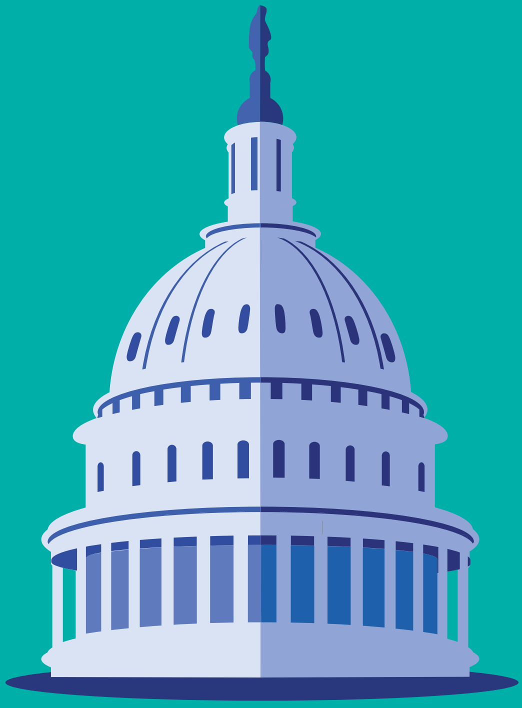
Transforming the business of government

President Trump's initiatives to create a more efficient, effective, and accountable executive branch



May 2017

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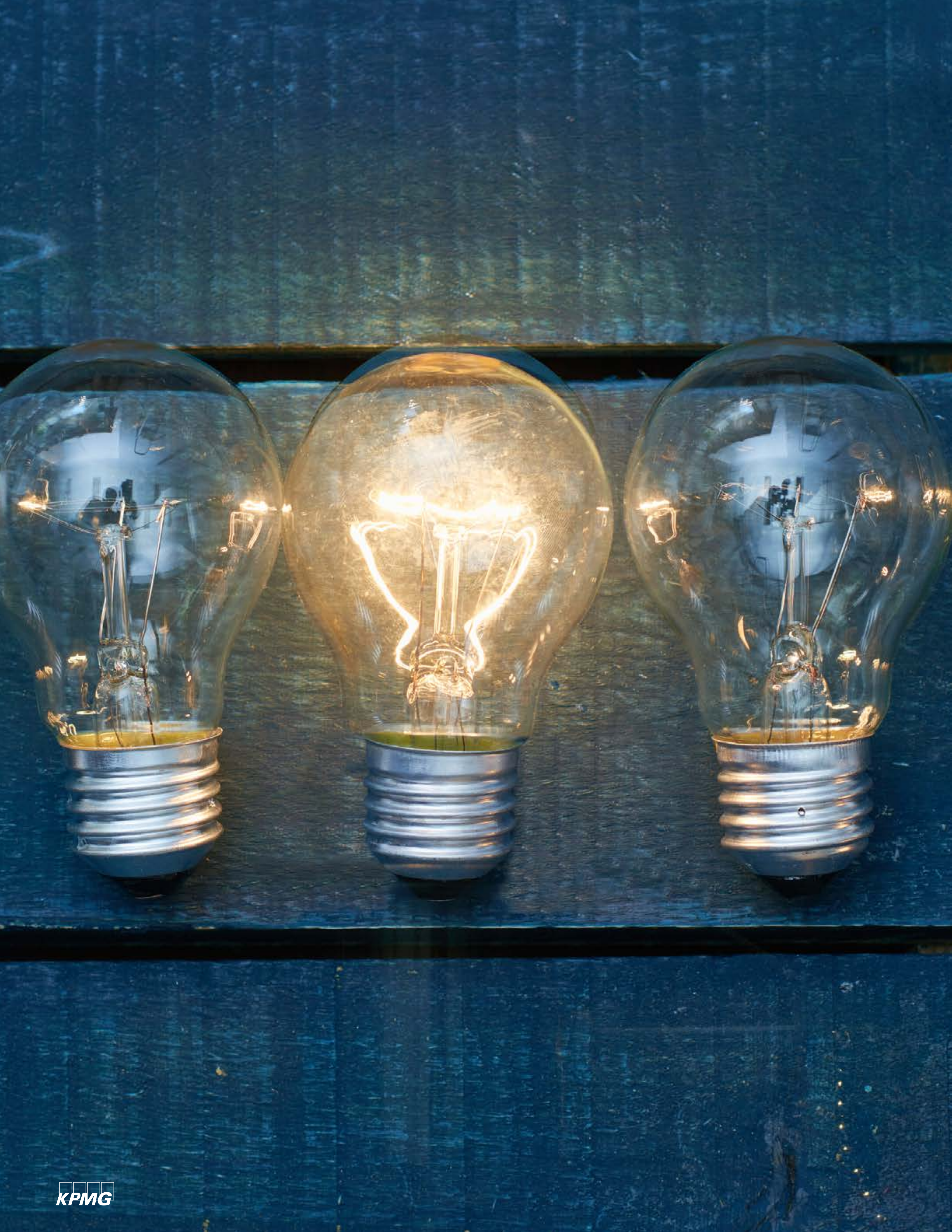

