Statement of
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Hearing on Government Spending:
How Can We Best Address the Billions of Dollars Wasted Every Year?

Good afternoon, Mr. Chairman and Members of the Committee:

I am pleased to have the opportunity to testify before the Committee on ways to make the federal government more cost-effective through specific agency and programmatic actions and broader structural and organizational efforts.

I would like to thank the Committee for its leadership on these efforts over the years. My past work experience at the Government Accountability Office, the Office of Management and Budget, and the Clinton Administration's National Partnership for Reinventing Government intersected closely with the efforts of this Committee and found its leadership to be most valuable.

I am currently a senior fellow at the IBM Center for The Business of Government. The IBM Center connects public management research with practice. Since 1998, we have helped public sector executives improve the effectiveness of government with practical ideas and original thinking. We sponsor independent research by top minds in academe and the nonprofit sector, and host a weekly radio show "The Business of Government Hour" which presents in-depth stories on government executives and public managers who are changing the way government does its business.

Two years ago, the IBM Center produced a report, *Strategies to Cut Costs and Improve Performance*, identifying leading commercial practices that, if applied in the federal government, could contribute to up to $1 trillion in reduced costs of federal operations over a ten-year period; these findings were echoed in a related report from the Technology CEO Council *One Trillion Reasons.* The IBM Center has also done additional in depth efforts around some of the strategies outlined in that report. I would like to share these with you today.

Overarching Premises

There are two overarching premises underlying these strategies to cut costs and improve performance. First, mission-support costs in government – for enterprise activities such as personnel, contracting, and supply chain management – historically average about 30 percent of total operating costs. In the private sector, these costs typically average about 15 percent. While the precise numbers may not compare well, they do suggest that changing the way mission-support functions are operated to reflect best practices in the private sector may provide opportunities for cost savings.

And second, a key element of commercial business strategies for reducing costs and improving performance is rooted in the premise that reducing the amount of time spent in any administrative process will increase value to customers and reduce costs incurred by both the customers and the commercial business. The IBM Center has examined this premise and applied it to government operations. We think it translates well, and we will soon release a new report based on this premise and will call this approach: "Fast Government."

I will focus on those elements of our research that are largely within this Committee's jurisdiction.

Strategy 1: Consolidate Information Technology Infrastructure.

The government's cost of operating its IT infrastructure are higher than they need to be when compared to the private sector – sometimes by more than a factor of two.

According to a 2011 GAO report, the federal government spent about $79 billion in FY 2011 to support widely-dispersed infrastructure investments. Of this amount, about 12 percent was spent on back office operations and 45 percent on IT management costs, such as planning, controls, oversight, development, and integration. Only about 34 percent was spent on direct mission-related IT, such as air traffic control or the veterans benefit determination system. The Gartner Group reports that reducing IT management costs, consolidating data centers, eliminating redundant networks, and standardizing applications could lead to savings of about 20 -30 percent.

In a case study prepared for the IBM Center in 2009 by Jonathan Walters, he describes how the Department of Veterans Affairs launched an ambitious overhaul of its IT systems which resulted in the consolidation of computer and communication technologies spread across the department's more than 1,000 medical centers, clinics, nursing homes, and veterans' centers. The transformation took several years but led to a single IT leadership authority and an enterprise-wide view of the department's technology assets. This in turn allowed the department's chief information officer in 2009 to launch a review of all the department's IT investments via a Project Management Accountability System. This resulted in the termination or restructuring of errant projects and sped the delivery of others. VA's IT consolidation has continued to demonstrate strong positive results for the agency over the past several years.

The Administration has an agenda to expand efforts to consolidate IT infrastructure and it is being implemented aggressively in most agencies. The Administration has reported good progress, but as the Government Accountability Office noted before your committee in testimony last month, more sustained attention is needed. The Administration has a point person and a governance structure, led by the Federal CIO in OMB, in place to conduct this follow through; more focus on aggressively transforming business processes could lead to further savings and more effective operations.

For example, in the commercial sector, efforts have been placed on transforming transactional operating processes, such as payments, inventory management, commodity

purchasing, and report filing. Another area for transformation would be to increase initiatives related to data analytics and decision making processes. Developing a strategy around these kinds of efforts in the federal government could foster significant efficiencies in agency back office operations.

