

UNITED STATES OF AMERICA
THE PRESIDENT'S MANAGEMENT ADVISORY BOARD

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PUBLIC MEETING

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FRIDAY
MARCH 30, 2012

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The Board met in room 430b of the Eisenhower Executive Office Building, 1650 Pennsylvania Avenue, NW, Washington, DC at 9:00 a.m. Jeff Zients, Chairman, presiding.

PMAB MEMBERS PRESENT:

GREG BROWN, Member
SAM GILLILAND, Member
JEFF KINDLER, Member
DEBRA LEE, Member
GAIL MCGOVERN, Member
SHANTANU NARAYEN, Member
ENRIQUE SALEM, Member
LIZ SMITH, Member
TIM SOLSO, Member
RON WILLIAMS, Member

ADMINISTRATION MEMBERS:

JEFF ZIENTS, Acting Director, Office of
Management and Budget
ROGER W. BAKER, CIO, Department of Veterans
Affairs
JOHN BERRY, Director, Office of Personnel
Management
REBECCA M. BLANK, Acting Deputy Secretary,
Department of Commerce
STEVE BROCKELMAN, Executive Director and

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Designated Federal Officer, PMAB

PETER BUDETTI, Deputy Administrator and
Director, Department of Health and
Human Services

JAMES COLE, Deputy Attorney General,
Department of Justice

CASEY COLEMAN, Chief Information Officer,
General Services Administration

CAROLYN W. COLVIN, Deputy Commissioner,
Social Security Administration

BILL CORR, Deputy Secretary, Department of
Health and Human Services

DANNY HARRIS, Chief Information Officer,
Department of Interior

SETH HARRIS, Deputy Secretary, Department
of Labor

DAVID HAYES, Deputy Secretary, Department
of the Interior

ANDREW JACKSON, Deputy Assistant Secretary for
Information, Technology, and Business
Services, Department of the Interior

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

DAVID KAPPOS, Director, U.S. Patent and
Trademark Office, Department of Commerce

KATHLEEN MERRIGAN, Deputy Secretary,
Department of Agriculture

ANTHONY MILLER, Deputy Secretary, Department
of Education

DANIEL PONEMAN, Deputy Secretary, Department
of Energy

ESTELLE RICHMAN, Acting Deputy Secretary,
Department of Housing and Urban
Development

STEPHEN SHIH, Deputy Associate Director for
Executive Resources and Employee
Development, Office of Personnel
Management

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

DANNY WERFEL, Controller, Office of
Management and Budget

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

2 (9:07 a.m.)

3 MR. ZIENTS: Let's get started. So
4 I want to thank everybody for being here and
5 it's an important meeting and we'll be
6 wrapping up the first set of activities for
7 the PMAB.

8 We've invited all members of the
9 President's Management Council for all the
10 COOs that were in the room, remember, those
11 are the Deputy Secretaries at the major
12 agencies, everybody who's in town is here, so
13 these folks not only have the perfect in-town
14 attendance.

15 These folks not only have
16 significant internal responsibilities, as
17 we've talked about before, they are the
18 equivalent of the COOs of their agencies and
19 departments and run very large organizations.
20 Organizations that rival all of yours in terms
21 of size and complexity, and at the same time,
22 they have extra equivalent customer-facing

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1 responsibilities.

2 So it's a tough job and all of them
3 have done a very good job of improving their
4 operations and are already feeding into their
5 operational plans, the IT, ideas that have
6 surfaced here, and the SES improvements.

7 So we're going to spend till about
8 11:00 reviewing the progress of the pilots and
9 discussing how we're going to roll out both IT
10 and SES improvements across government. We'll
11 take a quick break at 11:00 and then we're
12 going to focus on what's next; what terrains
13 we're going to focus on for the next nine
14 months or so.

15 I think, given that it's a Friday
16 and given that this group is known for its
17 productivity and efficiency, is going to end
18 on the early side, so we'll shoot to be done
19 by 12-ish or so. We will have a box lunch
20 that we can incorporate into the last session.

21 And with that said, why don't we
22 sprint around the room and just do quick

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1 introductions, because I think, while many of
2 you have met, it's been a few months.

3 MR. BROCKELMAN: Steve Brockelman,
4 Executive Director of the President's
5 Management Advisory Board.

6 MS. RICHMAN: Estelle Richman,
7 Acting Deputy Secretary for Housing, but our
8 new Deputy has been confirmed as of last
9 night, so I'll be returning to my Chief
10 Operating role.

11 MR. COLE: Jim Cole, Deputy
12 Attorney General.

13 MR. KAPPOS: Dave Kappos, United
14 States Patent and Trademark Office.

15 MR. BROCKELMAN: Rebecca Blank,
16 Deputy Secretary of Commerce.

17 MR. HARRIS: Seth Harris, Deputy
18 Secretary of Labor.

19 MR. MILLER: Tony Miller, Deputy
20 Secretary of Education.

21 MR. BERRY: John Berry, Office of
22 Personnel Management.

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1 MS. COLVIN: Caroline Colvin,
2 Deputy Commissioner of the Social Security
3 Administration.

4 MR. CORR: Phil Corr, Deputy
5 Secretary of HHS.

6 MR. PONEMAN: Dan Poneman, Deputy
7 Secretary of Energy.

8 MS. MERRIGAN: Kathleen Merrigan,
9 Dep Sec of Agriculture.

10 MR. GILLILAND: Sam Gilliland with
11 Sabre.

12 MS. MCGOVERN: Gail McGovern with
13 the American Red Cross.

14 MR. SALEM: Enrique Salem with
15 Symantec.

16 MR. SOLSO: Tim Solso.

17 MR. ZIENTS: Why do you guys always
18 smile so much when you say that?

19 MR. SOLSO: I just retired. That's
20 why.

21 MR. ZIENTS: After how many years
22 as CEO?

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1 MR. SOLSO: Oh, 12 years as CEO and
2 40 years with the company.

3 MR. ZIENTS: So when you joined,
4 what was the size of the company in terms of
5 revenue, or employees, or some metric?

6 MR. SOLSO: Probably \$300 million
7 in sales and maybe 5000 employees, and then
8 finished last year with \$18 billion and 60,000
9 employees in 190 countries, so a lot of
10 changes in 40 years.

11 MR. ZIENTS: And was that 60 x on
12 revenue? That's not bad.

13 MS. MCGOVERN: That's job creation.

14 MR. BROWN: Greg Brown, Motorola.

15 MR. WILLIAMS: Good morning. I'm
16 Ron Williams. I'm a retired Chairman and CEO
17 of Aetna and currently with RW2 Enterprises.

18 MR. KINDLER: Jeff Kindler,
19 formerly with Pfizer.

20 MR. NARAYEN: Shantanu Narayen,
21 Adobe.

22 MS. LEE: Debbie Lee with BET

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1 Networks.

2 MS. SMITH: Ms. Smith, OSI
3 Restaurants.

4 MR. ZIENTS: Okay. Thank you,
5 everybody. So I'm on Page 3 of the deck, on
6 deck 2, and I think this is largely
7 repetitive, but I said we want to review
8 progress on the 2011 recommendations.

9 We're going to go through the
10 pilots, more importantly, these pilots, I
11 think, across the board, have been successful,
12 not to say that we've done all the work to be
13 done, but we want to make sure that, as we
14 continue to drive toward the pilots, that we
15 rollout the learning across governments so we
16 can maximize the impact.

17 And then we'll do a smaller
18 session, hopefully, by about 11:00, that
19 focuses on what are our next set of topics.
20 I'm going to hand it to Steven to start with
21 SES training.

22 MR. BROCKELMAN: Okay. So we're on

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1 Slide 5. I want to get us to a conversation
2 pretty quickly here so let me just do a fast
3 recap of PMAB recommendations around new
4 development opportunities for the Senior
5 Executive Service.

6 So the group's main finding was
7 that there's really an absence of a cross-
8 agency approach to building leadership skills
9 for new SES members. So, you know, we have
10 these federal executives, they're expected to
11 come in and demonstrate a standard set of
12 competencies across the government, yet,
13 there's really no mechanism for them to
14 formally develop those skills, at least not
15 for the majority of the SES, and not really in
16 a cost-effective way.

17 So the PMAB members, a subcommittee
18 of them, worked on this issue and they
19 recommended a series of skills-based training
20 modules which would be targeted at SES members
21 in their first two years of service. And they
22 offered to partner with federal agencies to

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1 stand up these modules and try to leverage
2 those shared resources between the private and
3 public sector.

4 So on Page 6, we'll see how things
5 turned out. The last time that we were all
6 together back in November, we were just
7 getting this effort under way and I remember
8 thinking, boy, we have a lot of work to do.

9 But here we are, almost five months
10 later, and we have developed and delivered two
11 modules, twice each, we've trained about 350
12 federal executives from 40 different agencies,
13 so we've accomplished that goal of reaching
14 across the government, and this was truly a
15 team effort.

16 We have an intra-agency working
17 group dedicated to this. We had lots of help
18 from OPM, John's organization, from DoD,
19 Social Security Administration, many, many
20 others. And, of course, we had ongoing
21 involvement from a number of the PMAB
22 organizations, Motorola, Cummings, Red Cross,

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1 BET Networks, Sabre, all of your HR executives
2 were just tremendous in doing this.

3 I think you all know what kind of
4 effort it takes to do this. As for the
5 sessions themselves, one of the modules
6 focused on how to lead your organization
7 through a transition, and the other one dealt
8 with, how to use talent development to elevate
9 the performance of your organization.

10 So both of these were topics that
11 the new SES had said were priority for them to
12 learn about. And then we designed each
13 session as a blend of some classroom-type
14 teaching of tools and frameworks, we had some
15 breakout exercises, and then, without a doubt,
16 the most valuable aspect of it, if you look
17 back on all the evaluations we got, were panel
18 discussions of senior federal officials and
19 the keynote speeches from our PMAB executives.

20 We actually have a number of the
21 folks in the room today who played those
22 roles. So Tony Miller and Dave Kappos came in

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1 and participated in a panel to provide their
2 perspectives, and then the keynote speeches we
3 had delivered by Jeff Kindler, by Gail, by
4 Sam, and, Greg, in your case, Shelley Carmen,
5 your HR Executive, came in and delivered that.

6 And, first of all, it was
7 incredibly generous of all of you to do the
8 preparation in coming to town and do that, but
9 more importantly, just a terrific job of
10 inspiring all of these new leaders in
11 government.

12 So what I'd like to do now is
13 actually just go around to each of you and get
14 a little bit of your thoughts on these
15 sessions. I know you weren't there for the
16 entire session in each case, but I'd love to
17 hear, kind of, how this compared to other
18 leader development sessions and what you might
19 have taken away from the experience. I don't
20 know, should we start, maybe, with Jeff?

21 MR. KINDLER: Sure, Steve, thanks.

22 MR. BROCKELMAN: Not to put you on

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1 the spot.

2 MR. KINDLER: No, no. I'll just
3 say, I thought it was a fantastic experience.
4 I was really, really impressed by the
5 seriousness and the dedication of the group.
6 And those of us that are on this committee,
7 and were actually advocates for this being an
8 important part of our agenda as a council, or
9 as a board, have always believed that the SES
10 is really, in many ways, the key to advancing
11 many of the goals that we have for the
12 government.

13 And this really just reinforced to
14 me what we all believed and knew, which is
15 that this is just a critical cohort of people.
16 They're very, very dedicated. As well know,
17 very serious about what they're trying to
18 achieve.

19 I think they had an opportunity
20 themselves to network across agencies in a way
21 that they might not normally have that chance
22 to do as a result of this. We all know,

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1 having been in these sorts of programs, or led
2 them, that, often times, the most valuable
3 things actually go on outside the actual
4 formal events.

5 And I think that, you know, from
6 the minimal time I was there, but I could see
7 that was going on there. And I thought that I
8 was very impressed by how serious and
9 thoughtful they were, in my case, we were
10 talking about transformational change and
11 transitions in organizations, how it might
12 differ in the private and the public sector
13 and how it actually doesn't differ as much as
14 people might think, and I thought they took it
15 very seriously.

16 They had very good ideas about it.
17 I was just very impressed. And it just struck
18 me, Steve, as just reinforcing the premise by
19 which we went about this, which is, there's a
20 real need for this and a real desire for it.
21 And I think what we really ought to do, as I
22 know you are doing, is thinking about making

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1 this a more sustainable, permanent, part of
2 the culture and the development of the SES
3 group.

4 So I thought it was a terrific
5 experience, putting aside, you know, whether
6 what I contributed was any good or not, I
7 think for the people that were there, it was
8 really very valuable.

9 MR. ZIENTS: Others?

10 MR. GILLILAND: Well, first of all,
11 I would say people. So we've gotten some
12 exposure to the SES in these meetings and so
13 you think, okay, this is the best and
14 brightest of the SES coming in to see us. I
15 felt like the quality of the people in the
16 room, really high-quality folks; very engaged.

17 I sat in on some of the session. I
18 looked through the whole curriculum and it was
19 really well done, first of all. Sat in on
20 some of the sessions, they were doing breakout
21 sessions at certain points within the
22 training, which I hate breakout sessions,

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1 personally, and don't like participating in
2 them, but they were very engaged and seemed
3 very committed to improvement.

4 We were focused on coaching and
5 development, so a lot of what we talked about
6 was linking the mission of the organization at
7 a high level to what people are working on day
8 in, day out.

9 And it was really, I think, and to
10 echo Jeff's comments, there really seemed to
11 be very few differences, particularly from a
12 coaching and development perspective, but I
13 think you found, as well, as you engaged with
14 these folks on managing change, very few
15 differences between private and public.

16 So I found it to be a very engaged
17 audience and I thought the curriculum, in
18 particular, the whole thing, was very well
19 done. So congratulations on that.

20 MS. MCGOVERN: Yes. The only thing
21 that I could possibly add to that is, first of
22 all, it was very personally gratifying to see

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1 all the conversations that we had in here
2 suddenly come to life and be real out there.
3 And it seemed like you set some kind of land
4 speed record to get this organized and brought
5 to life, and so that was great.

6 Also, on a personal basis, it
7 helped me to organize my thoughts a little
8 bit. I mean, you know, you're leading through
9 a transformation and sometimes you don't have
10 time to look to the right and left of you, so
11 it was good for me to just be introspective
12 and try to figure out, okay, so how the heck
13 did we actually do this and what advice could
14 I dispense?

15 I would just echo my colleague's
16 thoughts about how bright, and engaged, and
17 just how smart the people were in the room;
18 how earnest they were. I mean, I bet,
19 collectively, there were 500 pages of notes,
20 because everyone was scribbling and they take
21 their work very seriously.

22 Most of my life has been in the

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1 for-profit space, but now that I'm in the non-
2 profit space, I can draw all kinds of
3 analogies about people that are mission-
4 driven, that are there to serve, that care
5 passionately about what they're doing, the
6 impact on others, and it really would shine
7 through.

8 So my hope is that we sparked a
9 couple of nuggets in there, and that they were
10 able to see some things that resonated, and
11 were able to take it back, because it was a
12 great experience for me. And, I think, just
13 teaching leadership is a big ambitious thing
14 to do and I feel like the team really pulled
15 it off, so kudos to the folks that organized
16 it.

17 MR. ZIENTS: Let me respond, John?

18 MR. BERRY: I just want to thank
19 each of you because, you know, it's one thing
20 to come to these and say, yes, you'll
21 participate, but it's another thing to
22 actually show up, do it, put the forethought

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1 into it, and one of the things I heard in
2 talking to a lot of the SES attendees is, what
3 they were most impressed with was the
4 willingness of, you know, major CEOs to take
5 the time, to engage with the government, and
6 to share lessons learned that are easily
7 transferable in terms of leadership in large
8 organizations, and change management.

9 And I just can't thank you enough
10 for putting the personal energy behind it.
11 That's what I think made the difference
12 between this training exercise and other
13 trainings that we've done is, the engagement
14 of the PMAB and the participation, your
15 personal participation, you know, guaranteed
16 attention and a depth of energy at those
17 sessions that we wouldn't have gotten any
18 other way.

19 MR. KAPPOS: Just a couple of
20 comments. I would pick up on five words Gail
21 said, they take their job seriously. And
22 that, I think, was, to me, evident in the part

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1 of the session I was in that, when CEOs of
2 major companies come in and communicate by
3 their actions and their presence that we, that
4 you, are taking the career SES of our
5 government seriously, they take themselves
6 seriously.

7 And it played out in a second
8 observation I had. I got some emails
9 afterwards, after our session, which included
10 some fun banter that the takeaway these folks
11 had was biased action. When they hear from
12 CEOs from companies where you have to act
13 every day, that's what you do, right, they got
14 the message from you, right, and from the
15 whole session, that SES and leadership is
16 about biased action.

17 MR. ZIENTS: I think you hear what
18 you want to hear. I'm not so sure about
19 biased to action. The urgency is an important
20 message.

21 MR. MILLER: Yes, that was
22 intricately part of our panel, whether it

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1 seems, we all had slightly different
2 approaches to some of our approaches to
3 transformation, and I thought it was helpful
4 for them in some of the back and forth to see
5 this was just very authentic and real.

6 And so there's not, like, a cookie-
7 cutter approach. And I think one of the
8 things in our Q&A, which, what I felt was
9 interesting is, you know, part of that is not
10 just seeing different styles, but it was, in
11 fact, them going through, okay, we've got to
12 figure out the right answer in our context.

13 And so it was also that shared
14 leadership model that I thought we were trying
15 to model a little bit, because I think that's
16 a big part of it. It is not like, this is
17 just about pure execution of an agenda, but
18 it's about helping to, literally, shape that
19 agenda when there's an uncertainty when, in
20 fact, there are different choices.

21 And if you couple that with, okay,
22 do we sit back and wait or do we do something?

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1 I think that was the tone of the discussion I
2 felt was very constructive.

3 MR. ZIENTS: So I think that we're
4 clearly on to a winner here. You know, we
5 under-invest, overall, in training and
6 development. It's the first budget that gets
7 cut. And we need to do more of it,
8 particularly for the SES. Jeff, you're right,
9 it's where, you know, a lot of future lies, is
10 in making sure that we attract and retain the
11 very best managers and help develop them.

12 So I think the hard part here is
13 asking more time from all of you and
14 broadening the circle. People don't have to
15 be on the PMAB, other CEOs, whether they're in
16 the Washington area or across the country, can
17 get involved here, but I don't think this is a
18 hard call as to whether this works or not and
19 whether it has a high return. Jeff?

20 MR. KINDLER: Can I just offer one
21 observation about that, and something Gail
22 said, and maybe we'll think about this, you

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1 know, this is not a one-way learning
2 experience either. I certainly found that, in
3 preparing for it and thinking about it, and I
4 talked a lot about it. I could probably talk
5 more, at Steve's encouragement, about mistakes
6 and things that didn't go right than I did
7 otherwise.

8 But to the point you just made, if
9 more people of influence in our society had
10 exposure to this cohort of people, their view
11 of the government, and of people that work in
12 government, would be very, very different.

13 These are not the people that meet
14 the stereotypes that people have about
15 government bureaucrats and the rest of it.
16 And especially, as we got into conversations,
17 and I gather you did the same as well, that
18 there is really much more similarity than
19 difference in the way that you coach and
20 develop people in the private versus the
21 public sector.

22 So just picking up on your point,

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1 another, maybe, possible thought coming out of
2 this is if we can increase the exposure of
3 business people, in general, to the SES, it's
4 a two-way street here in terms of what they
5 will gain from it, because their perceptions
6 of who is in the government, how government
7 works, and what government people are like,
8 because CEOs tend to see political appointees,
9 which is great, and there's many in this room,
10 so I'm not, you know, saying anything negative
11 about that.

12 But the SES are the people that are
13 there year in and year out carrying the
14 government forward. They're the real heart of
15 it. And they aren't consistent with the
16 stereotypes people have. And I think if more
17 people got to see that, they'd have a
18 different view of things.

19 So we should think about, I don't
20 have an action item on this, but just, you
21 know, I think we gained as much, at least I
22 did, from being with them as, maybe, they did

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1 from us.