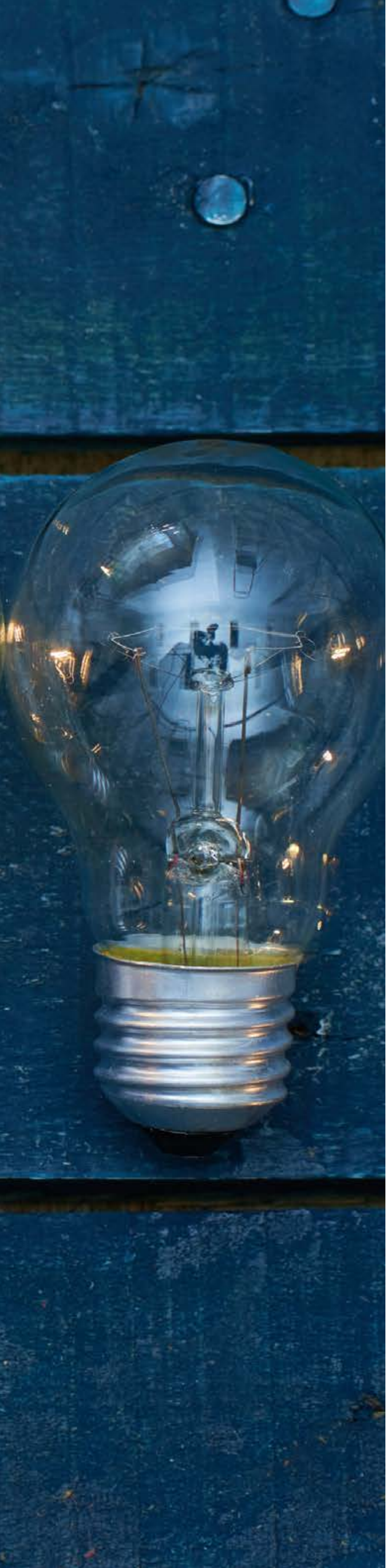

Contents

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Introduction

On March 13, 2017, President Trump issued Executive Order (EO) 13781, *Comprehensive Plan for Reorganizing the Executive Branch*.[1] The Executive Order calls on the director of the Office of Management and Budget (OMB) to propose a plan to reorganize governmental functions and eliminate unnecessary agencies to improve the efficiency, effectiveness, and accountability of the executive branch. On April 12, the OMB director released OMB Memorandum (M)-17-22, *Comprehensive Plan for Reforming the Federal Government and Reducing the Federal Civilian Workforce*, which provides guidance on fulfilling the requirements of EO 13781 as well as the January 23, 2017, *Presidential Memorandum Regarding the Hiring Freeze* (Hiring Freeze memorandum).[2]

As stated in M-17-22, the objectives of these reforms are to:

- "Create a lean, accountable, more efficient government that works for the American people;
- Focus the Federal government on effectively and efficiently delivering those programs that are the highest needs to citizens and where there is a unique Federal role rather than assuming current programs are optimally designed or even needed;
- Align the Federal workforce to meet the needs of today and the future rather than requirements of the past; and
- Strengthen agencies by removing barriers that hinder front-line employees from delivering results."

Since President Theodore Roosevelt took office in 1901, all but three presidents have tried to reorganize the federal government, experiencing varying degrees of success. This has always proven to be heavy lifting, even with bipartisan recognition that change was needed. Over the past 50 years, the challenges of managing the federal government have changed dramatically. We have seen tremendous expansion of federal programs and operations. Advances in technology have created a new world of the possible in terms of managing government and providing transparency over and accountability for government spending. And long-term fiscal sustainability has eroded. In 2010, two bipartisan reports highlighted the seriousness of our nation's long-term fiscal sustainability challenges and recommended a series of actions.[4] The underlying structural fiscal challenges remain today. As reported by the U. S. Government Accountability Office (GAO) in January 2017, under current law, the federal government's long-term fiscal path is unsustainable. Left unchecked, by 2040 interest on the debt becomes the largest spending component, and with Social Security, consumes almost all federal revenue. Passage of time simply continues to exacerbate an already untenable situation.[5]

Understandably, every presidential administration in the past 50 years has focused attention on government management and organization issues. There have been positive results that each ensuing administrative has built upon in various ways. Let's look at the playing field of presidential management initiatives since 1965.

- President Lyndon Johnson: Planning, Programming, and Budgeting System, which is still used in the Department of Defense
- Presidents Nixon and Ford: Management by Objectives
- President Carter: Zero-Base Budgeting
- President Reagan: Reform '88 and the Private Sector Survey on Cost Control
- President George H.W. Bush: Landmark Chief Financial Officers (CFO) Act of 1990
- President Clinton: National Performance Review, which became the National Partnership for Reinventing Government
- President George W. Bush: President's Management Agenda
- President Obama: Accountable Government Initiative

[1] https://www.whitehouse.gov/the-press-office/2017/03/13/presidential-executive-order-comprehensive-plan-reorganizing-executive; and https://www.federalregister.gov/documents/2017/03/16/2017-05399/comprehensive-plan-for-reorganizing-the-executive-branch

[2] https://www.whitehouse.gov/the-press-office/2017/01/23/presidential-memorandum-regarding-hiring-freeze

[3] "Government Reorganization: Strategies and Tools to Get It Done," by Hannah Sistare, Executive Director, National Commission on Public Service, *2004 Presidential Transition Series*, IBM Center for the Business of Government, August 2004.

[4] "The Moment of Truth," National Commission of Fiscal Responsibility (Simpson-Bowles), December 2010; and "Restoring America's Future," The Debt Reduction Task Force, Bipartisan Policy Center (Domenici-Rivlin), November 2010.

[5] "The Nation's Fiscal Health: Action is Needed to Address the Federal Government's Fiscal Future," GAO-17-237SP, January 17, 2017.

In addition to the CFO Act, there has been wide-ranging bipartisan management reform legislation. Included has been enactment of the (1) Inspector General Act of 1978, as amended; (2) Federal Managers' Financial Integrity Act of 1982 (FMFIA); (3) Debt Collection Act of 1982 and the Debt Collection Improvement Act of 1996; (4) Government Performance and Results Act (GPRA) of 1993 and the GPRA Modernization Act of 2012 (GPRAMA); (5) Government Information Security Management Act of 2002; (6) Improper Payments Information Act of 2002 and the Improper Payments Elimination and Recovery Improvement Act of 2012; and (7) Federal Funding and Transparency Act of 2006, as amended by the Digital Accountability and Transparency Act of 2014.

