completed department reorganization in first year

- Captured Voice of the Customer and implemented strategic sourcing toolset

- Synergy with business through simplified strategic sourcing process

- Increased diverse spend from 2% in FY09 to 10% in FY11 – goal of 15% in FY12

- Received ISM Award of Excellence 2012 for Organization & Structure

Strategic Sourcing Savings

$46.8MM

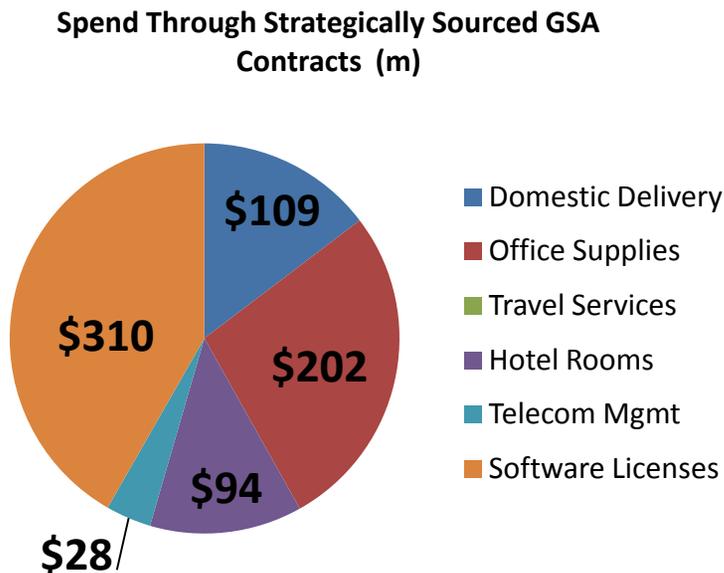$31.4MM

$15.4MM

FY10   FY11   FY12
thru Q3
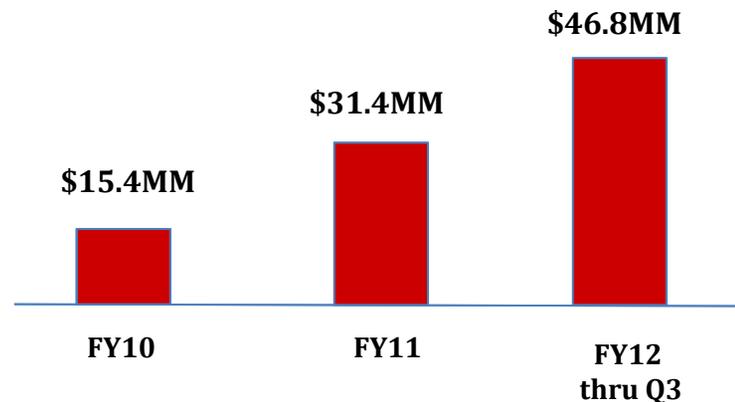
GSA and Strategic Sourcing

Dan Tangherlini
GSA Administrator (Acting)

GSA Has Demonstrated the Early Potential of Strategic Sourcing

In FY11, $743M of the $150B opportunity (estimated) was captured by 6 existing contract vehicles...

Spend Through Strategically Sourced GSA Contracts (m)

- Domestic Delivery — $109
- Office Supplies — $202
- Travel Services
- Hotel Rooms — $94
- Telecom Mgmt — $28
- Software Licenses — $310

Key Challenges

- Data is critical to decision-making - current systems will require improvement

- Understand total cost of ownership – analysis beyond just the initial purchase price

- Strategic sourcing requires a cultural change – staff may resist increased centralization for fear of loss of control

- Commodity purchases are rarely "owned" by a single person or team within an organization

Overview of GSA's Office Supply Contract

Addressable Market	Committed Spend	Actual Spend (FY11)
$960.0 M	$34.9 M	$202.1 M

Overview of Adoption By Select Agencies
Dollars in thousands

Agency Name	Addressable Spend	Actual Spend (FY11)	Spend % of Addressable
Agency A	25,130	13,212	53%
Agency B	2,190	654	30%
Agency C	54,635	20,382	37%
Agency D	1,145	312	27%
Agency E	27,803	12,074	43%
Agency F	12,660	1,714	14%
Agency G	23,000	13,918	61%
Agency H	79,898	24,521	31%
Agency I	13,604	1,319	10%
Agency J	91,383	55,018	60%
Agency K	2,400	2,414	101%
General Services Administration	5,947	2,106	35%