2 MR. ZIENTS: Debra?

3 MS. LEE: Yes. I would just like
4 to add to that. I think what Jeff said was a
5 good point, but to your point, Jeff, that
6 bringing more CEOs, and perhaps COOs, in to
7 talk about management, to talk about
8 leadership development, on an ongoing basis
9 would be a great thing.

10 Well, I started off as general
11 counsel of my company, and then became COO,
12 and then became CEO, so I hadn't thought a lot
13 about management before I became COO, so I had
14 a lot of on-the-job training to do, and
15 learning.

16 But one thing I've learned, after
17 having done it for this many years, is that,
18 people that do it, like to talk about. And as
19 Tony said, there's no one way to do it.

20 When I run into CEOs and COOs, and
21 we start talking about management, and people,
22 you know, there are a lot of different ways to

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1 do it, but people that do it, love sharing
2 their learnings, because most of us didn't go
3 to school for this. We learned it on the job.

4 You know, some people go to
5 business school, but a lot of people don't,
6 and work their way up through a company, and
7 then all of a sudden, they're in a management
8 position and they have to figure it out. You
9 know, how do you motivate people? How do you
10 reward people? You know, how should the
11 organizational structure be set in a way that
12 works?

13 And, you know, I really do believe
14 that if you have been to, you know, the right
15 CEOs, they'd be glad to come in and share
16 their experience. And it would be helpful,
17 and as Jeff just said, it would be a two-way
18 street.

19 MR. ZIENTS: I think you're right,
20 it's the COOs.

21 MS. LEE: No, of course.

22 MR. ZIENTS: And other members of

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1 the senior team.

2 MS. LEE: Right, because, you know,
3 the COOs, a lot of the time, are doing the
4 day-to-day operations, then when you become
5 CEO you realize you got to add vision on to
6 that and you have, sort of, a different
7 perspective. So it is a fascinating area that
8 I think the SES people would enjoy talking
9 about and we would get a good quality of
10 business leaders to come in and share their
11 views.

12 MR. ZIENTS: Steve, why don't you
13 do very top line of Slide 7, and then let's
14 spend time on 8, which is taking us to the
15 next level.

16 MR. BROCKELMAN: Okay. So the
17 participants now, what we're all talking about
18 here, which is that this was a really valuable
19 experience for them. 85 percent of them
20 rated, overall, the training as very good or
21 excellent. You see some of the quote we got.
22 I could have printed pages and pages of

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1 outstanding quotes.

2 We also wanted to know how to
3 improve these, with an eye toward, you know,
4 making this a more permanent thing. Some
5 patterns we saw in the feedback were, make the
6 session a little bit longer. As we talked
7 about, they don't often get a chance to
8 network with their peers in other agencies, so
9 I'd like another hour or two to do that.

10 Breakout exercises, I think we
11 could make those a little bit more rigorous,
12 based on the feedback we got. Bring in,
13 maybe, some career SES on the panels to
14 balance out the political officials, again, no
15 offense, but the folks in the audience are
16 primarily career SES and they want to hear
17 from that perspective too.

18 And then the idea of, you know,
19 this was primarily targeted at executives in
20 the Washington region. About 2/3 of them are
21 here, but, of course, there is a willing
22 audience outside of Washington, so what's the

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1 best way to expand this out there?

2 And we also wanted to know, what
3 are some other topics we can try to expand the
4 curriculum to? And so these were things that
5 we heard a lot; navigating relationships with
6 political appointees, how do I develop
7 business acumen and apply it in my role, and
8 then, of course, very topically, it's
9 important to keep driving my organization
10 toward its mission, but how do I do that with
11 scarce resources? So a lot of food for
12 thought as we move forward.

13 So then on Page 8 is looking
14 forward. It's clear there's demand for this.
15 What's next? So we have been talking to an
16 organization that is within OPM, within John's
17 agency, known as the Federal Executive
18 Institute, FEI.

19 They have a long track record of
20 providing leadership training to government
21 executives. Their offerings tend to be more
22 of the, sort of, intensive courses that last a

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1 week, two weeks, even four weeks, at offsite
2 locations.

3 And so, as FEI is looking at this
4 pilot, they're seeing it as a nice way to
5 compliment what they already have, enough to
6 provide a different type of training that is
7 more accessible for greater numbers of
8 executives, and it's cost-effective, which is
9 important as agencies tighten their budgets.

10 So as we've been, kind of,
11 beginning to talk through this with FEI, the
12 idea would be that we could use the two
13 existing modules as the foundation for an
14 annual series. So if I'm a new member of the
15 SES, I start out, I come to an orientation,
16 and there is actually already an orientation
17 that FEI runs.

18 It's more to give these executives
19 a sense of the environment that they're coming
20 into, a political environment, it's not as
21 much skills-based, but that's the start. And
22 then, over the subsequent six to ten months,

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1 there would be up to five individual modules,
2 each one on a different skill, and so you
3 would attend each of those, and you would
4 probably see a lot of the same people as you
5 go to each one of these.

6 The next orientation is actually
7 scheduled pretty soon. It's in May. And so
8 the idea would be to get this series up and
9 running, building off of that May session, so
10 very soon.

11 We've got, obviously, a market
12 that, kind of, keeps renewing itself. The
13 numbers show that about 500 new people enter
14 the SES every year, just in the D.C. region,
15 and another several hundred across the
16 country, so certainly a market for this.

17 And then as we, kind of, started to
18 talk about.

19 MR. ZIENTS: So that's about 10
20 percent of the SES each year is new, so in
21 five years, we think that roughly half of the
22 SES will be new. Is that about right, John?

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1 Yes.

2 MR. BROCKELMAN: And then we, as
3 Jeff was saying, certainly want to find a way
4 to continue to work closely with PMAB and
5 potentially draw in some other private sector
6 companies too.

7 A couple of ideas here, FEI would
8 love to setup an advisory board that would
9 include, potentially, HR executives from PMAB,
10 and other representatives, to advise this
11 effort. As Jeff also talked about, we'd love
12 to find a way to have you continue to serve as
13 keynote speakers or, potentially, COOs, even
14 if it's just once a year. It's so uniquely
15 valuable to them.

16 And then space as well. I think
17 most of that falls on federal agencies
18 offering up training space, but, potentially,
19 PMAB companies. So a few ideas. I don't
20 know, John, if you wanted to chime in here.

21 MR. BERRY: I think, you know,
22 Debra's idea of, you know, especially the last

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1 points, we're not going to be able to meet the
2 demand with the scale that we've got right
3 now, you know, nor will your schedules allow
4 it. You were very generous with us this year.

5 (Laughter)

6 MR. ZIENTS: It's only 150 days a
7 year times 300.

8 MR. BERRY: We have a nice golf
9 course we could arrange too, but, you know, I
10 think growing a cadre, you know, to the extent
11 you all could help us, you know, develop a
12 cohort class of those CEOs, COOs, you know,
13 asking your colleagues and members, you know,
14 you could help us build this group so that
15 we'd have a real deep bench to draw on would
16 be, I think, phenomenal.

17 I think the most powerful link that
18 we've been able to build here is the
19 public/private connectivity and I think that
20 adds a depth to this that we've never been
21 able to have before. So, you know, I think
22 Debra's idea would be one to, you know, if you

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1 could really help us grow that group, that
2 would be wonderful.

3 MR. ZIENTS: But I think the thumbs
4 up we're looking for from the board is, we're
5 going to go ahead and create the demand, will
6 you help us scramble and fill in the supply?

7 MS. MCGOVERN: I think it's going
8 to be to publish a calendar with the dates and
9 it would not surprise me if a bunch of us can
10 sign up for dates and then just find
11 colleagues that could fill in the blanks,
12 because most CE -- yes, some of these CEOs
13 come through D.C.

14 MS. SMITH: We all do it for each
15 other. I mean, I know I've been to, probably,
16 five or six, you know, different, you know,
17 Fortune companies, and then I ask them to come
18 to mine, and so there's already a network, to
19 Debra's point.

20 We just give you a guys CE, and we
21 just keep rotating, because I think that
22 there's a lot of willingness among all

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1 leaders, not just in the PMAB, to do this,
2 because I think everyone has said, you
3 benefit, and then they benefit.

4 MR. BERRY: And what may actually
5 take you down the road on Liz's idea is, if
6 there's that network out there where you need
7 speakers, having, maybe, some of the SES come
8 and give a government perspective, government
9 management, you know, it builds on that, what
10 you talked about, of just helping people to
11 understand how their government works and to
12 see the quality of the people that are
13 involved in this.

14 MR. ZIENTS: Becky has a comment to
15 make, before she does, Becky has done
16 everything at the Commerce Department. She
17 was confirmed as an Undersecretary. She acted
18 as the Deputy. She acted as the Secretary for
19 a significant period of time. And she just
20 confirmed, last night, as the formal Deputy.

21 MS. BLANK: Thank you. I have been
22 acting for a year and half, and as my husband

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1 keeps saying, don't you have your Actor's
2 Equity card yet? I'm tearing it up as of this
3 morning.

4 So I just wanted to make the
5 comment that as, at least the people on this
6 side of the table know, Scott Gould, our
7 colleague at Veterans Affairs, has been
8 putting together an SES training program, not
9 for entry-level SES, but for across the SES,
10 that, I think, many of us have bought into and
11 are going to be important, it would be very
12 nice if these could be integrated and thought
13 of as a single set of programs as opposed to
14 two completely separate programs.

15 MR. ZIENTS: Scott's out of town,
16 but if he was here, we were going to show how
17 that integrates.

18 MS. BLANK: Yes. Good.

19 MR. ZIENTS: Absolutely.

20 MR. MILLER: The only other thing
21 is, talking about the scalability, I do think
22 we should leverage technology, and so taking

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1 video, right? The interviews, the video
2 snippets, because I think it's the opportunity
3 to take this whole curriculum, put it in
4 little snippets, and then it'll go viral as
5 well, right?

6 If it's really valuable, and I
7 think it is, and so I think we can get a lot
8 more bang for the buck, address some of the
9 regional issues, if we think about that way.

10 MR. ZIENTS: All right. I'm going
11 to keep us moving. Thank you for all that
12 you've done to date and thank you in advance
13 for helping to build the demand. John.

14 MR. BERRY: Well, building on that,
15 we were very fortunate that a number of you
16 had gone through this exercise in terms of how
17 do you appraise performance and had done it in
18 a recent time frame. And so we were able to
19 greatly benefit from the experience that a lot
20 of your companies had gone through.

21 And the first gap, when we sat down
22 with your folks and looked at this, was,

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1 though we hired consistently across the Senior
2 Executive Service, we had what we called our
3 ECQs. They were leading people, leading
4 change, results-driven, business acumen, and
5 building coalitions, were the five that we
6 hired people on.

7 But then we, sort of, dropped the
8 ball in that we did not consistently appraise
9 towards those five standards. And what we
10 ended up with was about 40 plus appraisal
11 systems of the senior executives across the
12 government in varying forms.

13 And some totally missing pieces of
14 those five ECQs. You know, the focal point on
15 leadership, for example, was very different
16 across the government in terms of agencies.
17 That was the challenge we found. The solution
18 was, obviously, to see if we could come up
19 with a framework to provide some greater
20 consistency across the government.

21 And so the beauty of it was,
22 building on some of the tools that you all

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1 had, we were able to do that, and working with
2 the colleagues here on the PMC. The ultimate
3 goal is to both lift the performance standard
4 and, originally when the Senior Executive
5 Service was created, it was to be perceived as
6 a senior management cadre that would give you
7 flexibility in response that, if you needed to
8 move people, that you would have a mobility
9 element.

10 One of the things that had
11 prevented us from doing that was these
12 different performance evaluations, you know,
13 really was a barrier in the way of that
14 mobility program. So I think this is going to
15 really help us accomplish the original vision
16 of having, sort of, that talent managed
17 consistently and seen as a base that we can
18 deploy, you know, across.

19 So the good news is, we've built
20 that approach based on your input. We have
21 some early adopters of this program, which is
22 pretty good. We're at seven agencies that are

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1 going with this consistent approach, and
2 they're large agencies, so it's going to give
3 us, actually, the seven probably reflects over
4 about 60 to 70 percent of the workforce of the
5 senior executives.

6 So I think that's going to give us
7 a real, sort of, good turnover. The goal is,
8 obviously, to bring everybody on, you know,
9 and I think we'll be, actually, in a place to
10 do that well before the completion of '13, so
11 we'll be able to start that through '12 and
12 get into it in '13.

13 We are looking on developing the
14 technical guidance that we can share on this
15 with all of our colleagues. Getting the
16 tools; the training materials. All of the
17 stuff that we need to do to get better buy in
18 is out there.

19 But one of the things we wanted to
20 get your feedback on today was, you know, sort
21 of, looking ahead here, you know, how do we
22 ensure that we maintain the rigor in this?

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1 MR. ZIENTS: John, you're on Slide,
2 what, 12?

3 MR. BERRY: Yes. We'll go right
4 into the key questions. And, you know,
5 there's a tendency, I think, and we heard this
6 from your folks as well, that, you know, when
7 these are fresh, they have impact, but that
8 they quickly stale.

9 And in terms of the appraisal
10 mechanism and how you maintain the freshness
11 of those conversations so that they are real
12 and not become a wrote check off, you know,
13 situation where, you know, you go from having
14 the hour conversation to a five-minute pass
15 you in the hall, you know, checking the box.

16 And so, you know, that's one of the
17 things we're getting feedback from some of our
18 agencies who are piloting this is, how do you
19 maintain that focus on rigor? And really
20 wanted to get your impact on that.

21 And some of you, I see Dale already
22 nodded that, that's something you've already

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1 encountered too, so, you know, I'll be quiet
2 and we can throw it open for the group to
3 discuss some of these challenges of how we
4 keep this going.

5 MR. WILLIAMS: Yes. And I think
6 there are a couple of suggestions I would
7 have. One is, to do it twice a year so that's
8 it not an annual process only, but that it's
9 part of the normal management process and that
10 there really is a scorecard and documentation
11 that, literally, every person in the
12 organization at the appropriate level has two
13 in-depth discussions a year about their
14 performance.

15 MR. ZIENTS: Ron, are those the
16 same form and the same rigor both times?

17 MR. WILLIAMS: Yes. Same form,
18 same rigor, twice a year. I think that's the
19 first item. The other is to have a discussion
20 among the peer group so that, let's say, your
21 direct reports who are scoring their people,
22 that there is sharing, and to the extent

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1 people have inter-rater reliability, because
2 one of the things you find is, let's just say
3 that the K rate is different for each person.

4 And so one of the opportunities is
5 to synchronize the definition and the rigor
6 across the management group. And so some
7 discussions about how people are performing so
8 that it's not just in the silo, but it's a
9 horizontal discussion and people can have that
10 conversation more robustly. Those would be
11 two suggestions.

12 MR. SOLSO: I would add, I don't
13 know a system that can force people to do good
14 ones. It really is the individual themselves
15 that see this as an important part of their
16 responsibility as a manager.

17 And so what I always try to do is
18 establish a principle among managers that
19 every employee has the right to know how
20 they're doing and where they stand in the
21 organization on a regular basis and in an
22 honest way.

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1 And so if more people can see that
2 as their responsibility and obligation to
3 those employees, then it's a good thing. And
4 then the second thing, I don't know whether
5 you do employee surveys or not, but in the
6 employee surveys, I would incorporate, you
7 know, did you have a performance appraisal?
8 How did you evaluate it? Did you learn from
9 it?

10 You can ask those kinds of
11 questions and then you'll see patterns if you
12 look at that where, some organizations, or
13 some managers, are doing it very well, and
14 then you'll see other places where they're not
15 doing it well, so you know where the issue is
16 and then you can go in and address it.

17 MR. ZIENTS: Terrific.

18 MS. SMITH: One thing that I would
19 just say is, this is very common between the
20 decay rate, or whatever, is that, I think tone
21 at the top is really important. And it takes
22 a lot of time, thought, and effort to do a

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1 valuable appraisal, but you owe that to the
2 folks that work with you and work for you.

3 And so where I usually see it
4 breakdown in our organization is if the leader
5 has somehow convinced himself that he's too
6 busy and his people are too senior, and so
7 they can, kind of, do a flyby.

8 And so I think it's really
9 important that the tone at the top is that,
10 you model the behavior, you model the
11 feedback, and then the people that are with
12 you know that this is the quality and time
13 that my manager took to put into it. I really
14 don't have any excuse to do a flyby and it
15 really holds together that way.

16 But once you convince yourself up
17 here that you're really busy and these people
18 are senior enough, that's where it starts to
19 fall apart.

20 MR. ZIENTS: And are most of you on
21 this twice-a-year cycle or are most doing it
22 annually?

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1 MR. NARAYEN: We do it once a year
2 annually, but one suggestion I had was,
3 sometimes de-coupling it from the salary
4 process, I think, is actually a really good
5 idea because then it doesn't become a
6 justification and it really becomes a career
7 development discussion.

8 And so I think we do it more than
9 once a year informally, we do it once a year
10 formally at this point.

11 MR. ZIENTS: So you do it --

12 MR. WILLIAMS: One formal, one
13 informal.

14 MR. ZIENTS: Yes. And the informal
15 is around the, here, the discussions really
16 around the bonus. The informal is around the
17 bonus and the formal is de-coupled?

18 MR. NARAYEN: We're trying to de-
19 couple both actually.

20 MR. ZIENTS: I see.

21 MR. NARAYEN: And we're trying to
22 de-couple because, otherwise, people don't

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1 really hear the career discussion and all
2 they're looking at is what the numbers are.

3 And the second one, to model the
4 behavior that Liz talked about, 360, you know,
5 I mean, it sounds, again, pretty
6 straightforward, but when people know that
7 you're going to ask people who work for you
8 feedback, your boss' feedback, and your peer's
9 feedback, it actually sends another tone in
10 the company, which I think is important.

11 MS. LEE: Yes. I would add two
12 other ideas that we use very successfully is,
13 we have performance plans for executives that
14 have issues. Now, we also have a lot of
15 coaches, which is probably not something that
16 you want to spend the money on, but, you know,
17 we don't just do a review and put it in a
18 drawer.

19 You know, if there are issues, it's
20 good to tell the executives what they need to
21 do to improve. And then to check back in with
22 them, and that could be, you know, the

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1 informal review. But really, to say, okay,
2 these are the things you need to work on.
3 We're going to talk about it in six months or
4 we're going to talk about it again in a year,
5 so you really know there's some
6 accountability.

7 And the second thing is that, the
8 CEO of our parent company has meetings with
9 individual division heads. So we come in and
10 talk about our leaders and assess them in
11 front of him. And, you know, you would have
12 to tell me what the counterpart is. I don't
13 know if it's the Secretary or Assistant
14 Secretary.

15 But if you know you have to talk
16 about your people and, you know, give an
17 assessment on their leadership ability, their
18 performance, their future at the company, that
19 makes you focus on it a lot more also. And we
20 do that annually, where we just go in and talk
21 about, you know, our stars, the people that
22 aren't in that top leadership group, and that

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1 really holds us accountable.

2 MR. BERRY: Some of the agencies in
3 the pilot are trying quarterly. Is that too
4 much?

5 MS. LEE: That's a lot, yes.

6 MR. BERRY: I see a lot of heads,
7 okay.

8 MR. SALEM: I heard the comments, I
9 think it's once a year formally and I like the
10 idea of de-coupling it is absolutely right.
11 But I think you got to give people, at least
12 once a quarter, a check in that says, here's
13 how you're doing and we have a structured,
14 where we call it victory plan, which are every
15 manager in the company has, specifically, what
16 are their objectives for the whole year, and
17 we check in on those quarterly, and get very
18 specific feedback on those.

19 And that starts with my staff and
20 it goes through to every manager in the
21 company.

22 MS. SMITH: Can I just ask a point

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1 of clarification? I think quarterly feedback
2 is important, and I'm going to go with what
3 Shantanu said, but if you put the full
4 administrative burden of cranking that out
5 quarterly, it's going to fall apart, is my
6 experience.