While a lot has been accomplished that continues to further evolve today, presidential management programs end with the changing of administrations. The seeming start and stop of management initiatives, as well as the complexity and enormity of the federal government and the massive number of stakeholders, will continue to stress federal management systems. For example, federal outlays for fiscal year 2016 were about four times higher than in 1966 in constant 2016 dollars. At the same time, there are mounting pressures to address what everyone agrees is an unsustainable long-term fiscal future and public concerns about the performance of government. There has also been an appreciable drop in public confidence and trust in the federal government since 1965,[6] and its value and role are being questioned. While in 1965, trust stood at 75 percent, in 2015 it hovered in the low 20 percent range. Therefore, the business of managing the federal government promises to continue to dramatically change as contemplated by EO 13781 and the Hiring Freeze memorandum and the implementing guidance in M-17-22.

Enabling technology will be a major driver in managing the federal government. On March 27, 2017, President Trump announced the establishment of the Office of American Innovation (OAI) to "…. make recommendations to the President on policies and plans that improve Government operations and services, improve the quality of life for Americans now and in the future, and spur job creation. These recommendations will be developed in collaboration with career staff along with private-sector and other external thought leaders."[7] It is reasonable to expect that other presidential or congressionally mandated management initiatives will follow during President Trump's administration.

This KPMG Government Institute white paper provides (1) a snapshot of the purpose and requirements of EO 13781 and the Hiring Freeze memorandum and the implementing guidance in M-17-22, (2) highlights our observations on what it will take to sustain these initiatives, and (3) addresses five areas for initial consideration in developing the agency plans. These five areas, which are addressed in M-17-22, focus on management and organizational issues, or how federal agencies carry out their missions. They do not and are not intended to address public policy decisions around the role of government and the value of federal programs, which will be a major consideration by agency heads in developing agency plans and by the OMB Director in preparing the government-wide plan.

[6] "Beyond Distrust: How Americans View Their Government," Pew Research Center, November 23, 2015 (http://www.people-press.org/2015/11/23/beyond-distrust-how-americans-view-their-government/

[7] https://www.whitehouse.gov/the-press-office/2017/03/27/president-donald-j-trump-announces-white-house-office-american

In a nutshell: EO 13781, the Hiring Freeze Memorandum, and M-17-22

Within 180 days of the issuance of EO 13781, each agency head is to submit a proposed plan to the OMB Director to reorganize the agency, if appropriate, to improve its efficiency, effectiveness, and accountability. Agencies are being asked to take a hard look at what they do, how they do it, and whether they should continue to do it all. Under M-17-22, Agency Reform Plans (agency plans) should be submitted in September 2017 as part of the agency's fiscal year (FY) 2019 budget submission, with an initial high-level draft plan due to OMB by June 30, 2017. As addressed in M-17-22, agency plans are also to include long-term plans to reduce the size of the federal workforce, and short-term actions to maximize employee performance in response to the Hiring Freeze memorandum. Agencies are also required to begin taking immediate action to achieve near-term workforce reductions and cost savings and develop a plan to maximize employee performance by June 30, 2017.

Under EO 13781, the OMB Director has 180 days from the date the agency proposed plans are due to submit to the President the Government-wide Reform Plan (government-wide plan). As specified in M-17-22, this plan will be included in the President's FY 2019 Budget, targeted for February 2018. The government-wide reform plan is to include, as appropriate, recommendations to eliminate unnecessary agencies, components of agencies and agency programs, and to merge functions. Also to be included are recommendations for legislation or administrative measures necessary to achieve the proposed reorganization.

In developing the government-wide plan, the OMB Director is to consult with the head of each agency and, consistent with applicable law, with persons or entities outside the federal government with relevant expertise in organizational structure and management. The OMB Director is also required to publish a notice in the Federal Register inviting the public to suggest improvements in the organization and functioning of the executive branch, which are to be considered by the OMB Director.

EO 13781 expressly provides that in developing the government-wide plan, the OMB Director is to consider (and it follows the agency heads as well would benefit from doing so in developing their proposed plans):

— Whether some or all of the functions of an agency, a component, or a program are appropriate for the federal government or would be better left to state or local governments or to the private sector through free enterprise;

— Whether some or all of the functions of an agency, a component, or a program are redundant, including with those of another agency, component, or program;

— Whether certain administrative capabilities necessary for operating an agency, a component, or a program are redundant with those of another agency, component, or program;

— Whether the costs of continuing to operate an agency, a component, or a program are justified by the public benefits it provides; and

— The costs of shutting down or merging agencies, components, or programs, including the costs of equitably addressing affected agency staff.

As stated in M-17-22, the objectives of these presidential initiatives are to:

— Create a lean, accountable, more efficient government that works for the American people;

— Focus the Federal government on effectively and efficiently delivering those programs that are the highest needs to citizens and where there is a unique federal role rather than assuming current programs are optimally designed or even needed;

— Align the federal workforce to meet the needs of today and the future rather than requirements of the past; and

— Strengthen agencies by removing barriers that hinder front-line employees from delivering results.

The clock is ticking

Agencies will want to clearly delineate the actions needed to address the President's goal to improve the efficiency, effectiveness, and accountability of the executive branch, while providing enhanced value to the public. It will be important to promptly begin the journey and then to sustain the effort far past the agency and OMB plan development as called for in M-17-22.

The construct of M-17-22

Put simply, M-17-22 provides a playbook for EO 13781 and the Hiring Freeze memorandum, while retaining needed agency flexibility. The requirements and expectations are clear and straightforward. A series of nine short appendices provide additional targeted guidance and criteria. The agency plans are intended to provide a means of the agency identifying how it proposes to improve efficiency, effectiveness, and accountability. Once the government-wide plan is issued in February 2018, OMB plans to begin tracking progress through (1) the Federal Performance Framework, including on Performance.gov, (2) periodic agency progress updates, and (3) oversight by the President's Management Council. Included will be reporting of workforce reductions in all major agencies, which are defined as the 24 agencies under the CFO Act.