GSA's Strategic Sourcing Expansion Approach

Key Principles

- Leverage the full volume of government buying to drive savings

- Partner with industry to identify opportunities for shared improvement

- Drive standardization to enhance scale and reduce variation

- Enhance visibility of spending and pricing data across government

- Maintain emphasis on socio-economic and small business goals

Key Activities

- Deploy 10 new vehicles to expand the breadth of strategically sourced products and services

- Detail experts from across government to leverage their knowledge and experience

- Collaborate across agencies to identify unmet needs and encourage buy-in

- Hold accountable senior officials to increase compliance

Deliver more than $2 B in annual savings by 2014 through reduced pricing, new strategic sourcing vehicles and improved compliance

Request for Feedback

- How can GSA maximize utilization of govt-wide solutions in an environment often lacking a "mandate" or "direct control?"

- How do you decide when to allow business units to go outside the company-wide solution?

- What key metrics – beyond purely cost savings – should we use to track performance?

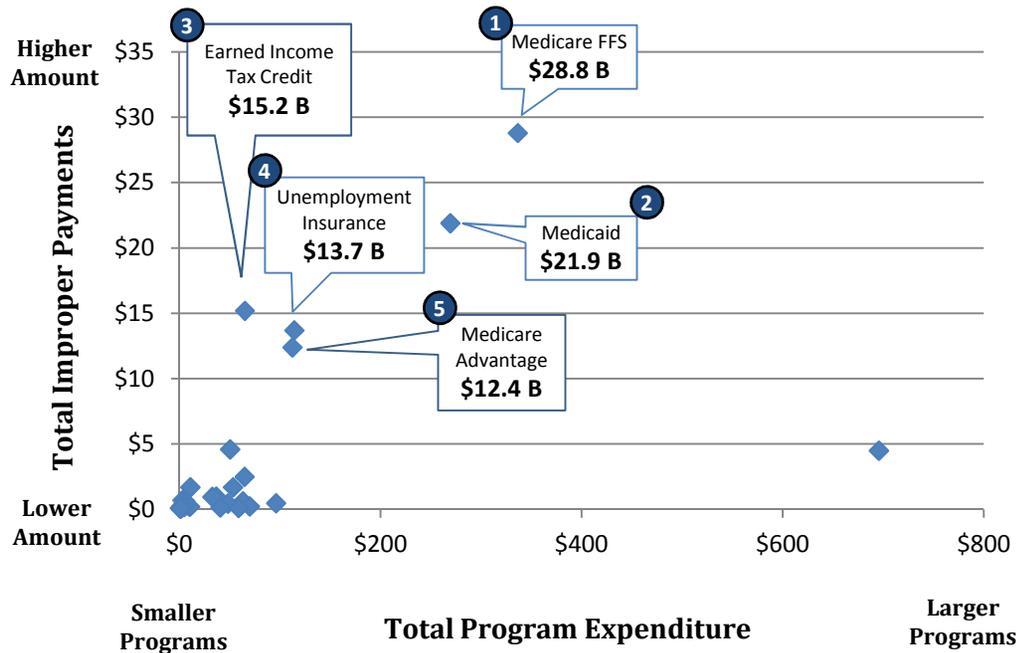- How can we best align staff incentives with corporate goals?

Improper Payments

Danny Werfel
Federal Government Controller

The Improper Payments Challenge

Improper Payments

30 Programs With Largest Improper Payments – 2011, Billions ($)

Total Improper Payments (Y-axis, from Lower Amount to Higher Amount: $0, $5, $10, $15, $20, $25, $30, $35)

Total Program Expenditure (X-axis, Smaller Programs to Larger Programs: $0, $200, $400, $600, $800)

3 Earned Income Tax Credit **$15.2 B**
1 Medicare FFS **$28.8 B**
4 Unemployment Insurance **$13.7 B**
2 Medicaid **$21.9 B**
5 Medicare Advantage **$12.4 B**

Total Improper Payments: ~ $115B / Annually

What Are Improper Payments?

Improper Payments occur when:

- Funds go to the wrong recipient

- The right recipient receives the wrong amount

- Documentation doesn't exist to support a payment

- The recipient uses the funds in an improper manner

Our Work

To Date

- We have held numerous discussions with PMAB members (one-on-one, with our subcommittee and with PMAB company subject matter experts) to help focus our Improper Payments agenda. While there are a variety of underlying issues that drive Improper Payments, and a host of areas where we need to improve government performance, our conversations have focused attention and highlighted our need to develop and launch anti-Fraud capabilities.