7 So I think there's, kind of, one
8 formal year-end, but that quarterly feedback
9 and making the time to have those quarterly
10 discussions. In my organization, we don't do
11 it. We do it twice a year. We have a midyear
12 discussion, which is on the books, and then we
13 have a full year-end appraisal.

14 But I think if you literally rev
15 the engine up four times a year, that'll
16 become more of an administrative burden versus
17 a healthy dialog on feedback.

18 MR. SALEM: Yes. I would agree
19 completely with Liz. I mean, we do one formal
20 a year, that's a full system, and every
21 quarter we check in.

22 MR. ZIENTS: Are you monitoring

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1 those check ins? Are those check ins, like,
2 the good managers do it and the weaker
3 managers don't?

4 MR. NARAYEN: No. Everybody has to
5 do it.

6 MR. ZIENTS: So that is something
7 that's being tracked.

8 MR. WILLIAMS: I think the system
9 software support of this important in a couple
10 of the comments from some of the the others.
11 One of the things that I'm not clear on is,
12 every department has its goals, but does every
13 individual have an individual scorecard
14 separate and distinct from the department's
15 goals that outline what they're supposed to
16 accomplish?

17 And then that becomes part of just
18 a normal ongoing management process. And then
19 in terms of whether you choose to do it
20 annually, or quarterly, or whatever, there has
21 to be a system that creates a level of
22 visibility. We had 50,000 employees and we

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1 knew that 98.9 percent had had a conversation
2 by July 1st.

3 And that was published, that was
4 visible, there was no place to hide. We knew
5 it by unit. And then through the survey, you
6 can get the sense of the quality of those
7 dynamics.

8 On the performance feedback part, I
9 think one of the things that's important also
10 is to crystalize the feedback into the one or
11 two critical issues that represent the
12 developmental needs of the person. Sometimes
13 the laundry list is so long, the person feels
14 overwhelmed.

15 If you can really distill it down
16 into just the one or two things. This person
17 has to demonstrate leadership in implementing,
18 transforming, this particular project
19 initiative, et cetera, so those would be just
20 a few additional comments.

21 MR. BROWN: Just to add a couple of
22 things. So what I would caution is, the

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1 performance management process is being
2 standardized for transferability and
3 comparability of ratings. At this point, it's
4 so new, everybody has their own style here;
5 once a year, twice a year, quarterly.

6 So I think the risk of being overly
7 prescriptive around the process is not a
8 substitute for management. So we have, kind
9 of, two principles. Number one, there's no
10 such thing as a surprise review.

11 So if I sit down with John Berry
12 and give you feedback, or a review, and you're
13 surprised, I haven't done my job. So if you,
14 as a manager, embrace the idea that there
15 cannot be, no such thing as, a surprise
16 review, then it's up to you to determine how.

17 And while we may want to be
18 formulaic, once a year, twice a year, check a
19 box, if they accept that responsibility that
20 there's no such thing as a surprise review, it
21 allows a little bit of a more natural
22 engagement.

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1 And second is, I distinguish
2 between the performance review and feedback.
3 Performance review can be whatever.
4 Feedback's immediate. So if there's an
5 engagement and it goes well or not well, I, as
6 the manager, say, James, do you have ten
7 minutes?

8 First of all, here's the three
9 things you did really well. Two things you
10 may want to think about differently. If you
11 sit down quarterly, or in July, and say,
12 James, do you remember the February meeting on
13 the, no, I don't remember.

14 Feedback's got to be immediate and
15 no such thing as a surprise review. And that
16 will drive the natural flow of review, what's
17 comfortable for the individual leader or the
18 department.

19 MR. MILLER: Could I ask a
20 question?

21 MS. MCGOVERN: Let me echo a little
22 bit of what Greg just said. First of all, I

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1 think the reason that performance reviews are
2 not robust is because it's hard to have a
3 difficult conversation.

4 And so what happens is, the manager
5 sugarcoats it and they walk out thinking,
6 well, I told them, but people hear what they
7 want to hear. And so there's a big
8 miscommunication at the end of it.

9 So one of the things that I have
10 done over the years is, I coach my team, I
11 want you to give every single employee at
12 least two or three areas for development, even
13 if they're perfect, you can find something.
14 And I've primed them so that when they come in
15 they're going to hear, you know, two or three
16 areas for development and, therefore, they
17 don't take it personally.

18 They know that these are coming.
19 They may not even be things that they're going
20 to be able to improve. I mean, you know, you
21 get to a certain point in your life where
22 you're hardwired, but it teaches you how to

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1 have a difficult conversation. And once you
2 become more comfortable at that, it's a lot
3 easier to just give regular feedback.

4 The other comment I'll make about
5 giving regular feedback, I don't know if
6 you're all familiar with this Gallup survey.
7 It's 12 questions that can measure employee
8 satisfaction. And, remarkably, it takes ten
9 minutes to fill out.

10 And some how or another the folks
11 at Gallup have figured out these 12 questions
12 that are absolute measures of employee sat.
13 And in the for-profit world, they also become
14 leading indicators for customer sat and
15 profitability.

16 So these 12 simple questions, you
17 nail it, it's done. One of the 12 questions
18 is, has your supervisor given you feedback in
19 the last seven days? Seven days, so if you're
20 answering no to that, you're not a happy
21 employee.

22 That's how regular these

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1 conversations have to be. And, you know, to
2 Liz's point, you don't have to get the people
3 up and, you know, have a flood of paper, but
4 if you haven't heard from your boss in seven
5 days, something about your performance, that
6 means you're not a happy employee.

7 And once you have that in your
8 head, the dialog becomes much more continuous
9 I think.

10 MR. SALEM: Yes. I would add one
11 thing, and Ron touched on it with the systems
12 side, the other thing is, the reason reviews
13 actually can be hard, to what Liz was saying
14 and people not getting them done effectively
15 is, because it is an event. And that's
16 absolutely the wrong way to go.

17 It's a matter of, what we've been
18 trying to help our managers understand is,
19 how, as you go through the year, are you
20 tracking the information? And we've built
21 systems that allow us to collect that
22 information as go.

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1 And so one of the things we can
2 actually get a lot of visibility into is, is
3 there are no comments about employees
4 throughout the year? And then, when the
5 review process comes in, it's not an event.

6 MR. MILLER: Here's a question I
7 have, this is at least a challenge in our
8 agency and think comment to some of my peers.
9 There's 6,000 SES, right, over, like, 1.9
10 million, there is an expectation, there's a
11 culture, that says, I'm already in the elite,
12 shouldn't 75 percent of us be outstanding
13 because we already have arrived?

14 So let's separate this out.
15 There's a notion of calibration of performance
16 and how do we get calibrated on what's
17 expected at the senior most levels, and then
18 how do you have more personalized feedback
19 based on, we all have development needs?

20 And I actually think we're focused
21 on both issues. And the real context is, if
22 75 percent of our folks, right, 2/3 to 75

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1 think they're outstanding, that provides a
2 real challenge for, what are we
3 differentiating within?

4 And so I'm curious in terms of the
5 analogy. How much variation? How do you
6 calibrate amongst your senior most executives
7 in --

8 MS. MCGOVERN: I know I'm going to
9 be an outlier here, but I actually agree with
10 that. If there are 6,000 people that have
11 managed to rise to that level, you know,
12 hopefully you're not going to find people that
13 are unsatisfactory performers, but that
14 doesn't mean they're perfect.

15 They might be outstanding, but
16 there's still areas for development. So,
17 personally, I've always, you know, cringed at
18 a forced curve. You know, I'd be hard-pressed
19 with my own leadership team right now to say
20 who's the bottom of the pack.

21 But that doesn't mean that you
22 can't give robust feedback. You know,

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1 everyone has an area of weakness. So,
2 personally, I have no problem with rating
3 somebody outstanding and saying, but you
4 really need to work on this one area.

5 MR. MILLER: I'm assuming
6 everybody's going to get that. I'm just
7 saying, the core question of performance
8 differentiation I'm curious about.

9 MS. SMITH: I guess I have a
10 different perspective, which is that, every
11 time you're at a level, right, the bar is
12 reset for expectations. So I'm sure we all
13 experience this, the first time you get the
14 reviews and everyone at the top, your whole
15 budget on exceeds is taken up by the people at
16 the top and the people at the bottom.

17 And the reality is, there's a
18 difference between giving people credit for
19 experience and the level they should be at, so
20 I actually do think the curves, I agree on the
21 forced curve is out, but I think they need to
22 look very similar at very level, because the

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1 water level rises and the expectations rise,
2 and you don't get a pass because you made it
3 to VP.

4 It's an expectation of a
5 performance level at a VP and now, vis-a-vis,
6 relative to your peers, you have to always be
7 evaluating across. And so I push back and I
8 would bet every single one of us encounter
9 this.

10 The more senior executives are, the
11 more you have to help them understand that
12 every year they didn't hit the ball out of the
13 park. And you have to do that by holding them
14 accountable for having a more natural curve.
15 So I'm actually not in agreement with that.

16 MS. MCGOVERN: Now, I know I'm an
17 outlier.

18 MS. SMITH: No, no, which is fine.
19 I think the water level rises.

20 MR. ZIENTS: Ron, jump in.

21 MR. WILLIAMS: I think the starting
22 point in business a little easier, and the

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1 starting point would be as simple as, every
2 year, everyone has an obligation to be 15
3 percent better, okay? So let's start there.
4 So every year, that bar gets reset.

5 The other thing that comes back,
6 it's the notion of your individual scorecard,
7 which is, if you achieve everything on your
8 scorecard, absolutely everything, then you've
9 met expectations, period, okay? Doing every
10 single thing on your scorecard doesn't make
11 you superior, it simply means, you met
12 expectations.

13 And I think that's why it's so
14 important to crystalize the goals at the
15 beginning of the year at the individual level,
16 not at the department level, and also to have
17 that regular conversation as part of the
18 routine management process.

19 But I think it is an issue. It's
20 an issue we face in the for-profit sector, as
21 you well know. But I think this notion of, in
22 calculating the expectation that, everybody

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1 has to be materially better every year.

2 MR. ZIENTS: Let me get Estelle
3 into the conversation and then you, Shantanu.

4 MS. RICHMAN: I think one of the
5 things that we've seen, and I think your ideas
6 are excellent and I think many of us have
7 already found ways to incorporate them, but we
8 also have some SESs who've been around a long
9 time, who really do believe they're
10 outstanding across the board, but you find the
11 agency isn't outstanding.

12 And there has to be a relationship
13 between the performance. It's possible to
14 meet your performance goals and the agency not
15 meet its performance goals. And I think in
16 those situations, we need to make sure those
17 are in sync. And that's one of the challenges
18 we're having, because we have this whole group
19 of people who think they're outstanding, yet
20 the agency is still struggling down here.

21 And trying to get the two in sync,
22 I think is one of the tough things that a CEO

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1 and COO have to struggle with. So they don't
2 get a pass on it. And I like that concept of
3 15 percent each time.

4 MR. NARAYEN: The only thing I was
5 going to suggest, to actually echo Liz and
6 Ron's point, was, as a framework, it might
7 help to have the conversation with two
8 dimensions; potential and performance. And
9 each one of them has potential, which is why
10 they're at the SES.

11 But they may not be performing
12 every year at that level, and so I think that
13 actually helps you, you know, not make it
14 appear like they don't have potential, but,
15 you know, performance changes every year.

16 MS. SMITH: Just one last thing
17 about --

18 MR. ZIENTS: Please.

19 MS. SMITH: To Tony's point,
20 because all of us have encountered this, I
21 haven't been in an organization where I didn't
22 have to get on stage in front of people and

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1 say, I stand before you as the President, or
2 CEO, having received, to Ron's point, fully
3 meets ratings. And everyone's like, yes, I
4 have received that fully meets ratings because
5 that's a good rating. It means you're doing
6 your job.

7 I have found that I have needed to
8 do that, kind of, dramatic gesture of saying,
9 here I am. I bet you think I've always gotten
10 superior ratings? I haven't, because there is
11 this expectation, that fully meets means
12 you're doing a really good job, but that has
13 to sometimes be done in a dramatic way by the
14 leader.

15 MR. COLE: Have you ever set
16 stretch goals on top of fully meets?

17 MS. SMITH: All the time.

18 MR. COLE: And sit down and
19 specifically define them, because, you know,
20 the old adage is, you don't get extra points
21 for doing what you're supposed to do. And
22 that's, kind of, the fully meets. But then we

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1 want people to stretch. We want them to go
2 beyond. We want to set goals that they may
3 not meet, but try to strive for.

4 Do you define those or do you let
5 them define them for themselves?

6 MR. WILLIAMS: But I think part of
7 the leadership definition, in business it may
8 be a little easier because, if you earn, to
9 make it simple, \$100 this year in your unit,
10 next year, earning \$100 is not success. So
11 the goal has to go up and each year it is, in
12 fact, a more aggressive goal.

13 MR. COLE: That's a fully meets
14 goal, you know, you're saying I want you to
15 get \$115 next year, but do you say, and you
16 know what? It would really be great if you
17 could get a \$130. I'm not sure you'll get
18 there.

19 MR. WILLIAMS: I think you have to
20 look at what the organization needs and then
21 come back to the Estelle's comment, if the
22 organization isn't achieving, but the

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1 individual is, that individual's goal ought to
2 be, get the organization achieving.

3 MR. COLE: Right.

4 MR. ZIENTS: Let's take Jim's
5 question head-on. I assume that most of you
6 said, here's what I need from you, but here's
7 what would hit the ball out of the ballpark.
8 You don't leave that people's imagination, you
9 put that in that statement.

10 MS. MCGOVERN: Yes. I mean,
11 there's a threshold of fully met that, to
12 Estelle's point, if the agency doesn't make
13 it, the individual can't make it. I mean, and
14 that's almost like a collar, if you will, on
15 the rating.

16 MR. KINDLER: And just to reinforce
17 the point that Gail and Don are making, the
18 cultural change is, people get to the point
19 where they think meeting expectations means
20 they should get more. Meeting expectations
21 just meant, you did your job this year.
22 That's the baseline, then we define what it

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1 takes to achieve more on top of that.

2 MR. BROWN: Just one other thing,
3 to Tony's point and Estelle's point, there's
4 the dimension of performance, meeting
5 expectations, but you have to talk about
6 relative performance, which is another factor,
7 which is either your performance, but how did
8 your department do? Your performance, but how
9 did the company do? Your performance, but how
10 did we do against our relative competitive
11 group; peer group?

12 So we, in the example of Motorola,
13 you know, can meet our goals of revenue growth
14 is X, gross margin is Y, operating earnings is
15 Z, and cash is Q, and not have a good year,
16 because we talk about our competitors may have
17 performed better.

18 Our stock may have been up 12
19 percent, theirs was up 18. So there has to be
20 a context for two things, performance and
21 relative performance, either with other
22 people, the department, the division, the

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1 company, or a peer group.

2 When you introduce the relative
3 performance part, it, kind of, expands the
4 thinking of, you can't just do your ten goals
5 and say, I'm outstanding. Your ten goals,
6 first, to Jeff, and Ron, and Gail, meets
7 expectations, and anything above and beyond
8 needs to relatively be calibrated against a
9 broader competitor.

10 MR. ZIENTS: All right, I've got to
11 play timekeeper here. So everyone's got the
12 form. This is a first step, but clearly, this
13 is all about implementation going forward.

14 So my suggestion would be that we
15 touch base, probably not in our June meeting,
16 but in our October meeting, John, and get a
17 sense of where we are on implementation, what
18 we've learned, what's working, what's not
19 working, and then do another, you know, half
20 hour, 45-minute discussion.

21 This is a very rich discussion and,
22 arguably, it's the most critical thing that

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1 we're doing is to help develop the SES through
2 much more rigorous performance reviews. And I
3 think there's some best practices in
4 government, but for the most part, the time
5 and energy doesn't go into these types of
6 conversations the way it should.

7 And those conversations and that
8 rigor has a, as we all know, very high return.
9 Let's do a five-minute break and we're going
10 to switch from SES to IT. I have that it's
11 seven after, so why don't we have a firm start
12 at quarter after. I'll give seven or eight
13 minutes. Good. Thank you.

14 (Whereupon, the above-entitled
15 matter went off the record at 10:06 a.m., and
16 resumed at 10:14 a.m.)

17 MR. ZIENTS: Let's get started.
18 Just to clarify for the Deputy Secretary, the
19 expectation is that all of you are with us
20 through this next session, which is 11:00 or
21 so, then the topic selection piece of it we're
22 going to do in the smaller PMAB-only group.

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1 So I know Becky was concerned about
2 schedules. I think we'll be able to be done
3 by 11:00 or so and then we'll take a break and
4 move to the smaller session. Why don't we
5 just go around the horn just for folks who
6 entered in the last few minutes, starting with
7 David Hayes, Deputy of the Interior. David.

8 MR. HAYES: David Hayes, Deputy of
9 the Interior.

10 MR. ZIENTS: David Hayes, Deputy of
11 the Interior. Who else is new? Roger?

12 MR. BAKER: Roger Baker, Secretary
13 of VA.

14 MR. ZIENTS: Steven?

15 MR. VANROEKEL: Steven Vanroekel,
16 I'm the Federal Chief Information Officer.

17 MS. COLEMAN: Casey Coleman, GSA.

18 MR. ZIENTS: Everybody else is a
19 veteran. All right. We haven't changed yet.
20 So I'm going to hand it over to Steven, right?
21 To navigate us through the next 45 minutes or
22 so, I believe starting on Page 14.

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1 MR. VANROEKEL: It's Page 1 on the
2 deck I have in front of me.

3 MR. ZIENTS: It's Federal CIO
4 Overview.

5 MR. VANROEKEL: It should say
6 Federal CIO Overview, I believe, on the top.

7 MR. ZIENTS: Okay. And then while
8 Steve is doing that, Anthony, why don't you --
9 .

10 MR. JACKSON: Andrew Jackson,
11 Deputy Assistant Secretary for Technology at
12 Interior.

13 MR. VANROEKEL: All right. So I
14 won't take a lot of the time here today, given
15 that we have some very esteemed guests to
16 present some of the results of the work that
17 we've done on vendor management organizations
18 and investment review boards.

19 I think the bottom-line takeaway
20 for us is that we've had some incredibly
21 positive results and we've instituted some
22 systems, one of which I'm going to announce

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1 today, that we're scaling government-wide to
2 address some of the feedback and some of the
3 things we learned.

4 And I personally did some of the
5 site visits and it was very valuable to not
6 only reinforce, I think, some of the best
7 practices that all of you are doing in your
8 organizations, but also the applicability of
9 those things to government.

10 You know, we have some loosely-knit
11 vendor management efforts within government
12 that we're, sort of, driving for and doing
13 centralization. We had investment review
14 boards, but they were largely budget-scrub
15 exercises, not strategic exercises.

16 And we had some challenges in the
17 way the government was organized and the
18 authorities that Chief Information Officers,
19 and other executive teams getting together,
20 had to oversee the work of their agency, and
21 so we've done a lot to address those, and
22 hopefully you'll hear about some of those.

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1 And I want to thank you for all the
2 willingness to work with us on this.

3 A couple of the highlights on the
4 next slide is, one, on VMOs. One of the
5 things we've done, working very closely with
6 your companies, is created a maturity model to
7 help agencies understand, sort of, where they
8 were and the steps necessary to, sort of,
9 climb up the ladder to get to the upper rungs
10 of a solid maturity model inside organization.

11 And this is already starting to
12 identify gaps for us and where these agencies
13 need to go to get there. The other thing is,
14 your teams were invaluable helping us develop
15 scorecards for people on looking, kind of, at
16 the objective level and working our way back
17 from that.

18 What are the things we want to
19 accomplish and how do we get there? And how
20 do we measure success on this stuff in the VMO
21 side?

22 On investment review board, the big

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1 thing that we drove out of that beyond just
2 creating a new culture within these agencies
3 around what the role of investment review
4 board is as a strategic tool versus, sort of,
5 just a budget tool is, today, we're launching
6 something we call Portfolio Staff, which is a
7 new effort to gather data across the whole of
8 agencies to look in the dark corners of
9 agencies to figure out what is being spent,
10 where's it being spent, and assess, at the
11 portfolio level, what's going on.