Agencies are expected to develop an analytical framework that looks at the alignment of its activities with its mission and role and performance, with focus on (1) activities that can be eliminated; (2) activities that can be restructured or merged; (3) opportunities to improve organizational efficiency and effectiveness; and (4) workforce management. These four categories are further defined and the factors to consider in the analysis are discussed. For example, M-17-22 addresses shifting to alternative service delivery models and streamlining mission-support functions, such as through greater use of shared services providers and outsourcing to the private sector.

M-17-22 provides guidance on maximizing employee performance through near-term actions to ensure the workforce is as effective as possible. For example, agencies are to "determine whether their current policies and practices are barriers to hiring and retaining the workforce necessary to execute their missions as well as managing and, if necessary, removing poor performers."

Culture plays a significant role

There is always some natural fear of the unknown when new initiatives are announced. At the same time, the reality for some time has been that with the seriousness of the long-term fiscal situation, federal agencies will continue to feel the pinch of ever-tightening budgets. This is especially true for budgets for support functions. It will be a continuing way of life for federal agencies to address how they are structured and operate. Following the framework in M-17-22 provides a means of systematically doing so in line with an organized government-wide initiative. The agencies' development of a proposed plan under EO 13781 can be consequential. Not providing adequate attention to what will be a difficult set of considerations or simply presenting a plan that largely rearranges the deck chairs may simply place the ball entirely in OMB's court to decide what to do after the initial 180-day period. Agencies are better positioned to control their own destiny by developing realistic plans using the M-17-22 framework and the flexibilities provided rather than being directed by OMB.

Agencies will want to be engaged from the outset; they should view the process as an opportunity, and not a compliance exercise for which boxes are simply checked off along the way. While the agency head's attention and leadership are paramount, the career leadership has to be strongly committed to transformational change. Moving from a deeply entrenched status quo to thinking far outside the traditional box will only happen if driven with commitment and passion for the possible from political appointees and career leadership working together. It must then be supported by staff and stakeholders, many of whom are veterans of earlier presidential management reform initiatives that have come and gone with various levels of success in terms of lasting impacts that changed the dynamic of what government does and how it does it. And while there have been calls for decades to reform the federal civil service system, changes have only been at the margin. Motivation to change will have to be sustained. Developing a plan represents an important, albeit incremental, initial step.

Addressing the culture will help dictate success. All organizations have cultures. When you hear, "but we've always done it that way" or "it won't work here," people are simply describing an organizational culture that embraces the status quo or where the organization has been unsuccessful in the past when it has tried to move outside of the traditional culture. It is natural for people to be reluctant to venture very far outside their comfort zone of what they know and how they have operated for many years, whether it be in their personal or professional lives. Especially if something has worked for them personally, why would they want to change it?

Culture can be a manifestation of strong organizational stovepipes not accustomed or readily willing to work together within the agency, much less with other agencies, levels of government, and outside stakeholders. Organizations that are largely insular may have cultures far different than those that naturally interact outside their principal domain. There may be far different cultures for different missions. In the federal government, there are marked differences in the cultures of Department of Defense and civilian agencies.[8]

Culture is a good thing and is what makes great organizations great. This is especially true when reinforced with strong core values, such as integrity, service, commitment, respect for others, and working together as a team. But it can cut both ways, especially with respect to initiatives that threaten to change the equilibrium of the existing culture. The result can be lost opportunities, wasted resources, and reduced mission effectiveness. In the end, top leadership's goal should be to create greater value and mission effectiveness and efficiency. The career workforce is committed to its agency's mission and to serving the public. It will respond positively to leadership that reinforces those values.

Cultural change typically evolves and does not immediately shift with the wave of a magic wand (or issuance of a presidential executive order or memorandum). So, a longer-term view is necessary, which M-17-22 recognizes. Government is certainly not alone in this regard. When KPMG asked private company audit committee members in a 2017 survey to name up to three of their company's biggest challenges, "tone at the top and culture of the organization" was rated fifth, with 25 percent of the respondents citing this as one of the biggest risks.[9]

Communications and even more communications essential to transformation

In getting started, develop a communications plan and clearly explain to staff and stakeholders why the status quo is no longer acceptable in making the case for transformation. Everyone will not only have to understand "what is" required and "how to do it," but also "why." M-17-22 provides a strong foundation for making the case as it is straightforward as to the expectations and provides a framework for considering transformative change.

It is imperative for staff at all levels to have the requisite context sophistication over the benefits and concepts at play. As stated earlier, there can be a natural fear of the unknown and skepticism regarding any new management initiative, especially one that is calling for fundamental changes in the business of government. Communications

[8] "Embracing Game Changers," by Jeffrey C. Steinhoff, Kirke E. Everson, Viral Chawda and Joseph M. Ward, AGA *Journal of Government Financial Management*, Spring 2017 (http://www.kpmg-institutes.com/content/dam/kpmg/governmentinstitute/pdf/2017/aga-game-changers.pdf).

[9] "Is everything under control? – Audit committee challenges and priorities," 2017 Global Audit Committee Pulse Survey, KPMG Audit Committee Institute, 2017 (https://boardleadership.kpmg.us/content/dam/blc/pdfs/2017/2017-global-audit-committee-pulse-survey.pdf).

must be a continuous process. The past has shown that, while there has been important progress through previous presidential management initiatives, changes generally addressed targeted functional management areas, such as financial management and information technology. EO 13781 and the Hiring Freeze memorandum are focused on the broader organization of the federal executive branch, which has proven to be somewhat elusive in the immediate past.