Going Forward

- We are already developing Agency-specific (Health and Human Services) and government-wide (Treasury) anti-fraud capabilities. Our Improper Payment work going forward will be in two principal areas:

  - **Agency-specific** – PMAB will focus their attention and expertise on assisting the Department of Labor's Unemployment Insurance Program as it addresses its Improper Payment rate

  - **Government-wide** – PMAB will work with OMB and Treasury to offer input to help create a centralized fraud clearinghouse

Unemployment Insurance in Brief

Program Overview

- **Federal-state Partnership**: Program is based on Federal law but administered by individual state officials, following individual state laws

- **Multiplicity of Programs:** Unemployment Insurance is provided through 5 major programs

- **No "In-Person" Screen**: Vast majority of claims taken remotely

- **Legal Requirements**: Payment must be made "when due", regardless of paperwork; Eligibility for benefit re-determined each week

Program Challenges

➤ Split responsibility between States and Federal Government

➤ Antiquated state IT systems

➤ IT capacity / control

➤ Limited state resources and lack of financial incentives

➤ Impacts of recession: Redirected resources, New staff with limited experience, Claimants were desperate
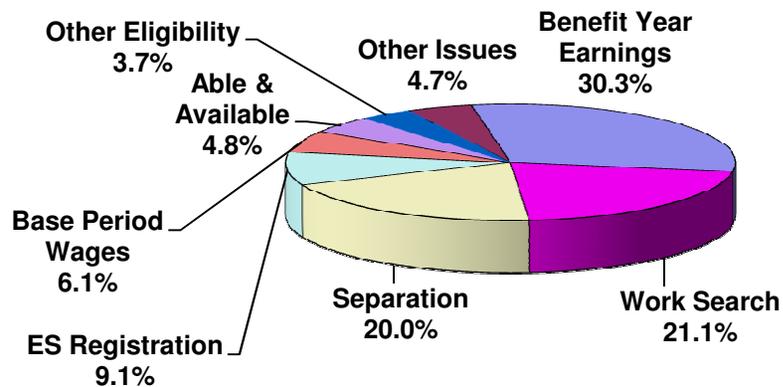
Unemployment Insurance Overpayments

	2011* (7/1/10 – 6/30/11)	2011 (Calendar Year)	Change 2011* – Calendar Year 2011
Improper Payment Rate	12.00%	11.31%	-0.69%
Improper Payment Dollars	$13.7 B	$12.1 B	($1.6 B)

Root Causes

*2011 Annual Report Rate**

Other Eligibility 3.7%
Able & Available 4.8%
Base Period Wages 6.1%
ES Registration 9.1%
Other Issues 4.7%
Benefit Year Earnings 30.3%
Separation 20.0%
Work Search 21.1%

Fraud Overpayments, 2011* *Represents 26% of all Overpayments*	
Cause	**Pct. of Dollars Overpaid**
Benefit Year Earnings	67.87%
Separation Issues	21.55%
Other Eligibility Issues	10.58%

*Calculated According to Improper Payment Information Act

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"Do Not Pay" in Brief

Program Overview

"Do Not Pay" is a centralized data-matching service launched in April. It is run by the Treasury Department and allows Agencies to review multiple databases to determine a payee's payment eligibility before the release of any Federal funds.

Databases reviewed to verify eligibility:

- **Death Master File**
- **Excluded Parties List System**
- **Debt Check Database**
- **List of Excluded Individuals/Entities**

A Data Analytic Service has been developed, in addition to the data-matching service, to provide customized matching and analysis of an agency's payment file to identify irregularities and fraud.

Program Challenges

➢ Balancing Information Sharing with Privacy

➢ Integrating Centralized "Do Not Pay" Output into Autonomous Agency Workflow

➢ Creating a Forward-looking, Constant-Monitoring, Fraud Identification Tool

Key Areas of PMAB Input

How do we ensure that the Federal Government can move to the leading edge, in terms of technology and innovation? i.e., How do we foster the "NASA Effect" in lower profile areas like payments, accounting policies and the like?

- **Human Capital**: How do we attract, develop and motivate a workforce that contains the right expertise and skill set to address complex technical challenges and meet our broader mission?