12 A lot of the challenges we had in a
13 lot of these very, very large agencies, you
14 know, you'll have agencies with hundreds of
15 thousands of employees where the CIO at the
16 top of the org chart doesn't have authority to
17 actually control investment at the lower
18 rungs.

19 I know some CIOs that tell me they
20 had more power when they were a branch CIO
21 than they are now at the head CIO of the
22 agency. And so Jeff, in the Director's

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1 Office, we put out a CIO authorities memo to,
2 basically, guide agencies into creating more
3 accountability and authority.

4 And this tool, Portfolio Staff, is
5 now a way that OMB, in our office, can go and
6 drive cross-government accountability on this
7 stuff and start to really programatize
8 investment review boards, so we're proud to be
9 launching that today and that's going to
10 happen now to impact our next cycle of budget,
11 which is the key ingredient of how to get
12 there.

13 So you've heard enough from me,
14 let's transition on the next slide to actually
15 going in and hearing from the agencies that
16 have done these pilots and were actively
17 scaling these across the board.

18 We're going to start talking about
19 IT vendor management offices. And Dave Kappos
20 from Patent and Trademark is going to start us
21 off, Roger is going second, from VA, and then
22 Casey, to my left, from GSA, then we'll, kind

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1 of, open it up to get some questions laid out
2 to you, kind of, our next steps.

3 Then we'll come back and talk about
4 portfolio management and investment review
5 boards, and do the same thing there. So with
6 that, Dave?

7 MR. KAPPOS: Okay. Thanks, Steve.
8 So for PTO, we're on an annual IT spend of
9 circa \$400 million or so is a, sort of,
10 baseline. We have made, we feel, tremendous
11 progress with the VMO process. We do have
12 some, you know, next steps I'll talk about in
13 just a second.

14 In terms of where we are today and
15 what we've managed to accomplish. We have
16 fully centralized our purchasing and that has,
17 indeed, unlocked the promise of VMO by shining
18 a bright light, enabling collection of metrics
19 and metrics-based processing of our IT-related
20 spend.

21 A number of great lessons learned
22 from our visit to Aetna a while ago and we are

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1 still in the process of applying those. One
2 of them is, sort of, where government IT and
3 government budget planning meets the private
4 sector. And it's been fascinating to me to
5 see the long time cycles that government uses
6 to plan, right?

7 And so this point about one-year
8 budget planning that we've figured out now,
9 through VMO, how to include a portfolio
10 management view, despite the fact that we have
11 to plan our IT spend on a multi-year basis and
12 years in advance, has been enormously helpful,
13 and has, to us, you know, unlocked the ability
14 to merge a government need for a multi-year
15 planning cycle with the reality of the fact
16 that you can't really know everything you're
17 going to need to do, IT-wise, two, and three,
18 and more years in advance.

19 So that's been, to us, a really
20 good experience that came out of Aetna.
21 Second major experience out of Aetna is,
22 linking the VMO program with our project

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1 management office that has led us to be able
2 to get what we need only when we need it and
3 not sooner than when we need it.

4 There's been a problem,
5 historically, at PTO where we wind up ordering
6 things and the vendors ship them very fast,
7 frequently, we get them and they sit, in some
8 cases, IT equipment sitting for months, maybe
9 a year, maybe longer than a year, which is
10 absolutely bizarre, right, from a private
11 sector viewpoint.

12 So we, through this process, we
13 have managed to stop all of that and get,
14 through VMO, to an adjusted time, kind of,
15 procurement model. So the last thing I'll
16 mention relative to the Aetna experience is,
17 what I call the, well, one neck to squeeze
18 principle. Having a single executive that is
19 identifiably responsible for our entire IT
20 portfolio.

21 I mean, I think this is, kind of,
22 what Steve was saying, but being able to get

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1 to where you can find the person in whom
2 responsibility rests and, well, have some
3 accountability, but also give them the tools
4 and the things, the handles, they need to be
5 able to do a good job. So that has been a
6 tremendous experience for us.

7 The one other thing I'll say before
8 moving on is that, the ability to modify
9 contracts in order to track efficiencies
10 through time and by individual has also been
11 transformative for us.

12 It's changed us from an approach,
13 you know, our old approach, which is where
14 bills came in and they said things, like, you
15 know, we did something for a month and here's
16 how much you owe us, which is very, very
17 difficult to then pry open and figure out how
18 you audit it, how you assure that the work was
19 done, you got value for it.

20 Now, with the VMO process, we
21 literally know what every person on that
22 contract did every day, you know, even down to

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1 the hour, so we can tell the activity they
2 were working on and the productivity we got
3 from it. And it makes me feel, and our CIO
4 here feel, much more confident about the value
5 we're getting for our spend over time.

6 So, Steve, I think I'm going to
7 keep going on one or two other things here,
8 right?

9 MR. VANROEKEL: Right.

10 MR. KAPPOS: Okay. So that brings
11 us to outcomes to date, right? We are
12 actually making really substantial financial
13 progress, which is what gets me quite
14 interested. So we reduced our spending on
15 COTS software, \$1.8 million, that's a per-year
16 number, but much more significantly, we've
17 reduced maintenance costs to the tune of \$52
18 million a year.

19 You know, when we started, we were
20 just blowing money at this agency, just
21 pouring money into maintenance that prevented
22 us from doing the upgrading work we needed to

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1 do. Now, we got more to do, but we made
2 substantial progress there.

3 Now, in terms of next steps --

4 MR. SALEM: You skipped over this
5 notion, which I found interesting, which was
6 leverage across the other departments with
7 commerce.

8 MR. KAPPOS: Oh, yes. Sorry about
9 that.

10 MR. SALEM: Because that's where
11 we'd love to see a lot, yes. I think that's
12 one of the great things is the more leverage
13 we have.

14 MR. KAPPOS: Yes. So we now have
15 the ability through common contracts, right,
16 to act as a resource and coordinate with our
17 parent agency and obtain much better leverage,
18 much better prices.

19 MR. SALEM: I think that's the
20 question, then it becomes, how far can you
21 take that?

22 MR. NARAYEN: Across the

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1 government.

2 MR. SALEM: What's that?

3 MR. NARAYEN: Across the
4 government.

5 MR. KAPPOS: Yes. How far can you
6 take action? Ultimately, we want to be able
7 to do it across the whole Federal Government.
8 Okay. So next steps. We got a lot more to
9 do.

10 MR. ZIENTS: Hold that thought.
11 That's one of our topic selection potentials
12 for later.

13 MR. KAPPOS: So we love the PMAB
14 specified, and I think this is what Steve was
15 referring to before that we've got real
16 metrics that we can aim for, 40 percent PMAB
17 specified level of maintenance as a percentage
18 of our total IT spend.

19 We started, at PTO, at 84 percent.
20 We're now at 68 percent. So we're on the
21 path. We've got more work to do. It's
22 absolutely great that we've got something

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1 clear to aim for.

2 We do have a bit of a conundrum in
3 the government, even as I understand it, we
4 measure some things in maintenance spend that
5 you might not measure as maintenance spend in
6 the private sector, including call center
7 overhead, things like that. So there may be
8 some normalization to do, but, to me, it's
9 absolutely wonderful that we've got a
10 continuous path and a goal to aim for.

11 Focus on data analysis. We'll
12 obviously continue to optimize contract
13 spending. The use of data analysis, right?
14 You know, having data, as I already mentioned,
15 is absolutely key to being able to improve
16 efficiency and we need to continue working on
17 that in order to find places where we can
18 replace what the current task orders that
19 we're using, current vendor work we're doing,
20 with, well frankly, less expensive, more
21 effective alternatives.

22 So one example is call center

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1 outsourcing. We're currently working on that
2 as USPTO. We can only start to see that as an
3 opportunity when we got on to the VMO track
4 and beginning to really understand where we
5 were spending our money.

6 So last thing I'll say under next
7 steps is that we will be working on continuing
8 to enhance customer visibility into our
9 contracts. Now, when we've got a situation
10 where we move from, frankly, a distrust within
11 our agency where, in our case, our patents
12 function didn't work well with our trademarks
13 function, and they all distrusted each other,
14 and they thought that they were working in a
15 zero-sum world.

16 Well, now, everybody gets to see,
17 right, the IT spend. It's totally
18 transparent. Nothing's hidden, nothing is
19 concealed, and it's enabled our CIO function
20 to move to a world of trust because nobody
21 feels like they're being sandbagged. And I
22 think that has been transformative for us.

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1 We're going to continue to invest
2 in that transparency, just internal
3 transparency.

4 MR. KINDLER: David, can I ask a
5 question before you go. As an external
6 customer of the Patent Office, do you find
7 that the applicants for patents and trademarks
8 are an enabler, a barrier, or neutral to the
9 improvement of the IT function within the
10 office?

11 MR. KAPPOS: Mostly an enabler.
12 Mostly they see the agency gaining through
13 increased IT efficiency as a net benefit for
14 them because we speed up, we get more
15 accuracy, return information to them in a form
16 that they can use it better, but I think about
17 75 percent an enabler.

18 The place where it gets interesting
19 is when you talk about a change to our IT
20 systems that might require them to change what
21 they're doing.

22 MR. KINDLER: Right.

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1 MR. KAPPOS: Then you get into, you
2 know, very detailed discussions about, how
3 much is this going to cost us? Are you going
4 to force us to move to some system that we
5 don't want to use? Those kinds of
6 discussions.

7 MS. MCGOVERN: This is phenomenal
8 progress.

9 MR. KAPPOS: Yes.

10 MS. MCGOVERN: Just the cultural
11 shift alone must have been amazing for you
12 all.

13 MR. KAPPOS: Yes. It has been a
14 great piece of work and the credit really goes
15 to my CIO, John Owens, who is sitting right
16 behind me over here.

17 MS. MCGOVERN: That's great.

18 MR. ZIENTS: This is a success-at-
19 large. I think the PTO --

20 MS. MCGOVERN: Yes.

21 MR. ZIENTS: -- turnaround that
22 Dave and his team have done. It's one of the

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1 best success stories in this administration in
2 terms of turning around a whole culture and
3 operation, and, you know, in an area that's
4 impactful on jobs and competitiveness.

5 MS. MCGOVERN: Right. And that
6 they like it now.

7 MR. ZIENTS: I guess it all comes
8 down to this neck thing. I never heard that
9 before.

10 MS. MCGOVERN: The neck, yes.

11 MR. ZIENTS: All right. Steven, I
12 think we've concluded enough that at Aetna we
13 would query that as a single coin of
14 accountability.

15 MS. MCGOVERN: But we know what you
16 mean.

17 MR. ZIENTS: Exactly. What number
18 slide are we on?

19 MR. BAKER: We are on Slide 19.

20 MR. ZIENTS: 19.

21 MR. BAKER: I greatly enjoyed that
22 there are a lot of similarities between Patent

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1 and Trademark and VA. Centralized IT, I
2 think, is critical to both of them. VA is a
3 bit large from that. It's a \$3.5 billion IT
4 budget. All of the IT spend is centralized
5 under the CIO, so there's the authority to do
6 things.

7 MS. LEE: I'm sorry. A question,
8 how much did you say?

9 MR. BAKER: \$3.5 billion.

10 MR. ZIENTS: Per year.

11 MR. BAKER: I think what you're
12 going to hear from this is why we need to be
13 doing the portfolio stats that Steve is moving
14 forward, because I feel like we're a little
15 bit ahead because of our centralized nature in
16 doing those things.

17 When you pull that whole portfolio
18 together and you look at it, you start to see
19 the kind of results that you're seeing out at
20 Patent and Trademark, and I'll tell you about
21 here at the VA.

22 So specific to the VMO, we have the

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1 VMO stood up. We have several staff, I'm
2 trying to think about whether it's four or
3 five, in the VMO. To me, most critical is, we
4 recognize we needed to join, what we termed,
5 our ruthless reduction task force with the
6 VMO.

7 Looking at all of our spend with a
8 critical eye for, is this the best use of the
9 dollars in here? We have gone out and
10 established our contracts database, understand
11 everybody we're doing business with, and most
12 importantly, where are we doing business with
13 each of them multiple places?

14 And we've moved forward with a
15 balanced scorecard view of that. If I had
16 three charts, the balanced scorecard would be
17 the third one, just to give you an idea of
18 what that looks like, but you've all seen
19 balanced scorecard pieces.

20 So let me talk a little bit about
21 results.

22 MR. ZIENTS: Did you go to all four

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1 of these visits? All four site visits?

2 MR. BAKER: My folks did.

3 MR. ZIENTS: That's great. Okay.

4 MR. BAKER: We've taken a long hard
5 look at our enterprise licenses software. I
6 didn't include the number in here because it
7 would have been preliminary until this
8 morning, but we will save about \$100 million a
9 year in just this category, from right-sizing
10 our enterprise licenses.

11 We looked at standardizing the
12 processes for vendor management. You guys
13 have talked about the database of IT vendors.
14 We've looked at things like print management.
15 And for an organization the scale of VA, we're
16 the second largest federal department, as we
17 look at moving from personal printers to
18 network printers, the cost per page of
19 printing on a personal versus on a network
20 printer is about four and half times more.

21 Very convenient, small dollars when
22 you're not talking about billions of pages,

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1 but for us, as we look at each one of our
2 major facilities, and we've got about 200 of
3 them, the pilots say we'll save \$1 million
4 every three years or less from a time scale.

5 You then do that times 200
6 facilities and you're looking at a pretty
7 significant amount of money. You know, the
8 anecdote I give our doctors is, look, you've
9 been telling me to take a walk for a long
10 period of time, just take a little walk over
11 to the next room.

12 The nuance here is that the bulk of
13 the savings do not go into my budget. Toner
14 cartridges, in our budget, are bought by the
15 local administration; the local hospital. So
16 the bulk of the savings go into the health
17 appropriation and the benefits appropriation,
18 not into the IT appropriation, but I have the
19 ability to write the policy that then drives
20 this approach to things.

21 We have, in our ruthless reduction
22 task force, about 25 things along these lines.

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1 The single CPU policy. The consolidation of
2 mobile telephone, you know, contracts for
3 services. Not all of them are going to show
4 the \$100 million for enterprises licenses or
5 \$200 million for printing, but they're all the
6 same sort of thing that you'd expect your
7 private sector CIOs to be doing for your
8 budget.

9 And in a consolidated
10 appropriation, you start to see CIOs that look
11 at it that way. That's what the portfolio
12 stat will start to do when you start looking
13 at the distributed ones that way.

14 Another one we've got, and this is
15 probably a better example of the kind of
16 things we'll see, power savings. Every
17 desktop computer in VA, 360,000 of them, goes
18 to sleep at about 7 o'clock at night and wakes
19 up about 7 o'clock the next morning.

20 If you figure 12 and 1/2 cents per
21 kilowatt hour for power by that number of
22 desktops, that's \$24 million a year in

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1 completely useless electrical that's now not
2 being burnt. We move from, I think it's, 110
3 watts per hour to 3 watts per hour by putting
4 them to sleep.

5 Again, because we can see every
6 desktop in that network, we can then put the
7 software on and apply the policies to do that
8 kind of stuff. The one CPU policy will save
9 us some buys.

10 Moving to Cloud email, you know,
11 will have lot of benefits for us. Something
12 that your folks have probably done, and are
13 probably a long ways ahead of us, is
14 virtualization of servers. This was one of
15 those things that, as a private sector CIO you
16 say, well, that was so year 2000.

17 We're 25 percent of the way there
18 right now in the VA and moving hard to do a
19 lot more virtualization. We talked about
20 software license management and it's
21 interesting as you look at enterprise
22 licenses, because in some cases you want to

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1 move toward them, and then in some cases you
2 want to move away from them.

3 So that's why the analysis is
4 really critical is to understand which ones
5 you want to, and I use the phrase right-
6 sizing, you know, across all those things.
7 Exactly how do you want to handle enterprise
8 licenses?

9 And then, of course, it's all about
10 early detection of underperforming, I think,
11 in the end, whether it's a contract, whether
12 it's hardware, you know, hardware sitting in
13 boxes is one of the banes of my existence.
14 You know, at our scale, it's very difficult to
15 keep track of that sort of stuff.

16 So it's just tightening down the
17 screws and making better use of the dollars.

18 MR. BROWN: That's a great report.

19 MS. COLEMAN: The General Services
20 Administration is probably closer in scale to
21 the Patent and Trade Office than the Veterans
22 Administration. We're an agency of 17,000

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1 people and our annual IT budget is somewhere
2 just north of \$600 million.

3 So in our organization, commodity
4 IT has all been centralized. The business
5 systems remain de-centralized under the
6 component organizations. But there is a real
7 good progress on vendor management as a way
8 for us to operate more effectively at an
9 enterprise level, even though our IT is not
10 centralized like VA's is.

11 So I look at this as an enabling
12 mechanism, a pull mechanism, to bring us
13 along. We have some early results to talk
14 about. We've identified the team that will
15 form the vendor management office, and for the
16 most part, those were folks on the ground in
17 my office. We're going to use some key
18 vacancies to flesh that team out.

19 Like PTO, we've put the vendor
20 management and a program management office
21 together so we can better manage throughout
22 the entire lifecycle of our IT programs so

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1 that there's a single senior executive point
2 of accountability, one throat to choke,
3 managing the entire lifecycle from a
4 procurement and deployment point of view.

5 Now, the vendor management office
6 has a companion team in the contracting
7 organization and we've staffed that up. We've
8 added additional contracting officers, which,
9 as you know, are really the gatekeepers in the
10 Federal Government to make things happen. So
11 we've got a very talented, fully-staffed team
12 there.

13 In terms of commodity IT, we're now
14 linking that commodity IT function, which is,
15 over five years, about \$250 million, so it's a
16 significant spend for us, to the vendor
17 management office so that the VMO will be
18 responsible for managing that contract, and
19 overseeing its progress, and managing that
20 vendor team, making sure that, at the project
21 level, we're getting the right kind of staff,
22 and that we're not overpaying for those

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1 skills.

2 We have created an inventory IT
3 spending across GSA, which is just invaluable
4 in terms of the visibility and the
5 transparency. So even though it's not
6 centralized, we know where the dollars are
7 going.

8 And that has identified
9 opportunities for enterprise negotiations and
10 to give us the ability to act more as
11 enterprise leverage, the buying power that we
12 have as an agency, and I think partner with
13 other agencies that are doing the same thing
14 with the same vendors.

15 We're continuing to move solutions
16 to the Cloud. As we get better transparency
17 about where our systems sit, how much we're
18 paying for them, and what architecture they're
19 on, we can identify opportunities to move to
20 the Cloud and gain the agility and cost
21 savings that Cloud offers.

22 We've moved several systems to

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1 Cloud-based solutions already. The most
2 recent one that we're here speaking about
3 today is our IT service desk, which we're
4 going to move to the Cloud, and I'll talk in a
5 minute about the savings, that allows us to
6 forego a very expensive upgrade to our in-
7 house system and avoid \$3 million in cost to
8 do that upgrade.

9 We participated in the Aetna visit
10 and thought that was extremely helpful. They
11 focused a lot on benchmarking, on really
12 understanding where they stand against their
13 peer organizations, and using that as a
14 forcing mechanism, I think they benchmark
15 multiple times a year, to stay on top of where
16 they are in their industry.

17 And so we've since gone and
18 conducted a study. We engaged Gartner to give
19 us a benchmark of where we stand against our
20 peers in the Federal Government as well as
21 like organizations in private sector, and
22 identified a lot of opportunities there for us

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1 to take our progress further.

2 Next slide, Slide 22, outcomes to
3 date. I've already that, by moving our IT
4 service desk to the Cloud, we will avoid the
5 need, later this year, to have gone through a
6 costly in-house upgrade that would have cost
7 \$3 million.

8 The service desk deployment is
9 somewhere in the several hundred thousand
10 dollars, so there's a significant cost savings
11 right off the bat. Because we have an
12 inventory of our IT spending, we've been able
13 to identify where we have licenses that were
14 not being used.