Communications need to be two-way. Top management can learn a lot from those on the line carrying out the mission and operations. This requires information flows both up and down and across the agency through open channels of communication. This becomes more difficult if the organization has not previously fostered an open, transparent culture where staff is comfortable sharing perspective without fear of retaliation or blame. Trust is important. If employees feel this is being "done *to* them" versus "done *with* them," successful change will become more difficult.

Sustaining the initiative requires sound governance

Again, the plan is only step one. Implementation is where the rubber meets the road, and where progress has taken a long time or simply languished in the past. As highlighted earlier, M-17-22 speaks to what happens after the government-wide plan is finalized in February 2018. Develop meaningful, reliable, and timely performance metrics to effectively and efficiently manage transformation from the outset, while not stifling innovation and appropriate risk-taking. Early victories will be important to show the agency is both serious about transformation and willing to move forward on new ways of doing business that are well targeted. Similarly, there should be a willingness to invest even when the return on that investment may be further down the road in the future. This can run counter to presidential administrations or private sector entities that may feel a strong obligation to demonstrate significant immediate payoff by cutting costs while increasing service and productivity. Both need to be part of game plan.

The end-game is not the agency plan or OMB's government-wide plan, but gaining support for effective and efficient transformation that looks for new ways of operating and fully leverages disruptive technology. As with any such initiative, implementation encompasses sound governance, including:

— Realistic plans that address the root cause and articulate the end state;

— Clear roles and responsibilities;

— Well-designed policies and procedures that are flexible and by all means avoid this becoming a check-the-box exercise;

— Fact-based decision-making and trade-off considerations;

— Documenting key judgments and assumptions;

— Continual monitoring, oversight, and reevaluation;

— Flexibility to shift gears and change direction if needed;

— Continual education so everyone starts and remains on the same page;

— Open communications and broad engagement;

— Stakeholder involvement and agreement, including other federal agencies, state and local government partners, expert advisers, contractors, and the Congress;

— Accountability for results at all levels, starting at the top, with someone serving as a hammer to drive the nail as needed; and

— Continuing top management support and leadership.

Areas of consideration

There are many things that agency heads will need to consider as they formulate their plans for submission to the OMB Director. Again, M-17-22 provides a viable framework for this consideration. We will focus on five areas of consideration in developing agency plans. As stated in the Introduction, these five areas focus on management and organizational issues, or how federal agencies carry out their missions. They do not and are not intended to address public policy decisions around the role of government and the continuing value of existing federal programs as contemplated in M-17-22.

Leverage available information

Agencies are not starting from scratch. Past presidential management initiatives and the range of current management laws and requirements provide a guidepost and valuable lessons learned, both positive and negative. Appendix 6: *Data Sources* of M-17-22 highlights various existing sources of information that agencies should consider in developing their plans. Included are Agency Strategic Plans, Agency Performance Plans, and Agency Performance Reports already prepared under OMB Circular A-11, *Preparing, Submitting, and Executing the Budget*, which support implementation of GPRAMA. Also, included are agency risk profiles required by OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, which implements FMFIA.

Agencies are also are armed with reports containing thousands of open recommendations from their inspectors general, GAO, congressional committees, and advisory committees and task forces as well as countless internal studies. For example, as Appendix 6 points out, as required by 2010 legislation,[10] GAO reports annually on federal programs, agencies, offices, and initiatives having duplicative goals or activities. In addition to areas of duplication, GAO's annual report addresses areas of overlap, fragmentation, cost-saving, and revenue enhancement. GAO's "2016 Annual Report – Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits" cited cumulative financial benefits of $56 billion for fiscal years 2010 to 2015, with at least $69 billion in additional benefits through 2025. GAO also reported that 317 of its 641 recommended actions had not yet been addressed.[11]

As defined by GAO:

- Duplication is "when two or more agencies or programs are engaged in the same activities or provide the same services to the same beneficiaries." For example, GAO found the Department of Defense (DoD) increasingly deployed dedicated satellite control operation networks, with one military base having eight separate satellite control centers.
- Overlap is when "multiple agencies or programs have similar goals, engage in similar activities or strategies to achieve them, or target similar beneficiaries." For example, GAO suggested Congress consider legislation preventing individuals from collecting both full Disability Insurance benefits and Unemployment Insurance benefits at the same time.
- Fragmentation is when "more than one federal agency (or more than one organization within an agency) is involved in the same broad area of national need and opportunities exist to improve service delivery." For example, GAO suggested collaboration between the Departments of Justice, Homeland Security, and Treasury in modernizing wireless communications systems to provide interoperability, while reducing cost.

There are many other sources of available information that do not require agencies to reinvent the wheel in terms of identifying viable candidates for change. The private sector can also provide valuable insights. So the ability to select what is most useful will be important. And if trust is established between top management and those on the line executing programs and operations, there should be plenty of additional actionable ideas to help formulate the agency plans.

[10] Public Law 111-139, Joint Resolution Increasing the Statutory Limit on the Public Debt, February 12, 2010.

[11] "2016 Annual Report – Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits," GAO-16-375SP, April 13, 2016 (http://www.gao.gov/products/GAO-16-375SP).

