

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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