15 And so we've cut software
16 maintenance for those unnecessary software
17 licenses. And that's an actual hard-dollar
18 cost savings of over a \$1 million annually.
19 This ability into IT spending has given us
20 other areas where we're going to be moving to
21 the Cloud, including areas such as
22 collaboration and internal networking; social

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1 networking, not telecommunications networking.

2 Expected results going forward, our
3 infrastructure benchmark, the Gartner study,
4 that was the brainstorm as a result of the
5 Aetna visit, has highlighted areas for future
6 consolidation and cost savings.

7 We're going to be repeating that, I
8 think, on, at least, an annual basis, perhaps
9 biannually. Like VA, we're implementing
10 printer management through the Federal
11 Strategic Sourcing Initiative. And I didn't
12 know that number, four and a half times, I'm
13 going to use that, but we have been slowly
14 moving away from personal printers, but we
15 still have a significant fleet of those.

16 We probably have twice as many
17 personal printers as we do multi-function
18 print/copy machines. So by going through a
19 Strategic Sourcing Initiative, that'll reduce
20 our reliance on these personal printers, and
21 reduce our carbon footprint, and save money.

22 In terms of mission outcomes, we

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1 anticipate that vendor management is really
2 going to let us manage our industry partners
3 on a much more projectized basis.

4 Previously, we were managing, sort
5 of, at a high-level contract, you know,
6 against the overall consumption against that
7 contract, but I think, now, we'll be able to
8 hold them accountable, at a project level, for
9 much more rapid incremental development of
10 capabilities.

11 So we're not spending millions of
12 dollars and hoping, in two or three years,
13 something good happens. It will be much more
14 in the, you know, six weeks to three month
15 time frame to see capabilities start to be
16 deployed. And I think that's the end of mine.

17 MR. ZIENTS: Thank you, Casey.

18 MS. COLEMAN: Thank you.

19 MR. ZIENTS: And let's get a
20 conversation going here, mindful of, we
21 probably have seven, eight, ten minutes, then
22 shift to a quick run on the investment boards.

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1 MR. VANROEKEL: Any comments, or
2 general comments, or anything?

3 MR. KAPPOS: Obviously before we
4 dive in, this is good progress.

5 MR. ZIENTS: Really good progress.

6 MR. VANROEKEL: Yes. I think we're
7 very pleased with what's going on and the next
8 step, of course, is just deploying, scaling,
9 this government-wide. And I think as we all
10 sit down and, sort of, think about how that
11 manifests itself, you know, culture is often
12 the barrier we face the most.

13 And I think you'll notice in some
14 of the questions you see on Slide 23, often,
15 the undertone of all of these is, sort of,
16 culture, and so we may think about, you know,
17 asking you about culture NR, what we'll now
18 call our one-neck strategy here.

19 The first question, I think, is a
20 relevant one. It's really about, kind of, as
21 you think about that one-neck person, or the
22 leader of this team, or things, what are the

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1 attributes we should be looking for in
2 staffing? Is the leader of this team a person
3 who is a deal-maker, is able to go out and
4 shake up the vendor community?

5 Is it a consolidator consensus
6 person? Is it a person that's more of, kind
7 of, an intermediary, or a numbers cruncher?

8 MR. SALEM: There's various roles.
9 One is the leader and the other is the people
10 who work on specific categories. And I think
11 you need category expertise. The leader is
12 interesting, but I think you need the category
13 expertise if you go into telecommunications or
14 any other type of systems.

15 People who have that experience,
16 really understand how telecommunications
17 works, they will absolutely get better
18 outcomes. So you need subject matter experts
19 in the categories.

20 MR. BAKER: How much can you
21 augment that with organizations like Gartner?
22 I mean, part of it is looking at the market

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1 and part of it is really knowing --

2 MR. SALEM: I think Gartner will
3 give you good benchmark data, as Casey was
4 saying, I think what you really have to focus
5 on though is, people who understand the cost
6 structure of the telecommunications industry
7 will always get you better deals; will get you
8 better outcomes. I guarantee it.

9 I'm not picking on Telco, I'm just
10 saying, that's an example. I think software,
11 as a category, probably needs people who have
12 real good knowledge of the software category.

13 MR. VANROEKEL: Part of our
14 challenge in government is the fiefdom nature
15 of agencies when you get into small agencies,
16 their ability to staff up expertise in those
17 ways is a challenge. And so I think one of
18 our things is to think about how do we
19 centralize some of these functions across
20 government to get that?

21 MR. SALEM: Well, that's why I like
22 the leverage that David was talking about with

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1 broader commerce, because that's where you can
2 get the expert that gets better leverage. And
3 so the question will come down to, where is
4 the VMO? At what level inside of the
5 department is the VMO?

6 MR. VANROEKEL: Right.

7 MS. SMITH: What's the mechanism --

8 MR. SALEM: You're at the corporate
9 level.

10 MR. VANROEKEL: We're at the
11 corporate level.

12 MS. SMITH: What's the mechanism
13 between the three groups that are currently
14 piloting it to share best practices, or get
15 that, or kind of speak as one voice? How do
16 you guys interact?

17 MR. BAKER: My understanding is
18 that there is a group of folks that are doing
19 this fairly regularly. If you talk about
20 what's going on --

21 MS. SMITH: Across these agencies?

22 MR. BAKER: Across the agencies,

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1 right.

2 MR. VANROEKEL: We've actually
3 expanded it to the entire CIO Council. So we
4 have an executive council and a broader
5 council, and one of our subcommittees there is
6 actually taking this on to look at how do we
7 look at specific categories of work.

8 MS. SMITH: But to Enrique's point,
9 you don't want to solve it one software expert
10 at a time. You don't need triple the amount
11 of staffing to --

12 MR. VANROEKEL: Right. I think we
13 had a realization. We did a CIO offsite and I
14 think Roger was sitting down with the CIO of
15 the Army and they realized, with a specific
16 vendor, the Army actually wasn't getting a
17 better price than he was, and is orders of
18 magnitude larger.

19 And so that sort of realization
20 made us really wake up and say --

21 MR. SALEM: You'll get to comment.

22 MR. VANROEKEL: Sorry, Steve.

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1 MR. SALEM: The other comment I
2 would give you that's important here is:
3 people are going to get motivated by the
4 savings they drive. Like, every time each of
5 you spoke you talked about, we saved X amount.
6 So publishing that and making the VMO really
7 see that success, and then that getting
8 translated to the rest of the organization to
9 see what this group is contributing, will make
10 them heroes.

11 And so that's what you want. And
12 we highlight that. When somebody comes
13 through and saves us, you know, a pretty
14 significant amount of money, we know who that
15 person is, I mean, even at my staff level.
16 And that kind of visibility will get those
17 people motivated.

18 MR. BAKER: Just making sure I put
19 this out though, there is a downside from
20 pointing out your savings in the Federal
21 Government.

22 MR. SALEM: Right.

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1 MR. BAKER: Over the last two
2 years, I've lost \$363 million because I saved
3 it. So, you know, there is a sanity question
4 amongst CIOs to, you know, if you're going to
5 save it, how do you hide it? And I hate to
6 admit that. You would not look at that in the
7 private sector. That is the reality in the
8 government.

9 MR. SALEM: That's true in the
10 private sector too.

11 MS. MCGOVERN: But I guess the
12 question is, when you're saving it in printer
13 costs or, you know, utility costs, you know,
14 specifically, electricity, it really wasn't
15 yours to begin with. Do you know what I mean?
16 Like, it's other people's money that most of
17 these initiatives are.

18 So is the mourning of saving it
19 because your budget feels smaller so you've --

20 MR. BAKER: The issue is that we
21 all have unfunded requirements that we're not
22 able to get to. Things that we know we need

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1 to do.

2 MS. MCGOVERN: So if you save \$24
3 million in printer costs, doesn't that give
4 you \$24 million to do -- or it's just taken
5 away?

6 MR. ZIENTS: I've got to jump in
7 here. In today's environment, we're much
8 better off getting the \$24 million savings and
9 we have a much better shot of funding other
10 priorities if we get those savings, at least
11 we have a shot of funding them. Without those
12 savings, you got no shot of funding them.

13 MR. BAKER: My observation was
14 simply about the dynamic of --

15 MR. ZIENTS: Right. You have
16 leaders here who are doing that. Roger's
17 right, you don't necessarily get to then
18 invest it in another priority, but if we don't
19 save the money, we have no opportunity and
20 we're, you know, in a very --

21 MS. SMITH: If all of your
22 priorities are met, you have a big overture on

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1 your budget. I think we'd all agree. So
2 those things that never get funded, it's
3 almost the law of nature. They shouldn't get
4 funded.

5 MR. ZIENTS: There's a reason,
6 exactly.

7 MR. VANROEKEL: And there's a bit
8 of a shift of, you know, oftentimes that
9 budget gets rolled into other things at the
10 mission level, often which have an IT
11 component. And so there is some of that that
12 happens.

13 In many agencies it's not
14 implemented by the central IT function. It's
15 actually implemented by kind of a mission
16 function. And we hope to correct that as well
17 because we think there should be coordination.

18 I think there is where dovetailing
19 VMO and investment review boards really comes
20 into play, where IRBs need to have this
21 holistic, strategic view across what's being
22 spent and then --

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1 MS. MCGOVERN: So just a curiosity
2 question: when you had this CIO summit, were
3 the three agencies that have been piloting
4 this like missionaries or did everybody sit
5 around the table thinking, wow, those two guys
6 are crazy?

7 MR. VANROEKEL: We generally are
8 classed as crazy. You want to speak to that?

9 MR. BAKER: I mean, if I say what
10 I'm thinking it's going to sound a little
11 egotistical, but I think if you look at Casey
12 and at John and what we're doing at VA, I
13 think it's viewed as a bit of leadership.

14 I'll speak directly to what Casey's
15 doing with cloud stuff, that is clearly a
16 leadership piece in the government, you know,
17 in moving out and taking all of GSA to cloud
18 email and desktop. We're all asking
19 ourselves: how do we do the same thing?

20 So there may be a little bit of
21 thought that we're a little bit crazy, but not
22 a lot.

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1 MR. ZIENTS: I'm crazy and I still
2 want to pivot to the other topic.

3 MR. BAKER: Yes. Let's do that.

4 MR. SALEM: Just real quick. The
5 one comment I would make, if you want to think
6 about it, and Casey touched on it with the
7 notion of looking at your inventory is: spend
8 under management.

9 So what is the total spend that is
10 under the management of the VMO? Because the
11 metric that you'll find is initially it'll be
12 a very small percentage, and your goal should
13 be to make that as high as possible. So what
14 is the spend under management?

15 MR. VANROEKEL: That's a great
16 metric, and I think portfolio stat will start
17 to give us a view into what kind of total the
18 denominator is at least, to some degree, so we
19 can start driving towards that.

20 Great. So we'll shift to IT
21 portfolio management investment review boards
22 with David from Interior.

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1 MR. HAYES: Thank you, Steve. We
2 had terrific site visits to many of your
3 companies. We went to Aetna, to Enrique,
4 Symantec, saw Liz down at the beautiful
5 offices in Tampa, and also went to Adobe.

6 And I want to make a couple of
7 broad comments on Page 1 and then ask Andrew
8 to talk a little bit about the big takeaway.
9 The smaller takeaways, we had a very important
10 incremental development in the last couple of
11 years. I've talked a little bit about this
12 with all of you before.

13 We're a highly siloed department.
14 We have eight or ten major units, National
15 Park Service, Fish and Wildlife Service, BLM,
16 our offshore oil and gas, we've got USGS,
17 we've got the Bureau of Reclamation. Many of
18 these are very important businesses.

19 We manage one third of the energy
20 production in the United States. We manage
21 almost one third of our landmass. These are
22 big organizations, 10,000 plus people each,

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1 several billion dollar budgets each, they have
2 all had their own separate IT systems. They
3 all have their own separate ways of doing
4 things.

5 What we learned, with great help
6 from all of you, is: that's not an efficient
7 way to do business. And we've been on an IT
8 transformation effort now for a couple of
9 years. We realize we need a central single
10 authority for decision making.

11 So we've been going in steps. We
12 no longer have Bureau CIOs. We now have a
13 centralized CIO. We have, essentially,
14 downgraded what the former Bureau CIOs should
15 do. They should not be learning all about the
16 hardware and the big backbone software.

17 They should be much more of a
18 service-oriented, below the kind of big
19 picture, they're the ones, the customers
20 service to make sure -- so it's a completely
21 different culture change we're trying to do.

22 We also learned, and Liz was a

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1 terrific teacher in this, to be ruthless about
2 requiring -- ruthless is the right word, Liz,
3 to have department-wide structures to enable,
4 at the top, us to give hard messages to folks
5 asking about whether proposed big spends
6 really met an important business function.

7 I only say ruthless because we sat
8 for several hours and watched Liz do this with
9 her top management team. The ruthless part
10 was there was, I recall, one piece of
11 software, major thing, and the owner of it was
12 actually not in the building that day and they
13 lost out. That was a mistake.

14 So there's a lot of items here to
15 talk about, or governance structure and
16 everything else, but in the very few minutes
17 we have, I really want to go to Page 2 and
18 tell you what we're doing.

19 MR. ZIENTS: 25.

20 MR. HAYES: Because it's the second
21 bullet. We're transforming from a federated
22 IT service delivery model into a new single-

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1 wide DOI IT service delivery organization.
2 We've decided to do this by ripping off the
3 band-aid. Within the last several weeks, we
4 have had meetings with every one of our Bureau
5 Directors.

6 And with Andrew's leadership, he's
7 going to explain very briefly here what we're
8 looking to centralize and what we're looking
9 to keep in the Bureaus, because they need some
10 mission-specific software and some capability,
11 still at the Bureau level, but there's a lot
12 of redundancy at the major level.

13 I talked, last time, about we have
14 one server for every seven employees at our
15 department, for example. And what we're doing
16 is we're identifying the literally thousands
17 of people that work on backbone systems in our
18 Bureaus, we are moving them to report to our
19 CIO, and then to Andrew, our Deputy Assistant
20 Secretary.

21 We're having very difficult
22 discussions, looking at every IT person, and

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1 finding out what they're doing, and deciding
2 they stay in the Bureau or whether they go to
3 the new central organization. The central
4 organization's going to have eight major
5 activities where we're recruiting the best of
6 the best for each of these.

7 We're finding new career paths for
8 our IT people so they don't end up as the best
9 IT person in the National Park Service, they
10 end up as the best IT person in a huge
11 organization. Andrew, why don't you talk a
12 little bit about how we're trying to
13 distinguish the centralization versus the
14 Bureau-specific activity?

15 MR. JACKSON: Sure. We spent a lot
16 of time, really, trying to make strategic
17 choices about what would best benefit from
18 coming into a central organization. And where
19 we kind of drew that line was, the mission
20 applications that David was talking about,
21 where we feel that there is a really strong
22 connection, for the most part, in terms of how

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1 the mission is delivered and the systems that
2 are used to deliver that system.

3 What we're doing is we're moving
4 the investment management pieces into the
5 department so we actually can see what's going
6 on inside each of the portfolios and we're
7 managing that now much more closely than we
8 ever have at a department level.

9 But everything else, all of the
10 operations, essentially, the backbone pieces,
11 the network, the datacenters, of which we have
12 more than we should, the number of servers,
13 the virtualization of the servers, all of that
14 is actually coming into the department, and
15 we'll be delivering that as a new service,
16 this catalog-based, unit-based, pricing model.

17 So we're pretty excited about, you
18 know, this pretty fundamental shift in what
19 we're doing. And we think that by asserting,
20 you know, a fair amount of control over those
21 things that were most redundant in the
22 department and still respecting the need to

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1 have a certain amount of sort of ownership of
2 the pieces that are most closely tied to
3 missions, we've been able to draw, I think, a
4 pretty good distinction and it's resonated
5 well within all other corners of our
6 department.

7 MR. HAYES: So wish us luck with
8 that.

9 MR. ZIENTS: It's a huge move.

10 MR. HAYES: We're going to keep
11 these folks in place. They're not going to
12 physically move yet. They're just going to be
13 paid by a different entity and have a
14 different reporting mechanism. We are
15 confident that it's going to result in a very
16 significant reduction in the number of
17 employees at our department who are doing IT.

18 That's creating a lot of anxiety in
19 our department, but this needs to be done.

20 MR. SALEM: Yes. Huge. Change
21 management in this process is going to be
22 incredibly important. And you're going to

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1 find there's certain people who probably can't
2 play well in your new structure and you need
3 to figure out what to do.

4 MR. HAYES: So I hope Andrew and I
5 will be here.

6 MS. SMITH: I applaud you on the
7 full action, because these things don't change
8 without a pivot, so good for you.

9 MR. HAYES: We have a very engaged
10 Secretary, Ken Salazar, and we're driving it.
11 And I hope it works, but I think it will. I
12 mean, everyone can see it. And what Andrew
13 and Bernie Mays bring is the idea that
14 everyone's going to get better service. This
15 is going to make everyone's life easier.

16 I'm getting a Mac on my desk
17 because of Andrew and we're going to have a
18 better opportunity for different choices for
19 all employees. And then that's part of the
20 message is, we're going to actually very much
21 improve your service if we do it this way.

22 This isn't a centralization that's

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1 going to be more of a bureaucracy, this is all
2 about good service and that's sort of the
3 ethos of what we're trying to do.

4 MR. ZIENTS: Education.

5 MR. MILLER: Thank you. I think
6 it's important to set a little bit of a
7 context. So here's the context of education.
8 Five years ago, as part of the
9 administration's move to outsourcing and
10 greater efficiency in government, there was a
11 set of decisions made to take all of Ed's IT
12 infrastructure, so desktops, laptops, servers,
13 all the assets in terms of all the services,
14 and completely put that out and have it
15 managed.

16 And so we don't have kind of
17 control over that, over a multi-year contract,
18 frankly, with a vendor that had never done
19 work in federal space, and we had no
20 experience doing that. We did that with not
21 documentation of the assets, and we did not
22 put in place clear service-level agreements.

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1 It was without the support of
2 really the career team, right, within our IT
3 organization, and it was done, at that time,
4 it was five years ago, relatively late-stage
5 and, kind of -- the second term of the
6 administration, and so you had, then,
7 significant leadership turnover within 18
8 months. Other than that, it was a great
9 decision.

10 Not surprisingly, what has
11 happened, you know, when we came in, it was,
12 frankly, we had a mess, right? You had costs,
13 right, that were not meeting the cost
14 projections and surprises, where you were
15 getting, you know, new bills coming in terms
16 of, well, these are the assets we didn't think
17 you had and so this is how the pricing on the
18 contract worked.

19 We had service levels that were
20 just decaying and so you had real frustration,
21 and you had a perceived lack of
22 responsiveness, because you call our IT shop

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1 and say, hey, we need you to fix this, it was
2 like, we don't own the asset or the service,
3 and we didn't really have the infrastructure.

4 And so that's what we've been
5 digging out of over the last five years. I
6 think that's important because, you know, a
7 lot of the work has been on putting service
8 level agreements in place and trying to manage
9 the cost, get a sense of the cost, but it's
10 also important because, in terms of our IT
11 organization, it does not have the
12 credibility, kind of, amongst the leadership.

13 It's, well, you guys are just a
14 pain, right, and just a problem. And so this
15 whole notion of, you're going to move into
16 portfolio management in terms of business
17 value, our leadership, right, broadly defined,
18 would say, are you kidding me? IT being a
19 value added piece of our business is just not
20 credible right now.

21 Now, I say all that because, look
22 forward to where we are today. We've actually

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1 done a lot of work of kind of cleaning up and
2 we're now positioning, not just so we're
3 getting much more predictable cost and
4 improved service, that, you know, the legacy
5 perception notwithstanding, the actual
6 performance is much, much better.

7 Second of all, in parallel, we've
8 put in place some basic, and even the second
9 wave of a portfolio management. And so we
10 actually have segment owners that review the
11 portfolio. And so we're not bad in terms of
12 the technical capability that Danny's put in
13 place, where, you know, those come, they're
14 reviewed with the group that I sit on, to
15 really start making some trade-off decisions.