Assess the services delivery strategy

M-17-22 addresses elimination, restructuring, and merger of activities. These can be particularly difficult considerations as they directly challenge the status quo. In assessing how your agency delivers programs and conducts operations, consider whether:

- The agency business strategy and organization model is aligned with its core mission. If it is not well aligned, an initial action would be to define desired outcomes and consider alternative organizational models.
- There is compelling reason for the current organization, such as statutory requirements, that would first need to be addressed.
- Modern, innovative management systems and techniques are in place. For example, are there manual processes, antiquated automated systems, the lack of information to support decision-making, too few build-in preventive controls, and a lot of red tape and requirements for which the return on investment is unknown, nonexistent, or negative?
- Risks are continually assessed, managed, and monitored so that the agency can capture both the opportunity that risk can provide as well as protect against fraud, waste, abuse, and mismanagement. Clearly defining the level of risk to accept and knowing the type and magnitude of risks being accepted can help focus primary attention on areas that represent higher risks and where investments result in higher rates of return in inefficiency and effectiveness. If everything is deemed important, nothing becomes important. This consideration dovetails with the implementation of OMB Circular A-123, which requires the adoption of enterprise risk management.[12]
- The organizational structure and stakeholder relationships best serve the intended outcomes and purposes of the agency mission. For example, if the organizational structure does not effectively and efficiently integrate the work of interrelated activities due to entrenched solid-line stovepipes, it will look that way to citizens, state and local government partners, and those doing business with the agency. The challenge in breaking down organizational barriers is that there may be few, if any, incentives for working and collaborating across boundaries, combined with minimal, if any, disincentives for not doing so.
- There are current activities that are not delivering tangible results. Perhaps the activity no longer needs to be performed or performed in the current manner. The decision at that point is whether to (1) eliminate or considerably scale back the activity, (2) move the activity to or jointly perform it with another organization in the agency, (3) obtain services or transfer the activity to another agency or state or local government, or (4) obtain services from a private sector entity.
- The use of third-party service providers is netting results commensurate with the cost incurred and is being periodically benchmarked against other delivery, both in terms of results and cost.

Agencies could look to a host of disruptive technology enablers, transformation road maps, and other leading strategies in considering implementation of organizational changes.

Move back-office functions to standard systems and shared services

M-17-22 speaks to rethinking service delivery models. Looking forward, expect that shared services will become the norm, back-office missions will be recalibrated, and new partnerships will be formed within agencies, between agencies and levels of government, and with the private sector. Shared services have been a continuing priority of recent past administrations. There has been important progress; but the pace of change has been slow and focused primarily on basic backroom finance functions, such as payroll and travel. Irrespective of EO 13781 and the Hiring Freeze memorandum, given fiscal realities, agencies will have little choice other than to embrace broad use of shared services going forward. It makes business sense both in terms of cost reduction and improved service delivery.[13]

[12] "Navigating uncertainty through ERM – A practical approach to implementing OMB Circular A-123," by Jeffrey C. Steinhoff, Laura A. Price and Thomas A. Cocozza, KPMG Government Institute, November 2016 (http://www.kpmg-institutes.com/content/dam/kpmg/governmentinstitute/pdf/2016/A123-erm.pdf).

[13] "Duplication, Overlap and Fragmentation: Three Adversaries to Establishing Long-Term Fiscal Sustainability," by William R. Phillips and Jeffrey C. Steinhoff, Association of Government Accountants (AGA) *Journal of Government Financial Management*, Fall 2014.

Agencies should look across the portfolio at every mission support function, including human resource management, financial management, IT, acquisition and contracting, facilities, grants, and lending. Focus on redundancies and known implementation problems. Have these functions adopted leading practices (or have they at least been benchmarked against them to know whether they have)? Are back-office systems standardized across the agency and between agencies as needed? Does the agency know what is being spent on back-office operations and how the cost compares to other options? Are there too many manual or semi-manual processes, antiquated automated systems, too few build-in preventive controls, and a lot of red tape and requirements for which the return on investment is either unknown or minimal? Does continuing to carry out certain functions in-house best serve the intended outcomes and purposes of the agency mission as well as doing so efficiently?

Total cost of ownership assessments, maturity models, and benchmark studies can be leveraged to aid in the process. Ask fundamental questions as to whether continuing to carry out certain functions in the current manner represents the best use of resources and if less expensive and/or higher-quality services are available from others. Key areas for review include shared services opportunities and design; location selection where the agency is geographically dispersed; service provider sourcing; outsourcing enablement and process design; and transformation strategies.

For example, various federal agencies lend and/or guarantee $3.2 trillion in credit covering a wide range of programs. Today, individual agencies generally establish and maintain their own lending practices and systems for approving and servicing credit, even though they are essentially in the same business. All must budget and account on an accrual basis under the Federal Credit Reform Act of 1990.[14] All must interact with the public in extending credit. All must subsequently service the debt. All must follow the Debt Collection Improvement Act of 1996.[15] Put simply, while the risks and types of credit may differ, the backroom operations can be largely the same.

What if one or several agencies, operating as a service provider (or it could be a private sector service provider approved by the government), took care of the back-office credit operations from the initial application through collection? Agency credit program management would still set lending policy for their programs under applicable laws and regulations. They would still decide who receives credit and make the myriad other program and oversight decisions. The service provider would leverage economies of scale to reduce cost and improve service delivery through a single, modern, standardized system based on leading practices. The public would go to a single portal and select from the range of federal credit programs. General information would be standardized and only unique information related to a specific program would be different. The process would look the same to the public no matter what federal agency lending program may be involved.

Advanced data analytics could be built into the system, so the agency program manager approving the loan or loan guarantee would have a portfolio of tools to aid in decision-making. Such built-in tools in modern systems could also help prevent approval of credit that is questionable or fraudulent by looking across agencies' lending and other benefit programs for suspicious patterns. Cognitive technologies, which are discussed in greater detail in the next section, can ingest massive amounts of structured and unstructured data to help assess credit worthiness—far more information than a 1,000 human brains could ever handle, and at lightning speeds. This information could be at a program manager's fingertips in making credit decisions, or if certain parameters are met the cognitive system could make the decision. Similarly, program managers would have real-time, online access to the status of individual accounts and the performance of the agency's overall credit portfolio. In this way, the agency would focus on program performance and the citizen experience could be greatly enhanced.[16]

[14] Title 5 of the Omnibus Budget Reconciliation Act of 1990, Public Law 101-508, November 5, 1990.

[15] Public Law 104-134, 110 Stat. 1321, April 26, 2006.