Strategy 2: Streamline Government Supply Chains.

The federal government procures about $550 billion in goods and services each year. These are purchased largely within agencies, each with independent procurement processes. The commercial world has aggressively transformed how it manages its procurement and supply chain systems. For example, while federal agencies are making some progress in strategic sourcing, commercial experience shows there could be significantly more cost savings. The same is true of its transportation and distribution systems.

In 2005, OMB announced a "strategic sourcing initiative" to leverage the purchasing scale of the government by pooling the purchasing of commodity items. The Administration is making progress. For example, it reports achieving $388 million in savings in FY 2012 through the expanded use of the governmentwide Federal Strategic Sourcing Initiative (FSSI) operated by the General Services Administration. This comprises savings of less than one-half of one percent of the federal government's procurement spending. Private sector companies report savings of 10 percent or more, according to supply chain experts Robert Luby and Thomas Glisson, in a forthcoming IBM Center report on ways to make government operate faster. GAO reported in September 2012 that "FSSI contracts have low rates of use and the program has not yet targeted the products and services on which the government spends the most." It concluded that if the government could achieve 10 percent savings by moving more aggressively toward the use of strategic sourcing, that it could save up to $50 billion.

This potential level of savings is reflected in IBM's own experience. Over the past decade, IBM internally consolidated 30 different supply chains and restructured its supplier network. Doing so, it was able to eliminate $25 billion in costs and improve

supplier performance. Given the company's scale – 33,000 suppliers, 45, 000 business partners, and 78,000 products – IBM can serve as a reasonable point of comparison to size the opportunities for savings available to the federal government if it were to take on a similar effort. This is an area of potentially significant savings and if the Administration were to undertake a concerted effort, as it has in IT, it could squeeze additional savings out of the system.

In the area of transportation and distribution systems, the commercial world is increasingly working with third party logistics providers – shippers, carriers, and other partners – to create world-class transportation and distribution networks. According to Luby and Glisson, the Defense Department's TRANSCOM has begun to participate in such networks and was able to leverage the existing volume of the transportation provider with its large freight volumes, thereby achieving $158 million in cost avoidance. Expanding such approaches across Defense and in other federal agencies could result in additional cost avoidances.

Strategy 3: Reduce Energy Use.

The federal government is the country's largest energy and water consumer. Federal efforts to cut its use of energy and water has taken many paths and is leading to savings. Federal law requires a 30-percent reduction in the energy intensity of federal buildings between FY 2003 and FY 2015, as well as a 20-percent reduction in vehicle petroleum use between FY 2005 and FY 2015. In addition, the Administration has set goals to reduce federal contributions to greenhouse gases 28 percent by 2020. OMB reports progress being made, with an 8.3 percent reduction between 2008 and 2011.

IBM's experience rationalizing and consolidating its facilities has reduced IT-related energy costs by 25 percent by, for example, consolidating call centers. New building management technologies and leveraging new business models for "on demand" space utilization could reduce energy consumption for the 3.1 billion square feet of space occupied by the federal government. In addition, advanced fleet management could reduce the size of the federal fleet and reduce energy consumption by 10-20 percent.

A 2011 IBM Center report by Dr. Daniel Fiorino found that federal agencies could draw upon the experiences of private firms and other levels of government. For instance, he noted: "Two examples of private-sector practices offering lessons are the development of a system for interagency emissions trading and the creation of a central investment fund. An interagency GHG [green house gas] trading program, for example, could allow for greater reductions at less cost to the government by shifting more cuts to organizations and operations with lower marginal control costs."

Strategy 4: Move to Shared Services for Mission-Support Activities.

Every dollar spent on back office support activities and overhead is a dollar that could be spent on mission, or saved. Why should every agency have its own IT, finance, legal, human resources, or procurement operations? When the federal government consolidated its 26 payroll operations into four, the Environmental Protection Agency reduced its payroll processing costs from $270 to $90 per employee, saving $3.2 million a year. The Office of Personnel Management's human resources shared services initiative – also called the HR Line of Business – is projected to save, or avoid costs, of up to $1.6 billion by FY 2015 because of increased efficiencies in operations for the participating agencies.