16 And in an environment where budgets
17 are constrained, it's easier, when you start
18 cutting budgets, it's easier to see what
19 floats to the top. And so our big takeaway
20 from the visit was: how do we actually now go
21 to this next level of really getting like
22 business value?

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1 And what we've said and realized
2 is, if we're going to do that, we really are
3 going to have to come up with really engaging
4 our business, our line of segment leaders, to
5 really understand and have them re-frame how
6 they think about IT.

7 And that's very difficult in an
8 environment where, not only you don't have
9 credibility, but, you know, the IT value add
10 can be somewhat amorphous in some of the
11 services that are being provided in the
12 federal government.

13 You can't link to, you know, new
14 customer acquisition, or, you know, operating
15 cost reduction where there's personnel where
16 you can redirect it. And so that's been a big
17 takeaway. If that's what we want to do, the
18 takeaways from the site visits have been, if
19 you really don't have buy-in from the top,
20 it's going to be really hard to get the
21 alignment.

22 Two, what we're finding is: what we

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1 really have to have is some levers. And so if
2 you have a whole part of your spend that you
3 cannot manipulate, and/or you're tied to
4 legacy, it's hard, then, to, kind of,
5 prioritize things in a new way and have people
6 see the effect of that.

7 And so we said, okay, we've got to
8 create some space here if we're really going
9 to have people see it. And then, you know,
10 obviously it's kind of how do you actually not
11 only provide the alignment, but then the
12 ongoing transparency?

13 So those were some of the
14 takeaways. And so what you're going to see
15 here in terms of what we're doing, for those
16 of you who know me, it's a little bit ironic
17 because it's a little bit on the softer side,
18 right, because it's not about what's the
19 bottom line.

20 I mean, we actually took, you know,
21 millions of dollars out this fiscal year, but
22 we kind of would have done that anyway, right,

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1 just because you have to. And so what the
2 real challenge has been is, Danny has been,
3 with our sponsorship, having kind of one-on-
4 one meetings with all of our seniormost
5 leaders in each of the business units to help
6 them articulate what their real issues are and
7 then how do they think about value.

8 We're also developing a new value
9 methodology. And so it's a framework, for the
10 first time, that says, how do we think about
11 these in terms of business value not just kind
12 of technological value and a cost? And so
13 that's been something that's kind of a 1.0.

14 And then what our plan is, is
15 actually kind of take this in the context of a
16 new IT strategy. And so that's also been new,
17 because it's been an IT strategy in terms of
18 here's what we want to do, in terms of rebid
19 the contract. There's a set of things that
20 would be kind of in the world of the OCIO, and
21 instead, recast that in terms of the agency
22 strategy, now, how is IT a real initiative?

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1 So it's almost been a re-crafting.

2 That's what we've been kind of
3 working in parallel on, moving towards, now,
4 in this quarter, we're now trying to go live,
5 if you will, with syndication of the IT
6 strategy, in the context, here's the
7 implications for our portfolio management and
8 our value methodology that we're going to be
9 using in that.

10 And then to actually, frankly,
11 we're really trying to apply it towards the
12 next fiscal year, given where we are with our
13 planning cycles, to use it that way to kind of
14 influence kind of what projects you would or
15 wouldn't do, and then do our retrospective for
16 the fiscal year that we can influence it, but
17 only at the margin. That's what we're trying
18 to do.

19 And our real goal is to really come
20 up with, like, a baseline, because the whole
21 challenge here is, well, what would it have
22 been and how do you do it differently? So you

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1 get a real baseline for, like, a look back and
2 then you say, okay, that's the baseline. How
3 do we, then, kind of, have continuous
4 improvement against that baseline for the 14
5 year? So that's the approach we're taking.

6 Again, it's a little bit softer
7 because, the challenge we have, at this stage
8 in our term, is, you know, the organization's
9 like, hey, you know, November is going to be
10 an election, you know, how are we going to get
11 this to sustain?

12 So that's why I think it's really
13 been -- I know Danny and our CIO's leadership,
14 right, in trying to move, not just to the
15 political leadership for each of the, if you
16 will, lines of business, but also to try to
17 build a methodology that can sustain through
18 the underlying process. So that's where we
19 are in education.

20 MR. VANROEKEL: So there's other
21 highlights across government where this
22 process is bearing some nice fruit.

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1 Department of Agriculture moved from 21 email
2 systems to 1. It's a third the cost. They
3 moved from over a thousand mobile contracts to
4 3 inside the entire agency. It was a big,
5 bold move.

6 Department of Commerce consolidated
7 all their PC buying into one. Over a 15
8 percent discount across the board on that.
9 And then, it's funny, that, you know, once you
10 centralize and, kind of, to Tony's point, get
11 IT as more of a strategic asset kind of in
12 that conversation, other things start to
13 happen.

14 And so we're putting out guidance
15 on how to change the way mission software is
16 built in a more modular way and start to
17 cascade this stuff into cross-sharing within
18 these departments, both on the kind of
19 commodity side and on the way we deploy
20 technology, and so we're excited about all
21 that.

22 The questions, again, are very

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1 cultural, you know, as we scale this out
2 across government. You know, as you've
3 mentioned, wisely, change is hard.

4 I think the second half of question
5 number 2 there is the one I'd like to lead off
6 with, which is, you know, that partnership
7 that exists between the business owner and
8 kind of the IT function of the CIO, rather
9 than, sort of, service provider, how do you
10 make that a strategic relationship and mandate
11 from the top, in Tony's case, but there's
12 other ways, I'm sure, and I'd love to hear
13 about ways you've done that.

14 MR. KINDLER: Steve, one point on
15 that, going back to the earlier discussion
16 that we had and Ron's comments about goals, to
17 the extent that you incorporate into
18 individual goals of the business unit leaders,
19 the IT transformation process, and it also
20 goes to Tony's point about making this a
21 strategic imperative of the organization.

22 It's a business need. They're part

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1 of it. Their goals are aligned with that of
2 the CIO. And the performance reviews and
3 discussions that Ron was talking about, as it
4 pertains to individual goals, are integrated
5 in it. So the two of them are really aligned
6 as business partners achieving that goal as
7 opposed to that vendor relationship.

8 The person you call when your
9 computer isn't working. I think that's really
10 a critical change, part of the process,
11 thinking of the IT function as a business
12 partner and aligning their goals with the
13 business goals, aligning the business goals
14 with the IT transformation. All right.
15 That's a great leverage point, the individual
16 goal.

17 MS. SMITH: Yes. I mean, I think
18 we've talked a lot about we need to have, you
19 know, that notion of one person that's
20 accountable. It works against you in this
21 situation. We actually moved to a new -- and,
22 you know, we should talk to you guys both

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1 about it, there's two signatures on
2 everything.

3 There has to be a business leader
4 and an IT leader. So every project, every
5 spend, everything has two signatures. So
6 right there, you have, you know, we've been
7 using the neck to squeeze, you're united in
8 this goal.

9 So, yes, you've got to put it in
10 the goals, but on a project-by-project basis.
11 It has to be two people, in tandem, whose
12 outcomes are tied to each other, not one
13 insubordinate to one another.

14 MR. SALEM: The question you want
15 to ask, and we talked a little bit about this,
16 is, does everybody who works in the department
17 see technology as part of transformation or do
18 they see this as running back office systems?

19 Because, see, there's a mind-shift
20 that has to happen where it's about really
21 driving a transformational change in
22 fundamental customer service and productivity.

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1 If you can't get that mind-shift, we're just
2 relegated to doing back office ERP systems, or
3 whatever, and that doesn't get the value.

4 And so it has to start at the very
5 top where people are saying, we will transform
6 through technology.

7 MS. SMITH: And here's the benefits
8 to you, as David was saying.

9 MR. SALEM: Exactly.

10 MS. SMITH: So, you know, whether
11 you can't see it yourself, here's the end
12 benefit for you from having a different lens
13 on how you think about technology and
14 partnership.

15 MR. KINDLER: If it's defined by
16 the Secretary of the Deputy Secretary as one
17 of the two or three strategic imperatives for
18 the organization, for this year, that's going
19 to be reflected in both the department goals
20 and the individual goals, and that's then part
21 of the business leadership and both the
22 business unit leaders and the CIO, and they're

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1 all aligned around that, then it becomes a
2 strategic element of the organization's
3 mission as opposed to the back office.

4 And I'm the single point of
5 accountability, you know, neck to squeeze
6 thing, which I'm a big, big advocate of, I
7 think Liz makes a good point, if it's seen as,
8 that's IT's problem, that's their issue, they
9 need to deal with it, then, yes, they have a
10 lot of accountability, but they don't have the
11 actual ability to achieve anything.

12 That's why it has to be, I think,
13 integrated and identified at the very top,
14 which it sounds, David, like it's a big deal
15 in your department this year, this is one of
16 the two or three things we're going to do, and
17 everybody's onboard, and it's in everybody's
18 goals.

19 MR. VANROEKEL: Exactly. I think
20 seeing IT as a strategic asset is probably our
21 biggest challenge.

22 MR. KINDLER: Sorry?

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1 MR. VANROEKEL: The ability to see
2 IT as a strategic asset is probably our
3 biggest challenge, largely working with
4 Congress, you know, we have a lot of people
5 that sort of view IT as their ability to check
6 their BlackBerry and print, and not really get
7 into a lot of things there, but we're starting
8 to see the tide change too.

9 MR. WILLIAMS: This loops back to a
10 development and training issue, which is
11 giving people a broader context to understand
12 technology as part of the competitive strategy
13 and part of the fundamental success of the
14 business.

15 And so early on in our process, we
16 actually invested substantially in training
17 for the senior executives, not in the
18 infrastructure and technology, but to really
19 educate them on how technology is part of the
20 business strategy.

21 And so I think building on
22 Enrique's comments, I think that kind of

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1 fundamental training and orientation is
2 absolutely critical. We actually said that
3 there were no IT projects there were only
4 business projects, and that's really what you
5 have to do, and that leads back to this joint
6 signature.

7 It's about: here's the business
8 need, here's how the technology is helping the
9 business accomplish its overall objective.

10 MR. BAKER: There's an interesting
11 chicken and egg here because, Jeff, you had a
12 slide about 18 months ago of the productivity
13 gap.

14 MR. ZIENTS: Right.

15 MR. BAKER: And given that
16 productivity gap, you know, then you talk
17 about IT is viewed as a cost, not a
18 competitive weapon, in the Federal Government.
19 So if it's not what's transforming the
20 government, then it's something that should be
21 reduced in spend.

22 MR. ZIENTS: Right.

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1 MR. BAKER: If it's something
2 that's closing that productivity gap, then it
3 should be invested in. And our problem right
4 now is that, by and large, IT is viewed,
5 across Federal Government, as a cost that
6 should be reduced instead of an investment
7 that returns results that justifies an
8 increase.

9 MR. WILLIAMS: But if you can
10 connect it, Roger, and, you know, maybe the
11 Patent Office would be a good example of this,
12 if you can connect it to customer
13 satisfaction, to better results, better
14 outcomes, and people can actually see the
15 strategic benefits as opposed to the cost
16 benefits.

17 And, certainly, in the VA, you
18 know, connected to improved patient care,
19 improved performance of the physicians,
20 improved performance of the hospitals, which
21 we all know it achieves, and really connect it
22 to the missions of the physicians and the

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1 providers in the hospitals, then they
2 understand, this is not just a back office
3 function, or a cost center, this is an enabler
4 to achieving my goals.

5 And again, to me, it's a virtual
6 circle connecting it to their strategic
7 objectives of the year, so they understand it
8 helps them achieve what they're trying to
9 accomplish substantively.

10 MS. SMITH: I think it's important
11 to acknowledge, though, a very real challenge
12 that you have that we have in business, which
13 is why you're getting these technology systems
14 in place that'll take all this cost out. It's
15 a cost to add on top of a legacy system
16 expense base.

17 So you have what we call the boa
18 constrictor moment, okay? You have to invest
19 forward to get out of this mess while you're
20 still weaning yourself off the legacy systems
21 and you have this dual-cost component at a
22 moment in time.

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1 And that has to be acknowledged,
2 and one of the challenges, I think you have
3 even more, is that, in business, if we can
4 paint the picture that's four and five years
5 down the line, wow, the savings will be this
6 much. We, as leaders, can sell the expansion
7 to contraction.

8 The way that you guys,
9 pragmatically, are operating, it's very
10 difficult for you to sell in that annual list
11 to -- so you never really get that switch off
12 the legacy systems. It's an important
13 distinction between how I've come to
14 understand you operate and what we have the
15 capability of doing.

16 MR. MILLER: And I think the other
17 thing which I'm finding, which is, we're still
18 trying to drive change management on the basic
19 business transformation. And so, you know,
20 it's not as if there's an agreed-upon and
21 everybody's onboard, that I'm going to
22 increase overall productivity against these

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1 service-level metrics over the next -- by 20
2 percent, of which then IT is an enabler.

3 You're almost saying, I'm trying to
4 get buy in that we're going to get the top-
5 line strategy business transformation, one,
6 and then, two, IT will be the enabler to do
7 that. It's like, it's a double sell is what I
8 was finding in some areas of our operation.

9 MR. HARRIS: Well, I'll give the
10 flipside if you don't mind. The flipside of
11 Tony's argument is, since our Board of
12 Directors has 535 members, and making the
13 picture describing, Liz, is exactly right.
14 They don't want to know about savings five
15 years down the line. They want to know about
16 tomorrow, because that's what their
17 constituents are looking at.

18 They're very excited about things
19 that directly relate to a policy outcome, or
20 directly relate to a specific programmatic
21 outcome, but a shift to cloud email, which
22 will give me \$15 million a year in savings,

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1 and that's why we're doing it, following the
2 GSA model, which is an excellent model by the
3 way, they don't want to hear about that,
4 because that has no measurable programmatic
5 impact.

6 It will have a tremendous
7 productivity impact inside my organization,
8 but the sales pitch for the initial investment
9 is a very difficult pitch for us to make.

10 And by the way, it's brilliantly
11 designed, our budget system is brilliantly
12 designed, so that you're projecting your
13 budget proposals for a year and a half down
14 the line. That means your IT buy is another
15 year down the line, and in protest time,
16 you're talking about change that's at least
17 three, four, five years down the line, you
18 know, I may or may not be here in five years.

19 MS. MCGOVERN: Is it an Act of
20 Congress to change the way the budget
21 construction works?

22 (Laughter)

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1 MS. MCGOVERN: But, I mean, is it
2 law? Sometimes these things are laws.

3 MR. ZIENTS: It involves the IT
4 budget which VA has done some innovative
5 things on, you know, changing the context of
6 particular budgeting is one chore.

7 MR. VANROEKEL: We're actually
8 working with Congress on capital budgeting and
9 multi-year functioning for IT as a suggestion
10 and that will take an Act of Congress to
11 consider.

12 MS. MCGOVERN: Connecting two dots,
13 if Roger's issue, which is, when I say that,
14 what do I get for it, and the boa constrictor
15 analogy that Liz used, is there a way to, you
16 know, do vendor management to get a pool of
17 funding, yes, headroom, to fund your bubble
18 and have a smooth looking budget?

19 MR. VANROEKEL: Yes. And then the
20 other part of this is just maniacally going
21 after all this duplication and all this stuff
22 that just wastes --

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1 MS. MCGOVERN: Well, that's
2 exactly, freezing the legacy systems will get
3 you a big portion. You know, you can't use
4 the boa constrictor of we can never get this
5 done, you got to ruthlessly cut out all the
6 other stuff and you'll get your head space
7 that way.

8 MR. HAYES: That's true. And I have
9 to thank Liz for that one. We're doing that.
10 We have sort of an across the board, we're not
11 investing in legacy systems. The other
12 benefit of that gave us some money for our
13 transformation, but it also forced people to
14 talk to us because now they've got an issue,
15 and they need service, and how are they going
16 to get service?

17 And that's actually had very
18 beneficial --

19 MR. ZIENTS: So we've got to wrap.
20 So, John, for minute, Kathleen, for a minute,
21 then, Steve, just bring this all together and
22 how we're going to hardwire it.

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1 MR. BERRY: I'm just going to go
2 back. Liz used the concept of pivot before
3 and I think the direction, and obviously the
4 consolidation, where we're going with each one
5 of us in this direction is great. There are
6 46 different agencies in the Federal
7 Government, which means we could still have 46
8 different contracts.

9 And it seems to me the pivot has
10 got to be, you know, why are we all buying
11 different accounting systems, you know? It's
12 one government, it's kind of all up to one
13 financial sheet, and yet, every one of us goes
14 out and repeats the same mistakes and buys a
15 different IT system, and has to go through
16 both an IT and a vendor management unit, and
17 yet, even if I consolidate OPM, or David
18 consolidates the Interior, we have different
19 accounting systems.

20 And so the pivot, it seems to me,
21 where we've got to get to is to start to say,
22 okay, at what point do we start to say,

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1 government-wide, using your market power, and
2 make some of these decisions more, you know,
3 universally rather than agency by agency, 46
4 different units at a time?

5 MS. SMITH: That would be ultimate
6 bliss. On the other hand, you know, you got
7 to take the elephant down one bite at a time.

8 MR. VANROEKEL: I've actually
9 contemplated this a lot. I think, you know,
10 we're big enough at \$80 billion in kind of the
11 commodity spend, plus who knows how much more
12 on the emission side, that there's actually a
13 benefit in the diversity of our spend to
14 American business, and so I think there is a
15 little bit of a, you know, balance we have to
16 strike there.

17 MS. MERRIGAN: So mark this day in
18 history, I'm going to defend Congress here. I
19 actually came from my appropriations hearing
20 yesterday. We spent a lot of time talking
21 about IT, about going to the cloud, about
22 datacenter consolidation. We have spent a lot

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1 of time at the Department of Agriculture,
2 basically, marketing our administrative
3 efficiencies.

4 I mean, we've got a blueprint for
5 stronger service. It's got a nice motif.
6 We've got results. We've got talking points.
7 And we just keep drill, drill, drill. And the
8 Congress people are saying, you see it in
9 their talking points and their rhetoric, both
10 sides of the aisle, so I think sometimes we
11 get very focused on selling our policies and
12 we don't do as much of the heavy lift in
13 selling our management side.

14 And I think that it can be done.
15 That's the experience that I'm seeing at
16 Agriculture with our Congressional members.

17 MR. ZIENTS: Great. If you can
18 wrap up the session as to how this is going to
19 move forward.

20 MR. VANROEKEL: Great. So thank
21 you all, again, for all the advice. As you
22 can see, we've done a lot here. We're excited

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1 to get portfolio stat out to kind of keep the
2 momentum going in a very programmatic way,
3 that we have the convening power in OMB to do,
4 and so I think this is going to have a nice
5 set of results ahead, and hopefully we're all
6 sitting around someday in the future
7 celebrating additional savings and other
8 things.

9 MS. SMITH: It's fabulous progress.

10 (Applause.)

11 MR. ZIENTS: Right now, it's about
12 25 past. The smaller group of PMAB members,
13 let's reconvene here in ten minutes and I
14 think we can be finished by 12:15 or so.
15 Good. Thank you, everybody.

16 (Whereupon, the foregoing matter
17 went off the record at 11:22 a.m. and went
18 back on the record at 11:31 a.m.)

19 MR. ZIENTS: So we want to maintain
20 your involvement, as we discussed this
21 morning, in the SES, particularly on the
22 training side, and on the coming back to your

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1 prior conversation on performance reviews.
2 Once we're a little further along, I think
3 there's continued work on the IT side, but
4 we're going to make that, sort of, the 10 or
5 20 percent of your involvement.

6 We want to ramp up a couple new
7 areas. So I'm on Page 30 now and our thinking
8 was, consistent with much of the work we've
9 done, but that the best area to focus, at a
10 macro level, is on where we can save money and
11 increase efficiency.