[16] *Governing to Win: Enhancing National Competitiveness Through New Policy and Operating Approaches*, Chapter Thirteen, Expand the Use of Shared Services, by William R. Phillips and Debra Cammer Hines, the IBM Center for the Business of Government, Rowan & Littlefield Publishers, Inc., 2012. Also, see footnote 4.

This is something with which the federal government has ample experience and has been successful in several targeted areas. In 2001, among 24 e-government initiatives, under President George W. Bush's Management Agenda, were ePayroll and eTravel. Agencies were required to outsource these functions to approved government shared services providers (SSP). Today, there are four SSPs providing these services for the entire federal government, dramatically reducing processing costs and enabling standardization and modernization. Over the past 15 years, additional SSPs and similar initiatives have been undertaken in other financial management functions under the leadership of OMB and the Department of the Treasury. But much more can be done to broaden both the application and the speed to implementation.

Disruptive technology is an enabler; especially given the capabilities existing today around nonstandard or unstructured data. The movement to greater shared services would require strong leadership and the type of collaboration across agencies and disciplines within agencies that has been difficult to establish and maintain. The challenge is that agencies have learned how to make their systems work, even those that are antiquated, within their environments and cultures. With large-scale change, the status quo can be turned upside down. Again, there can be a natural fear of the unknown with seismic shifts in any organization.

Adopt intelligent automation

M-17-22 calls on agencies to better leverage technology to improve efficiency and effectiveness. Agency plans should consider the art of the possible, with intelligent automation an integral part of transforming what government does and how it does it. Intelligent automation is automation of mission delivery and business process by leveraging digital technologies to support tasks undertaken by knowledge workers. It spans core technologies, such as rules engines and work flow to artificial intelligence and machine learning cognitive technology.[17]

Bank of America Merrill Lynch expects that the global market for intelligent solutions will reach $152.7 billion by 2020, and that adoption of these technologies could improve productivity by 30 percent.[18] Endless potential applications will drive significant efficiency and effectiveness, with cost reduction of 40 to 75 percent possible in some functions, while dramatically improving speed, accuracy, control, and the citizen experience. Research by the London School of Economics and Political Science identified a 600 percent to 800 percent return on investment for specific tasks.[19] And Gartner predicted that by year-end 2018, there will be "seamless, two-way engagement between customer digital assistants and customers in an experience that will mimic human conversations, with both listening and speaking, a sense of history, in-the-moment context, tone, and the ability to respond."[20]

Intelligent automation tools work 24/7, 365 days a year and perform tasks at digital speeds. They can do more, while driving down costs. They eliminate mundane, repetitive tasks, allowing employees to focus on strategic initiatives, thereby increasing job satisfaction. Tools scale instantaneously at digital speeds to respond to fluctuating and large workloads. They do not make inconsistent decisions, such as electing to turn right one day and left the next. They are configured to solve a problem the same way every time and always do what you tell them to do. Properly configured, they do not make mistakes and thereby eliminate human error. Intelligent automation can also improve citizens' experience with government services through reduced wait times and more accurate and prompt assistance and response.

The most basic level and most widely used in the federal government today is ***robotic process automation***, which essentially automates rudimentary, routine processes that are typically repetitive in nature, involve multiple systems, and follow very explicit steps. The tools often sit on the computer desktop, and to the technology environment look just like a human user. ***Learning cognitive automation*** has additional capabilities, such as the ability to solve problems and/or perform work activities by interpreting unstructured data. These tools are able to deal in high numbers of complex transactions that require a deeper level of analytics. The most advanced class of intelligent automation—***reasoning cognitive automation***—mimics human activities, such as

[17] See footnote 8.

[18] "Robotics Revolution – Global Robot and AI Primer," Bank of America, Merrill Lynch, 2015.

[19] "The IT Function and Robotic Process Automation," the London School of Economics and Political Science, Outsourcing Unit Working Research Series Paper 15/05, by Leslie P. Willcocks, Mary Lacity and Andrew Craig, October 2015.

[20] http://www.gartner.com/smarterwithgartner/gartner-predicts-our-digital-future/.

perceiving, inferring, gathering evidence, hypothesizing, and reasoning. Just like humans, these systems are taught rather than programmed and continue to learn on their own. Think of IBM's Watson, which combines sophisticated ontologies, natural language processing, machine learning, pattern recognition, and highly-sophisticated reasoning. Intelligent systems are now able to read and extract information from unstructured data, which is widely held to represent 80 percent of the world's data. Collectively, these applications are game changers, empowering decision makers as never before and allowing for service-driven government employees to focus on higher-value activities, with fewer resources.

In formulating their plans under EO 13781 and M-17-22, agencies should find it useful to address some of the underlying challenges in moving to intelligent automaton:

— In the past, management priorities have typically been driven by implementing new programs, regulations, and requirements and on oversight and mandated reporting. Intelligent automation focuses on operational efficiency and effectiveness, which dovetails with M-17-22. Changing the orientation will be important, and a broad understanding by agency management of the value of these tools to both mission delivery and cost savings will be critical.

— Changes in the composition of the workforce and organizational change management have typically represented a long cycle, especially in large organizations with entrenched operations. In this regard, M-17-22 covers the need to maximize employee performance, including identifying any barriers to hiring and retaining the workforce necessary to execute agency missions. With the implementation of intelligent automation, new skill sets and training needs will result.

— Will there be an appetite for what could be significant implementation investments that promise significant future payoff that may not be realized for a number of years. In the past, it has been expedient to just direct agencies to reduce the number of personnel by some across-the-board percentage, irrespective of mission needs and feasibility. This can help reduce short-term costs; but without the type of changes envisioned in M-17-22, it simply kicks the underlying problem down the road while potentially degrading current effectiveness and the citizen experience.

— Intelligent automation presents associated risks in implementation as with any new or complex technology and possible long procurement lead times. Included among the 32 management challenges on GAO's 2017 High-Risk list is "Improving the Management of IT Acquisitions and Operations."[21] Agencies will have to be able to smartly introduce these tools.