The Federal Chief Information Officers Council has undertaken a shared services initiative, as well. Announced in May 2012, it outlined a plan of action and timetable for action. It has also created a governance structure that is developing guidance on interagency service sharing strategies and services, and the identification of best practices. The IBM Center in a 2008 report by Drs. Timothy Burns and Kathryn Yeaton, identified key success factors for implementing shared services in government and these are reflected in the work currently done by agencies and through the Federal CIO Council.

There are similar opportunities to be had in other lines of business across the government, but leadership and support from Congress are needed to make them real.

Similar efforts in the British government led to savings of 20 to 30 percent in their overall back office support services.

Strategy 5: Apply Advanced Business Analytics to Reduce Improper Payments.

The Administration is moving aggressively in reducing improper payments, with strong congressional support. The "Do Not Pay" list and significant recoveries from Medicare fraud are resulting in billions of savings. GAO says more could be done and industry experience suggests this is a valid conclusion. Industry experts believe that expanding the use of recovery audits and advanced business analytics could increase the identification rate of improper payments to 40 percent, which could double the current anticipated savings rate and potentially generate an incremental additional $200 billion over the next decade.

Approaches pioneered by the Administration's Recovery Board, in preventing rather than recovering improper payments, show the value in applying a concerted effort on this issue. For example, its creation of a cross-agency operations center allowed it to monitor the $840 billion in stimulus funding. Analysts used a variety of new technology tools to mine more than 25 government and open-source data bases to look for indicators of potential fraud or waste. When instances arose, analysts provided alerts to agencies and law enforcement officials, oftentimes before the funds had been handed out.

The use of analytics can be extended beyond improper payments. In a pair of reports for the IBM Center by the non-profit Partnership for Public Service, we learned that many agencies are beginning to systematically apply the use of analytics to their mission work, resulting in savings. For example, the Internal Revenue Service created an Office of Compliance Analytics to identify patterns and predict future problems with tax return accuracy. In the 2012 tax season, a pilot project identified tax preparers who were making errors, early in the tax season, and intervened to correct the problem so subsequent filings were more accurate. This pilot resulted in savings of over $100 million in bad credit claims that did not have to be processed.

Other examples exist at the state level, where agencies are partnering with IBM to use analytics in achieving significant savings:

In New York State, the state's Department of Taxation and Finance is applying advanced analytics to their operations. The state developed analytical applications to identify questionable refund claims which since 2004 have resulted in savings over $2 billion. The solution uses a unique combination of big data analytics and other models to create action plans for each tax case. The plan prioritizes the order of activities agents will take in order to maximize the total amount of debts collected while taking in to account the case load, personnel resources, and the anticipated effectiveness of the suggested actions.

In North Carolina's Medicaid program, the state is one of the first to take matters into its own hands with a focus on Medicaid fraud more locally. In 2010, the state of North Carolina announced a program to run Medicaid claims through big data software that can spot suspicious activity and fraud among the nearly two million Medicaid patients and 60,000 Medicaid providers in the state. North Carolina has already identified nearly $191 million in suspicious claims from the initial 200-plus providers they targeted. The results are a major eye opener for the state which is in the process of moving these cases forward to the justice system.

Strategy 6: Reduce Field Operations Footprint and Move to Electronic Self-Service.

Most departments have citizen-facing services that rely on largely manual, paper-based business processes. By moving as many touch-points to electronic platforms as possible, and rethinking the footprint of government's field operations, the government could both reduce costs and improve citizens' experiences. To date, there has not been a concerted effort to do so. Initiatives such as the Administration's *Digital Government* strategy, which promotes the creation and use of digital services in the federal government, are steps in the right direction, but implementation is still in the early stages.

Other countries have done this by creating a "one stop" approach to social services. For example, Service Canada is an agency that delivers 70 services on behalf of 13 other agencies – online, in person, and on the phone. New York City has begun to pioneer a similar approach, called NYC ACCESS. And the Commonwealth of Virginia recently launched an ambitious program to standardize all citizen-facing data. Doing this will eventually make it possible to create one entry point for citizens in Virginia to determine eligibility for programs, allow them to enroll in the programs, and manage their participation.