12 And do a pretty quick cycle run of
13 getting some private sector best practices in
14 a few areas where we could have significant
15 savings potential and through the six to ten-
16 month time frame, where we have natural
17 owners, as we did with the last set of topics,
18 at the PMAB level and also here at OMB, to
19 help drive the change.

20 And, I already mentioned this, but
21 where we do believe that private sector best
22 practices can help accelerate our efforts that

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1 we have ongoing.

2 So the three terrains that we
3 wanted to brief you on very quickly, with the
4 goal of either today, if it's obvious, or in a
5 follow-up phone call if we think it needs a
6 little more reflection, choosing two of are
7 real estate, improper payments, which you'll
8 learn more about, and strategic sourcing,
9 which naturally came up a few times in this
10 morning's conversation.

11 So the goal was to pick two new
12 topics, again, divide the group in half, have
13 you assign a senior staff person to work with
14 the team, have some personal involvement along
15 the way, make progress for our June meeting,
16 and really have recommendations for our
17 October meeting.

18 So why don't we do quick intros
19 starting with you, Joe.

20 MR. JORDAN: Hey, I'm Joe Jordan
21 from the Office of Management and Budget and I
22 am Jeff's senior advisor and I'm also the

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1 nominee for the Office of Federal Procurement
2 Policy.

3 MR. ZIENTS: So think of him as
4 contracting acquisition. He worked with
5 McKinsey and then at SBA for two and a half
6 years.

7 MR. BUDETTI: I'm Peter Budetti.
8 I'm at the Center for Medicare and Medicaid
9 Services. I'm the Deputy Administrator for
10 Program Integrity, so I'm the Medicare and
11 Medicaid fraud fighter.

12 MR. WERFEL: I'm Danny Werfel. I'm
13 the comptroller at OMB and I have a
14 responsibility for broad issues of financial
15 management, fraud error, real estate, among
16 other responsibilities.

17 MR. ZIENTS: Because I've taken on
18 the Director role, Danny has stepped up and
19 taken over much of what I was doing on
20 management.

21 MR. WERFEL: Do you want me to
22 launch into real estate then?

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1 MR. ZIENTS: Please. So, team, we
2 have a goal, which I want to meet or exceed,
3 of being done by 12:15, so I think we need to
4 have everything on the table by 12:00. You
5 should ask questions as we go, but let's get
6 the three topics done by 12:00, and then we
7 will have 10, 15 minutes of conversation, and
8 the break.

9 MR. WERFEL: So as Jeff mentioned,
10 real estate is a large opportunity. It's a
11 large footprint. We have the largest real
12 estate inventory in the country, we think,
13 maybe the world, but we haven't been able to
14 validate that yet.

15 The operating costs on our real
16 estate is \$30 billion. We have over a million
17 different structured assets and, obviously, a
18 very diverse portfolio. Everything from
19 office buildings, to labs, to tunnels under
20 the Earth that are 300 miles long, and we
21 shoot photons through.

22 I mean, we have every type of real

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1 estate you can imagine.

2 MR. ZIENTS: I just hope that you
3 don't fund the private sector.

4 MR. WERFEL: Yes, exactly. But we
5 have been mostly focused on what we call our
6 administrative assets. Our office space. Our
7 warehouses, hospitals, to look for downsizing
8 opportunities. There's a couple of factors at
9 play right now that have raised this
10 opportunity into even a higher possibility for
11 savings.

12 First of all, we're seeing the
13 workforce being a lot more mobile. Not
14 everyone's at their desks the way they used to
15 be and moving costs are down as well. People,
16 when they move now, show up with a thumb drive
17 rather than a bunch of boxes and we're seeing
18 that as an opportunity.

19 And then technology is changing.
20 You know, one of the examples we use is we
21 have farmers on tractors throughout the
22 country that are using GPS devices to do their

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1 crops, yet we still have a bricks and mortar
2 USDA building in almost every county in the
3 United States.

4 So our footprint is a 1960s
5 footprint the way in which these activities
6 are carrying out are not --

7 MR. ZIENTS: One of the things that
8 Kathleen talked about with Ag was some
9 tremendous work that they're doing. They are
10 out there closing offices, really, for the
11 first time ever.

12 MR. KINDLER: And what are they
13 doing with the people?

14 MR. ZIENTS: They're able to, I
15 think, handle most of it through, either
16 attrition or giving the people an opportunity
17 that's not right next door, and if they don't
18 want to take the commute piece of it, then,
19 but I mean the idea of in this day and age you
20 have offices in every county staffed by an
21 individual or two.

22 MR. WERFEL: Yes. It gets even

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1 more challenging because it's not just an
2 office in every county. We have multiple
3 federal agencies that have offices in every
4 county, including Social Security, obviously,
5 the Post Office, et cetera.

6 MR. ZIENTS: You see a little bit
7 in job training and there's some one-stops,
8 but for the most part --

9 MR. WERFEL: Yes. It's very sad.
10 And what we're trying to do, for the first
11 time, is manage the federal portfolio more
12 effectively, and the next bullet here on the
13 support for agencies sharing assets in the
14 same metro areas.

15 We are at a point right now where
16 we've developed a robust inventory of every
17 asset with a lot of data and we're doing, you
18 know, let's look at the Denver metro area,
19 let's look at Atlanta, let's see where there
20 might be overlap, because we have information
21 that can allow us to see, you know,
22 connections that can be made among agencies.

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1 So we have a lot of different
2 indicators that we look at. The Government
3 Accountability Office, which is like our
4 auditor, has told us that we're over-relying
5 on short-term leases, we have too many un-
6 needed assets, we're not running our assets as
7 efficiently. This is all information we have
8 been able to identify as well, and we've set
9 out to tackle the issue.

10 So the next slide --

11 MR. ZIENTS: What page are you on
12 then?

13 MR. WERFEL: I'm on --

14 MR. ZIENTS: 33.

15 MR. WERFEL: Yes, 32. I'm on 32.
16 I'm going to use this so we're all on the same
17 page now. So back in 2010, President Obama
18 issued an Executive Order telling us to save
19 \$3 billion in our real estate portfolio. So
20 far, we're achieved a billion and a half of
21 that savings and we --

22 MR. KINDLER: Can I interrupt with

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1 a question?

2 MR. WERFEL: Please.

3 MR. KINDLER: This is, sort of,
4 about how the culture works. So when an order
5 like that is issued, does each agency go out
6 and try to figure it out on their own or does
7 this become a forcing function for working
8 together?

9 MR. WERFEL: It's a good question.
10 It's a mixture of both, but what happened when
11 that Executive Order was issued is, I created
12 a team of three federal CFOs and three senior
13 real estate officials from across government.
14 And what we did is we brought every agency in
15 and did, kind of a stat session of their
16 inventory and said, show me where you think
17 the opportunities are, show me where they're
18 not, and we did a deep dive.

19 And it was through that effort that
20 we got every agency to figure out what their
21 complement of the \$3 billion goal is. And we
22 actually are now at \$3-1/2 billion in terms of

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1 the trajectory.

2 But it wouldn't have worked
3 effectively if we just let the agencies do it
4 on their own, but you need both. You need a
5 combination of both.

6 MS. MCGOVERN: So, Danny, let's say
7 you could wave a magic wand and you just
8 reduced real estate by 30 percent. You
9 consolidated buildings. People are mobile.
10 What are you going to do with the real estate?
11 I mean, this has got to be the worst market
12 ever to try to deal with the problem.

13 So at the end, is the intent to
14 just sell it off even if it's at a loss?

15 MR. WERFEL: It depends on the
16 asset. When you start studying our real
17 estate portfolio, you'll start seeing that a
18 large portion of it doesn't have a market
19 value, either because it's in a campus, or a
20 location, and it's just a building that we're
21 maintaining, and demolishing it is the best
22 thing to do to get rid of the operating costs.

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1 And that, you'd be surprised at how
2 often we have excess or underutilized assets
3 that we have determined have no market value.

4 MS. MCGOVERN: And you're just
5 going to raze these?

6 MR. WERFEL: We do it all the time,
7 yes. And that saves us money because of the -
8 - but the more direct answer to your question
9 is, yes, we're going to sell it.

10 MR. ZIENTS: So have any of you
11 ever been to the Four Seasons here? Prime,
12 prime, prime location. Behind the Four
13 Seasons is two acres of a steam heating plant
14 that used to, a decade ago it stopped, provide
15 steam heating to some of the federal
16 buildings. It's been vacant since.

17 So if you go in there, all the
18 labor notices are from 15, 20 years ago.

19 MR. SALEM: Why can't we convert
20 that?

21 MR. ZIENTS: It's \$350,000 a year
22 to maintain it, so we've spent \$3.5 million

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1 across a decade. We are working through the
2 process to sell it. And it's a hard process
3 so the prior administration has decided just
4 to not fight that battle.

5 Secretary Salazar and I put a stake
6 in the ground that it's being sold. It'll be
7 sold, hopefully, within the next six months or
8 so. We'll get tens of millions of dollars and
9 stop paying the \$350,000. You can imagine
10 there are a lot of people who are interested
11 in two acres on the waterfront.

12 MR. SALEM: Yes. It's a great
13 spot.

14 MR. WERFEL: It is. There's a lot
15 of interesting elements to this story and one
16 of them, Jeff mentioned, which was, it went
17 mothball ten years ago, and it was only within
18 the past few months that we announced that
19 we're excessing it.

20 MS. MCGOVERN: Is this in
21 Georgetown?

22 MR. WERFEL: Yes.

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1 MS. MCGOVERN: There's two acres
2 there?

3 MR. ZIENTS: It's between the Four
4 Seasons and the water.

5 MR. KINDLER: Wow.

6 MR. WERFEL: Yes. And the rooftop
7 views are unbelievable from that location. So
8 it should command a good price, but you're
9 right, in some cases we're going to be selling
10 into a soft market, but we don't have the
11 luxury, in many cases, of waiting, given the
12 budget climate we're in.

13 And a lot of pressure from a lot of
14 different Congressional stakeholders to move
15 these assets off our books.

16 We've got a couple of different
17 things going on that I'll highlight, but know
18 that there's a tremendous amount of work and
19 capital going into all of this. We are
20 putting together, something that doesn't exist
21 right now, a Craigslist for government.

22 We have not solved the problem of,

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1 I'm USDA, I'm in Oakland, California, I need
2 20,000 square feet of warehouse space, I'm
3 just going to go procure it versus knowing
4 that Commerce, a few blocks over, has some
5 excess capacity. We're trying to network the
6 data in a way to share those relationships.

7 And then the last bullet here on
8 creating an independent process. Why does it
9 take ten years for us to access the Georgetown
10 property? The politics, the local politics,
11 whether it's the Georgetown Commission on how
12 to redevelop the area or whether it's the
13 mayor or the Council.

14 Throughout the country, we have
15 assets that we can't move on as quickly and
16 swiftly because of the competing stakeholder
17 interests.

18 MR. ZIENTS: Danny, I'm going to
19 call an audible. I just got called in to
20 something that I cannot avoid. So I
21 apologize. So what we're going to do is,
22 rather than go through the areas for PMAB

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1 guidance in each section, let's have each
2 individual, just get us through this, then
3 present for five minutes, in their area, what
4 the challenge and opportunity is.

5 We'll definitely have you out of
6 here by 12:00, 12:05. I apologize for leaving
7 early. I would only be doing this if I
8 absolutely had to. And then what we'll do is
9 we'll get a 15, 20-minute call next week on
10 the calendar where we'll get this group on
11 that call and we can determine, together, what
12 our two topics are going to be. And again,
13 apologies and gratitude for being here.

14 MR. SALEM: The only thing I was
15 going to say to even consider is, a lot of
16 great work that we heard this morning, which
17 is going to be some ongoing work that I think
18 we can push that along further.

19 MR. ZIENTS: I think that is the
20 point. Maybe it's 30 percent. I think we can
21 afford to launch a couple more topics, because
22 I think these topics are pretty contained and

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1 you guys have best practices, while we
2 continue to monitor and help on those issues.
3 Again, I apologize.

4 So five minutes per terrain and
5 then we'll do a phone call next week.

6 MR. WERFEL: So just to finish up
7 the bottom line on real estate --

8 MR. NARAYEN: Maybe just a second
9 before you go, just in front of you, it's been
10 pretty amazing to see the progress.

11 MR. WERFEL: Definitely.

12 MR. NARAYEN: This is from your
13 leadership. I think we'd be remiss not to
14 acknowledge that.

15 MR. ZIENTS: All the credit is
16 taken. Even as we're talking about it,
17 Scott's going to be ramping up an important
18 role. Now, let's just keep up the momentum
19 and thank you for everything. And apologies,
20 again, I would only do this if I absolutely
21 had to.

22 MR. WERFEL: So I think the bottom-

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1 line on real estate is something that we can,
2 as Jeff said, lift up at a later time and
3 delve deeper into is, things are changing, the
4 workforce is changing, technology is changing,
5 even our data warehouses, you know, we walk
6 into them today and you see a lot of empty
7 space because the things that used to have to
8 hold major, large computers are now being held
9 on things this big and holding ten times the
10 amount of data.

11 How do we strategize around that is
12 something we want to collaborate with you on.
13 It's a combination of, what is the right
14 activities to get the right return on
15 investment in downsizing? It's also getting
16 the employees culturally ready for these types
17 of changes as well, because it could change
18 how they come to work, what their office looks
19 like, et cetera.

20 MS. MCGOVERN: It's almost two
21 efforts though, like, if you're going to start
22 looking at datacenter consolidation, that's a

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1 whole different cadre of people than just
2 looking at people consolidation. I just throw
3 it out there because one has vendor management
4 issues, I mean, at the end, you're still
5 trying to move real estate, but in terms of
6 our expertise, you might want to think of it
7 as two different --

8 MR. WERFEL: Two separate things.

9 MS. MCGOVERN: Yes.

10 MR. WERFEL: And both are relevant.
11 We're going after both. So I think, yes,
12 whichever one that seems like there's a good
13 synergy on, we should delve into it.

14 MR. SALEM: Datacenter
15 consolidation has been an effort that the
16 federal government took on at least several
17 years ago.

18 MR. WERFEL: Yes. We're in the
19 middle of it. We haven't hit our final
20 target, but we've reversed the trend on the
21 increase. We were going in the wrong
22 direction.

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1 MR. SALEM: Yes. That's been a
2 pretty active project.

3 MR. WERFEL: Yes. So I would
4 agree. I would think that probably a more
5 timely issue where we're still, kind of, in
6 the embryonic phase, and to get your
7 leadership and thoughts early on is this
8 concept of a mobile workforce, and how that
9 should change the way federal facilities are
10 utilized.

11 MR. NARAYEN: That's exactly what I
12 was going to say. I think we probably
13 gravitate more towards the, what's the
14 workplace of the future? And that's a
15 strategic issue and how they're going to work.
16 And real estate is a corollary to that rather
17 than, you know, us being necessarily the
18 champions of, you know, sort of, real estate,
19 at least speaking for, you know, myself.

20 And so the datacenter one we all
21 think about because it's core to, you know,
22 how we think of our business. The mobile

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1 workforce, all of us, I think, are grappling
2 with.

3 MR. WERFEL: That's good feedback.
4 Sticking to Jeff's schedule, let's move to
5 Slide 34, so we're in a different area now.
6 Off of real estate, now on, what we call
7 improper payments, which is a term that
8 Congress established, so we stick with it, but
9 it doesn't necessarily resonate with the
10 public all that often.

11 These are just payments that we
12 make in mistake. They go to the wrong people,
13 in the wrong amount, for the wrong purpose.
14 Sometimes we make the mistakes because we
15 don't have the right information. Sometimes
16 entities are defrauding us. Setting up false
17 identities and the like.

18 What we've decided is the most
19 important emerging trend and opportunity in
20 this area is leveraging technology and
21 leveraging the information age. We've had
22 some epiphany moments, essentially, in the

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1 last few years. In particular, when the
2 Recovery Act was passed.

3 There was a watchdog entity that
4 was setup and that watchdog entity brought to
5 the table techniques and tools that were used
6 in counterintelligence to say, can we use
7 these type of algorithms and data analytics to
8 look at the more blocking and tackling issue
9 of, should this contractor have gotten funds
10 because they were suspended, or debarred, or
11 convicted of a fraud at some point?

12 You know, so it's using technology
13 to oversee federal dollars. There's some
14 game-changing things the information age is
15 providing. And what we're learning more and
16 more is that there's a whole source of
17 information out there that's at our fingertips
18 right now, through Google and other
19 mechanisms, that can make people back in D.C.
20 smarter about overseeing federal dollars and
21 about building risk management profiles to
22 figure out where those pockets of fraud and

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1 error are and where we need to deploy our
2 resources.

3 And again, we're in that embryonic
4 phase. We haven't really figured out how to
5 take and harness all those tools in this way.

6 MR. SALEM: And some other words
7 that you're hearing in the mainstream, now
8 it's called big data, right? And big data
9 isn't official. People mistake it with lots
10 of data. Big data is actually about the
11 analytics you can do exactly as you're
12 describing, Danny, to put information together
13 in a way that gives you a meaningful outcome.

14 And so this is a huge new area that
15 we're all focused on.

16 MR. WERFEL: We're seeing that. So
17 half of our balance sheet, on these errors,
18 we've gotten about \$120 billion in error
19 annually. It's a staggering number. It's not
20 fun to have to go up and answer to Congress on
21 why that number is so big.

22 But half of that is at HHS in

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1 Medicare and Medicaid, and Peter runs the
2 operation, as he mentioned earlier, at CMS
3 around reducing fraud and error in Medicare
4 and Medicaid, and is one of our thought
5 leaders in the area of fraud detection. So I
6 thought Peter could spend a minute or two
7 just, kind of, talking about your role and
8 what you have going on at HHS.

9 MR. BUDETTI: Sure, Danny. So our
10 challenge in Medicare and Medicaid is to
11 continue to deliver services to beneficiaries
12 and pay bills on time and appropriately, while
13 cracking down on all the sources of improper
14 payments.

15 One major piece of what we've done
16 is to put into place technological solutions
17 on both the screening of the people who want
18 to get into Medicare, the 20,000 or so people
19 who apply to be new providers and suppliers
20 every month in Medicare, to find the bad ones
21 and to find the ones who are already in.

22 And to screen through the 4-1/2

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1 million claims a day that we get in Medicare.
2 So we've got those systems up and running.
3 They're in place and they're integrated with
4 each other as well. And so this is a new day
5 in terms of getting the systems into the 21st
6 century.

7 And there's a lot of aspects of
8 this kind of change in our context that make
9 it very challenging, but we've made a lot of
10 progress, so I'd be happy to answer questions
11 or talk about this.

12 MR. SOLSO: I want to make comment,
13 you said there's a \$120 billion a year in
14 improper payments, and \$60 billion is just in
15 Medicare and Medicaid?

16 MR. BUDETTI: So that's the
17 improper payments and some chunk of that, or
18 some separate number on top of it, is fraud.
19 A lot of the improper payments are errors
20 that, failure to document things properly that
21 would turn into proper payments if people
22 change their billing systems, so not all of

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1 that is money that would never go out the
2 door, it's money that's going out the door
3 improperly the way it's being done, just to be
4 clear.

5 MR. KINDLER: Peter, you were
6 affected by the ICD-9/10 conversion, is that
7 going to make this even more challenging?

8 MR. BUDETTI: So in a fee-for-
9 service world, everything that you do in
10 medicine has to have a code attached to it,
11 and the coding systems have changed over time,
12 and they keep getting more and more
13 complicated. And in the right world, that
14 would help.

15 MR. KINDLER: Just for background,
16 in the United States, we're on something
17 called ICD-9, Europe and the rest are on 10,
18 we're converting. 10 has, help me with the
19 numbers here, 9 maybe 50,000 or 70,000 codes
20 and 10 has 300,000, 400,000, I mean, I may
21 have the numbers wrong, but orders of
22 magnitude.

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1 And the private sector and
2 commercial payers are, obviously, dealing with
3 exactly what you're dealing with, and I'm just
4 wondering, that's going to be a whole new set
5 of challenges, it would seem to me, on CMS
6 payments.