- **"Market Leadership":** How can we help to create an "ecosystem" of firms generating technologies and solutions for the issues we care about most?

- **Governance and Oversight:** How can we set up structures and incentives to ensure that analytical insights are generated from across the entirety of the government and those findings are smoothly integrated into the work of each Agency?

IT Management Initiatives

Update on 2011 Initiatives

Steve VanRoekel
Federal Chief Information Officer

IT Vendor Management Initiative

Strengthening Vendor Management

- Department of Veterans Affairs will realize $40M in cost savings in FY13 from improved vendor management. Those savings will be used, in part, to fund pilot projects to improve enterprise software asset management.

- Department of Veterans Affairs, General Services Administration, and U.S. Patent and Trademark Office have a renewed focus on using effective vendor management to drive IT efficiencies.

- Follow-up meetings and discussions on benchmarking, target operations and maintenance metrics with PMAB companies (Bloomin' Brands, Aetna, Symantec, et al.) continues to inform on-going agency work.

- PMAB site visits and discussions informed the development of a maturity model for Federal agencies. The maturity model will assist agencies in determining key performance metrics and processes to identify new cost-saving opportunities, particularly those in vendor management and enterprise license agreements.

IT Portfolio Management Initiative

Reforming IT Portfolio Management

- Based on PMAB 2011 IT recommendations the PortfolioStat Initiative was launched across the Federal Government. Deputy Secretaries from 26 agencies are undertaking portfolio rationalization through PortfolioStat sessions to eliminate under-performing and duplicative investments and to leverage shared services.

- OMB will hold PortfolioStat sessions this month with each agency's Deputy Secretary and senior leaders to work toward a three-year action plan for reducing waste and duplication to optimize Federal IT spending. Final action plans to consolidate commodity IT spending will be submitted by August 31, 2012.

- Each agency has submitted data on 13 specific types of commodity IT investments (including enterprise IT systems, IT infrastructure, and business systems). These areas have been identified as having the most significant opportunities for reducing waste.

Executive Development and Performance Management

Update on 2011 Initiatives

John Berry
Director, Office of Personnel Management

Executive Development
Building on PMAB's Early Wins

- PMAB partnered with the Office of Personnel Management (OPM), and several other agencies, to create a pilot program of training sessions to help on-board and integrate individuals into the Senior Executive Service.

- The first two sessions, *Creating a High-Performance Organization through Coaching* and *Development* and *Strategies for Leading Organizational Change*, were chaired by PMAB members and held in early 2012 to glowing reviews.

Building on the pilot effort

- Federal Executive Institute (FEI) is incorporating this content into a five-session onboarding training for new SES.

- We have also set up a monthly series of half-day leadership development workshops called *Leading EDGE* that will each feature a keynote address by an accomplished corporate or governmental leader, including PMAB members (*Gail McGovern is scheduled to speak on July 25*).

What we would like from you

- We would like you to be keynote speakers at these events over the summer and fall:

➢ **October 11, 2012**: *Creating a High-Performance Organization through Coaching and Development* (carryover from pilot sessions)
➢ **October 17, 2012:** *Leading for Bottom Line Results* – Driving accountability, execution - Moderator: Deputy Secretary Education
➢ **November 8, 2012**: *Strategies for Leading Organizational Change* (carryover from pilot sessions)

Executive Performance Management
Implementation of Standard SES Appraisal System

Overview

- PMAB helped to design and create a standardized evaluation and performance appraisal system for the Senior Executive Service.

- That tool is currently being introduced and rolled out across the various agencies and will, over the next two years, become the common touchstone for evaluation for SES across the government.

- To date, 18 agencies and four Offices of Inspector General are in the process of adopting the new system.
  - ➢ Veterans Administration (VA), Department of Labor (DOL) and OPM will all be using the system to evaluate all executives' performance during FY 2012.

Current Activities to Support Implementation:

- OPM is providing guidance, technical support, and training to early system adopters

- Early-adopting agencies are sharing best practices and lessons learned

- Interagency workgroups have developed standard tools for use by implementing agencies. These tools include communications products, training materials, and a website for collaboration and information-sharing

PMAB Next Steps and Looking Ahead

- Mid-July thru Mid-October:
    - Identify and document best practices, provide input on current federal initiatives
    - Test emerging solutions with government stakeholders
    - Formulate recommendations

- Next PMAB in-person meeting on October 12