Reducing the citizen-facing field operations of the federal government, and automating more than 10,000 forms in 173 different agencies, could potentially generate billions in savings over the next decade. Doing this in a federal system will be complicated and require concerted leadership in the executive branch, the Congress, and the states. For example, there are technical challenges, such as multiple levels of government agreeing on a consistent technology architecture. These kinds of challenges have been successfully met in other countries with a federal system, such as Australia and Canada. But there are also political challenges, such as agreeing on a common identity management framework and allowing currently-restricted data to be shared between programs. The Administration has initiatives underway that address identity management through the National Strategy for Trusted Identities in Cyberspace and data sharing as part of the National Strategy on Information Sharing. A focus on implementation should come next.

Strategy 7: Monetize the Government's Assets.

The federal government has a large inventory of assets that could be producing revenue. The Administration has inventoried its existing facilities and found 14,000 excess buildings and 55,000 underused buildings. It has developed a strategy for selling them in order to bring in revenue but also to eliminate the costs of maintenance. It reports progress towards its $3 billion goal of sales of excess or underused real property.

In addition, the federal government has historically had fee-generating programs that did not always recover their costs, such as the Forest Service's logging program, which in the 1990s did not recover the costs of building timber roads for lumber companies, according to past GAO reports. Another example is the General Mining Act of 1872, which permits claims by private entities to extract resources from federal lands in exchange for fees that are below market value. Programs such as these should be reassessed to ensure they at least recover fair market costs.

Furthermore, there are some programs that could become fee-based. For example, other countries have corporatized their air traffic control operations and made them fee-based. By examining the government's balance sheet aggressively and corporatizing certain federal operations, the federal government could earn billions over the next decade by operating in a more businesslike manner.

Conclusion: Leadership and Governance Are Key to Implementation.

The seven strategies outlined in my testimony are being addressed by the Administration, but with different levels of attention. The initiatives being led by the federal chief information officer are good examples of strong leadership in the IT-focused elements of the strategy. One approach to expand this model might be that the OMB director appoint a steering committee led by the deputy director for management at OMB and a subset of departmental secretaries. A small central support team could be created, operating out of OMB or the President's Management Council, much like the Recovery Act implementation team, to ensure action. It could report its progress periodically and identify barriers to progress that are hindering their work. For each of the seven areas, a cross-agency sub-team could be created and work under the direction of a departmental deputy secretary charged with action.

I would again like to thank you for the opportunity to speak before you today and would be pleased to respond to your questions.

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Prior to joining the IBM Center, he had a significant role in helping pioneer the U.S. federal government's performance and results orientation. He served for eight years as deputy director of Vice President Gore's National Partnership for Reinventing Government and special assistant to the Deputy Director for Management at the U.S. Office of Management and Budget. He catalyzed the strategic framework for the initial 1993 performance review. He led the crafting of recommendations that ultimately saved over $60 billion and led to dramatic improvements in government operations, including the development of customer service standards, the passage of procurement reform, the development of performance-based organizations, the creation of www.usa.gov and the use of the elements of a balanced scorecard across the government.

Before that, he worked at the U.S. Government Accountability Office where he played a key role in the development and passage of the Government Performance and Results Act of 1993. He also led GAO's work on intergovernmental grant programs and served on detail to the investigation subcommittee of the U.S. House Ways and Means Committee.

He has co-edited six books and writes and speaks extensively on government reform issues such as performance management, cost-cutting strategies, collaborative networks, citizen engagement, cost savings strategies, and the Web 2.0 phenomena. In addition, he contributes to a blog on the management challenges facing federal executives.

Mr. Kamensky is a public member of the Administrative Conference of the U.S. and a fellow of the National Academy of Public Administration. He is the 2011 recipient of the Association of Government Accountants' Cornelius Tierney Research Award and chairs the Center for Accountability and Performance, which is sponsored by the American Society for Public Administration. He received a Masters in Public Affairs from the Lyndon B. Johnson School of Public Affairs, in Austin, Texas, and a B.A. in government from Angelo State University, in San Angelo, Texas.