7 MR. BUDETTI: It's a set of
8 challenges, absolutely right, but it's more
9 detail. And so, you know, it could cut to our
10 --

11 MR. KINDLER: If you get the code
12 right it will make it easier.

13 MR. BUDETTI: If you get the code
14 right, it's more useful.

15 MR. SALEM: John, I'm actually a
16 pretty simple guy. When I hear a number that
17 Tim had to clarify, which was a \$120 billion,
18 I think was the number that you said, this
19 feels like this is one that just got to go
20 look at. I mean, call me crazy.

21 MS. MCGOVERN: You're a radical,
22 you're just not crazy.

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1 MR. WERFEL: Most of the problems
2 that we have are the ones that degrade citizen
3 trust in government over and over again. This
4 is where we get most of the stories, like, we
5 pay dead people. We often pay dead people.
6 We pay prisoners. We pay people that owe
7 debts to the federal government when we should
8 be offsetting those payments.

9 We even go as far as paying people
10 that are listed on an excluded party that have
11 been suspended or debarred. And it's all
12 about not having the right data.

13 It's the volume of transactions
14 that we do in a day and the fact that, in
15 order to be more precise and to not make these
16 mistakes, a lot of data needs to come together
17 seamlessly, in an automated way, in a smart
18 way, to inform our payment streams, and we've
19 got a lot of work there.

20 MR. KINDLER: To reinforce, and we
21 haven't heard the other one, I think this is
22 strategic dressing, but you reinforce your

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1 instincts here, this does really lend itself
2 to a lot of help from the private sector it
3 seems to me, because as I said, commercial
4 payers are dealing with exactly the same set
5 of issues, there's, as you well know, enormous
6 solutions out there for this.

7 So it does really lend itself to
8 the kind of work that I think we can be
9 helpful.

10 MS. MCGOVERN: So I have a
11 question, if you know that you're doing it, I
12 mean, it'd be one thing if you didn't realize
13 you're doing it, but if you know that you're
14 doing it, you must have some trap on this, or
15 is it by sampling?

16 MR. WERFEL: We do. Let me, kind
17 of, explain it to you. Yes, we do a lot of
18 sampling, but we have a number of different
19 federal agencies with a number of different
20 payment systems, internal control processes
21 systems.

22 Let's use dead people as an

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1 example. We have a death master file, this is
2 a fun topic, right? Social Security has a
3 master file of all the dead people, but it's
4 incomplete and it's not always timely because
5 we rely on states to report that information.

6 So challenge number 1, we have a
7 non-timely death master file. Challenge
8 number 2, the agencies aren't consistently
9 checking that master file before each payment
10 goes out, so there are hiccups in the internal
11 controls and the timing.

12 And third, and perhaps the most
13 vexing of the challenges is that, many of
14 these programs are run through the states. So
15 a state has to make the determination, for
16 example, of what payments should go to who and
17 sometimes, let's say, it's based on household
18 size.

19 Let's say someone died in the
20 household and now they have a household of
21 three instead of four, that reduces their
22 overall payment. Someone goes in and audits

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1 that payment to see if we made it right or
2 wrong. They say, you paid a household of
3 four, they only have three because you made
4 that payment after someone had died, and
5 there's 50, obviously, different operations
6 managing that, the challenge becomes complex.

7 MR. SALEM: At the end of the day,
8 everybody deals with this. This death problem
9 you described is a classic entitlement
10 management problem that everybody deals with
11 in different --

12 MS. MCGOVERN: Healthcare benefits.

13 MR. SALEM: Everybody deals with it
14 and the challenge is, you need some changes
15 from an infrastructural perspective to really
16 make a big impact on this. You can chip away
17 at this and make a little bit of improvement,
18 but you need a big change if you're going to
19 really take this on from the level that it's
20 at, to a meaningfully smaller level.

21 And I would ask you to look at, and
22 I was just mentioning it to Shantanu on the

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1 walk over, but Brazil has gone to a system
2 where all interaction with the government is
3 actually now digitally signed. It's an
4 incredible system.

5 And I don't know how long it's
6 taken them to put it in place, but now you
7 have this situation, and they started it from
8 their tax authority, because what they wanted
9 to do was, everybody had to submit tax
10 payments and they had to sign them so you knew
11 who it was, and there was, kind of, the sense
12 of non-repudiation.

13 And you should look at what they've
14 done because it's fascinating.

15 MR. WERFEL: I will do that.
16 Obviously there's a lot of room for activity
17 here, but building on your point, Enrique, one
18 of our historical perspectives here is that,
19 Congress first started requiring us to measure
20 and report on improper payments in 2002. And
21 so it's been a decade.

22 And what we've noticed is that the

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1 corrective actions that agencies have put in
2 place over the last decade are things that you
3 don't get too excited about. They're
4 important. They're things like increased
5 training, and communication, and clarification
6 of what the regulations are, all stuff that
7 needs to be done.

8 But what we have now, we think, is
9 that additional layer to place on top of those
10 corrective actions that are more game-
11 changing, and to us, it really revolves around
12 information, data, and technology to deploy
13 our resources more effectively.

14 I'll turn it over to Joe now. I
15 just want to give one story that kind of sums
16 up where we want to be. So when the Recovery
17 Board was created to oversee the Recovery Act,
18 the following things happened. We were
19 required to put all the information out there
20 on where every payment's going to every
21 recipient, which was very challenging, but we
22 did it.

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1 And the Recovery Board built this
2 Web site, recovery.gov, where, using a map of
3 the United States, you can drill down to your
4 street and see if anyone got an award on your
5 street.

6 When we setup hotlines to say,
7 you're our fraud detector, citizen watchdogs,
8 you help us. So there's a story about an
9 individual calling a hotline and saying, I
10 went on recovery.gov and I see that this thing
11 on my street got a contract, something's fishy
12 here. You guys should look into it.

13 So five or six years ago, that
14 would have either been, you know, filed, who
15 knows if anyone would have followed up on it,
16 and at a minimum, they would have had to send
17 someone out to look at the situation.

18 Instead, today, an examiner sitting
19 at their desk goes on Google Earth, gets a
20 birds-eye view of the location, turns out this
21 location is a house on the water in Florida
22 with a boat parked out back and it's listed as

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1 a headquarters for a contractor.

2 Twenty, 30, 40 minutes later, a
3 little machination of the data, we find out
4 that this resident is also the corporate
5 address for 12 other companies that are
6 getting Recovery Act awards, boom, we know we
7 have a problem.

8 I wish, and this is the challenge,
9 that this was going on across government and
10 that we had operationalized this type of
11 connectivity to our work. Again, this is an
12 isolated example, we're trying to make that
13 more viral around government.

14 Joe, why don't you do strategic
15 sourcing.

16 MR. JORDAN: Sure. Thanks. And if
17 you guys like the \$120 billion, federal
18 procurement is \$535 billion a year. So \$1 out
19 of every \$6 the government spends in total
20 goes out through a government contract. So
21 there's huge opportunity here and as we were
22 looking at what some of the specific things,

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1 heeding Jeff's charge, what can we engage in
2 over a discreet period of time and really move
3 the needle?

4 Strategic sourcing rose to the top
5 of the list. The challenge, and the
6 opportunity, is that federal purchasing is
7 very de-centralized. You've got a lot of
8 agencies, each with their own contract, or
9 more frequently, contracts, all separate, with
10 the major vendors.

11 You've also got a wide variation in
12 pricing. So we pulled a real example here
13 where, for unlimited data plans in the same
14 city, three different agencies, were paying
15 hugely different prices here. One person is
16 paying \$40, one person is paying more than 3x
17 that.

18 So the challenge is, yes, that
19 there's this wide variation. It's also that
20 none of them know what other people are
21 paying. There's very limited price
22 transparency, for no statutory or regulatory

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1 reason, there's nothing preventing agencies
2 from sharing their pricing, but the flipside
3 to that is, what is the incentive for them to
4 do it as well?

5 There's a fear factor that, if I
6 find out you're all getting better prices than
7 me, that would be bad or if it comes out that
8 I'm getting the best price, I don't get
9 anything extra for that, so let's all agree
10 not to share. That's not a good system when
11 you're looking at it from the systematic
12 standpoint as opposed to my little corner of
13 the world standpoint, and that's why we think
14 there's a huge opportunity here.

15 And again, a small, little change
16 of behavior, but a huge impact. We have done
17 some things; Slide 38. The Federal Strategic
18 Sourcing Initiative was launched in
19 partnership with GSA and, thus far, has
20 focused on three commodity types; office
21 supplies, domestic delivery, and wireless.

22 We have seen some impact, about

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1 \$340 million were spent through these vehicles
2 at a savings of \$60 million, or 15 percent,
3 remember, in the example on the prior page, I
4 said if we just save 2 percent on the pie, we
5 save \$10 billion. They saved 15 percent
6 through these three categories thus far.

7 And then there are other agencies
8 that are doing --

9 MR. SALEM: Can I stop you there,
10 Joe?

11 MR. JORDAN: Of course.

12 MR. SALEM: So have you
13 consolidated the wireless purchasing, or how
14 did you realize this benefit?

15 MR. JORDAN: Yes. So two things on
16 wireless, one, there's a solicitation, kind
17 of, at the end of the process, coming out next
18 month in May for, or I guess a month and a
19 couple days, wireless where we're going to do
20 just that, consolidate, but certain agencies
21 have done it.

22 So USDA saved \$20 million. They

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1 had -- I had the number, but I forgot what we
2 did with them, but they had, basically, 3000
3 contracts, and you've heard a lot today, you
4 know, judging by what Jeff said about some of
5 the fractured nature of their field
6 operations, with wireless carriers.

7 They narrowed that down to a 100
8 contracts with three carriers and have saved,
9 you know, tens of millions of dollars. So
10 there have been some one-off cases.

11 MR. SALEM: That's just the USDA.

12 MR. JORDAN: That's just USDA. But
13 the government-wide wireless will be going out
14 in May. So the real-life savings are through
15 office supplies and then UPS, which was the
16 domestic delivery winner.

17 And then there are some behavioral
18 management components. Strategic sourcing is
19 not bulk buying, it is strategic sourcing. So
20 there's the vendor management component, which
21 is this aspect, but then there's the demand
22 management component as well.

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1 You add, for example, you know, of
2 all the federal agencies here in D.C., you
3 have a lot of people doing priority overnight
4 to Richmond. Well, if you do priority
5 overnight to Richmond, or you do, you know,
6 truck, it's going on the truck. There is no
7 air service. It's just going to get there the
8 next day.

9 But the price variation is huge.
10 So there was a big opportunity around, you
11 know, just changing behaviors that way and one
12 of the things that attracted me to this is, I
13 did this in the private sector a few times,
14 and those demand management pieces are huge.

15 We went around one of our clients
16 at the end of the project and literally,
17 physically, replaced all of the priority
18 overnight envelopes and put those in a
19 centralized location with the two-day shipping
20 and saved millions of dollars.

21 If you extrapolate that, again,
22 over the largest spend base there is, huge

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1 opportunity. And that individual agency
2 thing, again, has proven some successes, but
3 is right for, to your point, a broader
4 initiative.

5 Okay, so the last page, 39, why can
6 we use your help and your good thinking. This
7 sounds like a no-brainer, great, we all agree.
8 Go do it. Because there are some real
9 challenges.

10 You've got, as we said on the first
11 page, a real de-centralized structure for
12 purchasing. We've got a bunch of rules, but
13 it's controlled at the agency. Agencies like
14 that. They have the control. They have the
15 ability to make their decision. There's the
16 flexibility to get what they need to deliver
17 on their mission, but there's a huge loss of
18 control to play by those rules.

19 Where's the right balance there?
20 You know, I think that the best examples
21 certainly are in the private sector and we
22 would really benefit from, kind of, having

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1 folks weigh in on exactly how it is, it's not
2 a binary choice, and I don't think anybody's
3 cracked the code. On the government awareness
4 scale, we should be.

5 Secondly, how do we get the folks
6 who are doing this? We've got a 36,000-person
7 strong contracting office or cadre, but we
8 don't have the same incentives there as we
9 would have in a private sector context, say,
10 hey, you cut some better contracts, lower by X
11 percent, you're going to get this kind of
12 bonus, you're going to get this kind of
13 promotion, those aren't the incentives that
14 they're working for so how do we tie it into a
15 broader mission?

16 Maybe a share in savings type of
17 thing? I don't know, but are there other
18 opportunities to align the individual
19 incentives with the organizational incentives
20 that maybe you guys have seen.

21 Lastly, or, you know, two more
22 quick things, leveraging the spend base. This

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1 is where that bulk purchasing thing comes in,
2 but do it in a way that creates a win-win. So
3 not just, ah-ha, we've now got all of our
4 agencies on the same contract, and we're going
5 to beat up a vendor for better pricing?

6 Sure, that's part of it, but if we
7 really want to do this in a sustainable way,
8 it's got to be a win-win for both. So
9 building longer term relationships. Building
10 incentives from both sides of the equation,
11 and clearly, that's people who, many of you
12 sell to the government, would have great input
13 on how to do that.

14 Jeff mentioned that I've been at
15 the Small Business Administration for the last
16 three years and if there's one thing that I've
17 learned in working on the government
18 contracting for those small businesses is, you
19 can't approach this, and I don't know what the
20 rules or regs are, as an adversarial way.

21 Hey, you have to do that because it
22 says here you have to do that. You have to

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1 put this in a collaborative way. You have to
2 define it as a win-win if you really want the
3 sustainable structural changes, which is what
4 we'd be looking for here.

5 And then lastly, driving that
6 increased price transparency so, you know, we
7 can really benchmark what best prices are,
8 understand, you know, if I come into this
9 saying, I want the entire federal government
10 to pay one price for a commodity, and that
11 should be less than or equal to the lowest
12 price anybody is paying now.

13 I think that's a reasonable
14 statement, but there are also other extra
15 analyses as to why that may not be achievable
16 and we need to understand what is the real
17 reason for that. So I apologize for talking
18 so quickly, but I knew my time was short.

19 MR. SALEM: So when I look at GSA.

20 MR. JORDAN: Yes.

21 MR. SALEM: So somebody tell me,
22 why isn't it more consolidated around what GSA

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1 does? Maybe I just don't understand how it
2 works.

3 MR. JORDAN: I think there are
4 areas in which --

5 MS. MCGOVERN: It's optional.

6 MR. SALEM: It's optional?

7 MR. JORDAN: Yes. That's a big
8 part of it, but it's, you know, somewhat of a
9 myth that they offer the best pricing all the
10 time. They do sometimes and it used to be
11 this most favored nation pricing structure.
12 That's not, universally, how it is now.

13 So you have agencies who say, okay,
14 here's what the GSA schedule sells plastic
15 water bottles for. If I go to the source, I
16 can cut a better deal directly with them. And
17 so it's counterintuitive, but that's why there
18 needs to be a slight re-invention of the wheel
19 here on what that was trying to do, and that's
20 exactly right.

21 Now, part of it is because I'm
22 getting on to the GSA schedule without any

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1 volume guarantee or any understanding who's
2 going to be buying and how many, so I'm not
3 necessarily setting my pricing where I would
4 if you came to me and said, I'll buy 4 million
5 bottles and I'll work it so that the delivery
6 schedule works for your production schedule
7 around a mutually agreeable term, and we can
8 drive a lot of costs out of the system. It
9 doesn't work that way.

10 I'm just saying, hey, when I come
11 to you to buy water bottles, how much will you
12 charge me? No how many am I buying, what am I
13 buying.

14 MR. SALEM: So it sounds like
15 there's a two-step process, first, you got to
16 be on the list of suppliers, and then second,
17 each year, you true up how much volume you're
18 doing and get better pricing. I don't know.
19 It sounds like we've already got some things
20 in place that we should look at.

21 MR. JORDAN: Absolutely. And GSA
22 is the, what we call, executive agent for the

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1 initiatives we've done thus far. The question
2 is, then, where do we get the, you know, wide
3 open, anybody can play, which hurts the volume
4 guarantee per vendor versus making it narrower
5 so that I can better gauge and guarantee
6 volume, therefore, drive better discounts,
7 there are tradeoffs on both sides.

8 MS. MCGOVERN: Something to just
9 think about, some of this could be so radical
10 that I think we're going to need to think
11 through how to get your suppliers and vendors
12 a soft landing, because you're going to have
13 job creation issues if you're not careful.

14 I mean, if you just strike like
15 that and, you know, you drive hundreds of
16 millions of dollars out of the U.S. economy,
17 because the suppliers are -- I mean, there's
18 got to be --

19 MR. SALEM: Don't worry, we'll be
20 okay. We'll either return it back to the
21 people who gave the money. At the end of the
22 day, right, it's a balance, right? The money

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1 that is spent, that \$120 billion or the \$500
2 billion, it's coming out of revenues to the
3 government.

4 So if the government had a surplus,
5 that would solve a whole different set of
6 problems.

7 MS. MCGOVERN: Sign me up. I'm
8 sitting here thinking, I'm going to short HP
9 because of their printers, definitely shorting
10 FedEx, I mean, they're just totally off my
11 list.

12 MR. SOLSO: The one question I have
13 is, what are you guys looking for for the PMAB
14 to do? I mean, you've described the problem
15 and you've got some of the solutions, or
16 things that you're working on, what do you
17 want from us on this? Not just you, on all
18 three projects.

19 MR. JORDAN: For this, you know, I
20 can get to the granular if it's helpful, but
21 really the broad category of, there are
22 private sector best practices. These are not

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1 new problems.

2 I think it's probably true for a
3 lot of these things like office of the future
4 and some of the other issues, but certainly in
5 my little piece of the world, I know for a
6 fact that in many contexts, the private sector
7 has cracked the code on this, but it's not
8 just as simple as reading a research paper and
9 then applying those.

10 I need to have a back and forth
11 with some of your teams to say, okay, how do
12 you do this?

13 MS. MCGOVERN: How did you get
14 there?

15 MR. JORDAN: Exactly. So we pipe
16 that line and I think that will be incredibly
17 helpful.

18 MR. BROCKELMAN: But if we look
19 back on what I think was successful with the
20 topics from last year it was, you know,
21 keeping a focus on what are the process best
22 practices and what are the leadership

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1 qualities and strategies that are needed from
2 a global perspective.

3 MR. KINDLER: I think what you're
4 describing here is a very, not on this scale
5 obviously, but not an uncommon phenomenon,
6 even in the private sector, where, a lot of
7 people will claim that procurement decisions
8 need to be de-centralized because the specific
9 item they're buying is somehow strategic and
10 specific.

11 You'd be amazed at how important
12 paperclip decisions might be for some de-
13 centralized functions. So I do think there's
14 probably a lot of experience around the table
15 dealing with these cultural issues.

16 And I think your instinct, Joe, is
17 right that, you know, it's nice to say there's
18 going to be a mandate, but unless it's brought
19 in culturally, unless people see the benefits,
20 they're always going to think that their local
21 purchasing decision is faster, better,
22 cheaper, than some centralized procurement

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1 authority.

2 And so you have that inherent
3 banter. I mean, it's the same issue with real
4 estate. A lot of these things we're talking
5 about is that inherent federalism issue we saw
6 in the IT thing. So I do think the people
7 around this table probably have a lot of
8 experience around this issue.

9 MR. SOLSO: They're all three great
10 projects.

11 MS. MCGOVERN: They are. We'll be
12 feeling your pain.

13 MR. KINDLER: And I take it, Steve,
14 in our next meeting, we're going to be asked
15 to pick two out of the three to focus on?

16 MR. BROCKELMAN: Yes. So I think
17 Jeff's suggestion was, we reconvene the group
18 by phone in a week or two so you've had a
19 chance to chew on these a little bit and to
20 ask more questions about, how could PMAB
21 actually play into these and pick two of the
22 three, if only we go with three.

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1 I think two, we found, is a pretty
2 manageable number for this group.

3 MR. KINDLER: Okay.

4 MR. BROCKELMAN: Thank you Joe, and
5 Peter, and Dan.

6 (Whereupon, the meeting was
7 concluded at 12:14 p.m.)

8

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