Explore public-private partnerships

As highlighted earlier, EO 13781 requires the consideration of "whether some or all of the functions of an agency, a component, or a program are appropriate for the federal government or would be better left to state or local governments or to the private sector through free enterprise." Today, there is growing global recognition of the value of public-private partnerships (PPP) and their role in facilitating public infrastructure investment and providing vital services.

PPPs are contractual arrangements between government and private sector entities in which skills and assets of each are shared in delivering services or facilities for the public good. They are not just financing mechanisms, but tools to manage risk and expand innovation, with a goal of cost control and enhanced mission achievement. Agencies typically execute functions that support but are outside their core mission or area of expertise. Other more cost-effective alternatives may be available that would enable the agency to focus more fully on executing its mission. This is similar in concept to shared services. While generally associated with transportation projects, such as toll roads and bridges, properly structured, PPPs can be used across many different sectors and government functions to provide public programs and services more efficiently and effectively, as highlighted in Figure 1.[22]

[21] "HIGH-RISK SERIES – Progress on Many High-Risk Areas, While Substantial Efforts Needed on Others, GAO-17-317, February 15, 2017.

[22] "Public-Private Partnerships: Leveraging Private Resources For The Public Good," by Jacques S. Gansler and William Lucyshyn, University of Maryland, Center for Public Policy and Private Enterprise, School of Public Policy, February 2016 (http://www.kpmg-institutes.com/content/dam/kpmg/governmentinstitute/pdf/2016/umd-ppp-report.pdf); "Using Public-Private Partnerships to Reduce Costs and Enhance Services," by William Lucyshyn, Michael C. Vitale, and Jeffrey C. Steinhoff, AGA Journal of Government Financial Management, Winter 2016/2017 (http://www.kpmg-institutes.com/content/dam/kpmg/governmentinstitute/pdf/2017/aga-ppps.pdf); and "Duplication, Overlap and Fragmentation: Three Adversaries to Establishing Long-Term Fiscal Sustainability," by William R. Phillips and Jeffrey C. Steinhoff (http://www.kpmg-institutes.com/content/dam/kpmg/governmentinstitute/pdf/2014/duplication-overlap-fragmentation.pdf).

Transportation

- Roads
- Bridges/tunnels
- Parking
- Airports
- Rail
- Transit
- Traffic operations centers

Social

- Schools
- Corrections
- Court houses
- University Accommodations
- Mental health centers
- VA hospitals
- Social housing
- Public/administrative buildings
- Lotteries
- Urban regeneration

Defense & Aerospace

- HQs
- Military housing/accommodations
- Training/colleges
- Synthetic training
- Data centers/IT
- Utilities
- Military equipment
- Warehousing and logistics
- Commercial space flight

Technology

- Data centers/IT
- Telecom towers
- Broadband
- Shared services

Energy & Utilities

- Mining rights
- Carbon capture
- Renewables
- Water/wastewater
- Electricity transmission, and distribution
- Nuclear
- Levees

Figure 1. PPPs Have Been Used in Many Sectors

Let's look at two examples where DoD was able to address defined needs supporting its mission that otherwise would not have reasonably been possible without PPPs, and that essentially moved a nonmission function to the private sector.

- The Military Housing Privatization initiative (MPHI)[23] was established to address substandard military family housing that was negatively impacting the morale of soldiers and their families. Family housing on military bases had deteriorated over decades, and sufficient and affordable rental housing was not available in the private market. The DoD estimated that it would cost over $20 billion and 40 years for military construction to resolve what it viewed as a military housing crisis. The MPHI program sought to attract public sector financing, expertise, and innovation to provide necessary housing faster and more efficiently than traditional military construction and then to manage and maintain the property. DoD, with support of the Congress, recognized that this was not its core mission and that the private sector was much better equipped to build and maintain housing, with DoD providing the land on military bases. This program has been highly acclaimed. GAO assessed the life cycle costs of 12 MHPI projects and estimated that privatization would lead to savings of at least 10.9 percent. GAO also noted that opening the military housing construction market to the private sector stimulated the economy while providing investors a long-term return on investment, and accelerating availability of adequate family housing.[24]

[23] Public Law 104-106, 110 Stat 186, Section 2801, February 11, 1996.

[24] "Military Housing: Management Issues Require Attention as the Privatization Program Matures," GAO-06-438, April 28, 2006. Also, see footnote 18.

— DoD has an initiative to consolidate, modernize, and reduce the cost of data centers.[25] It has authority to lease nonexcess real property in exchange for in-kind considerations, such as receiving services. Using an enhanced use lease (EUL), it is able to contract with a private sector entity to build a modern data center on land on a military base it leases to the private sector entity. The private-sector entity finances, constructs, and operates the new data center. It pays DoD rent to use the land and reimburses it for certain costs, such as utilities. It then sells cloud services to DoD and to other customers at prevailing rates just like any business.[26] Similar to the MPHI program, this approach essentially takes DoD out of the business of building and operating a support function that can be better addressed by the private sector. Existing data centers can be eliminated or consolidated, with cost savings and improved service.

PPPs are always appropriate or a panacea to address government needs. In implementing EO 13781, where PPPs, EULs, or other arrangements to further engage the private sector are part of the agency plan, it will be paramount to understand:

— What these procurement vehicles represent and when and how to best use them as a means of providing private-sector financing, expertise, and innovation to help address public needs and as a means of reducing costs, accelerating project completion, and adding greater value;

— The range of potential applications of this concept to address government program and operations requirements that support but do not represent the agencies core mission; and

— The importance of following disciplined program management processes and making fact-based decisions to gain greater value for both government and the private sector and to avoid the pitfalls of entering into these types of arrangements without a clear public interest and a solid business case and governance process.

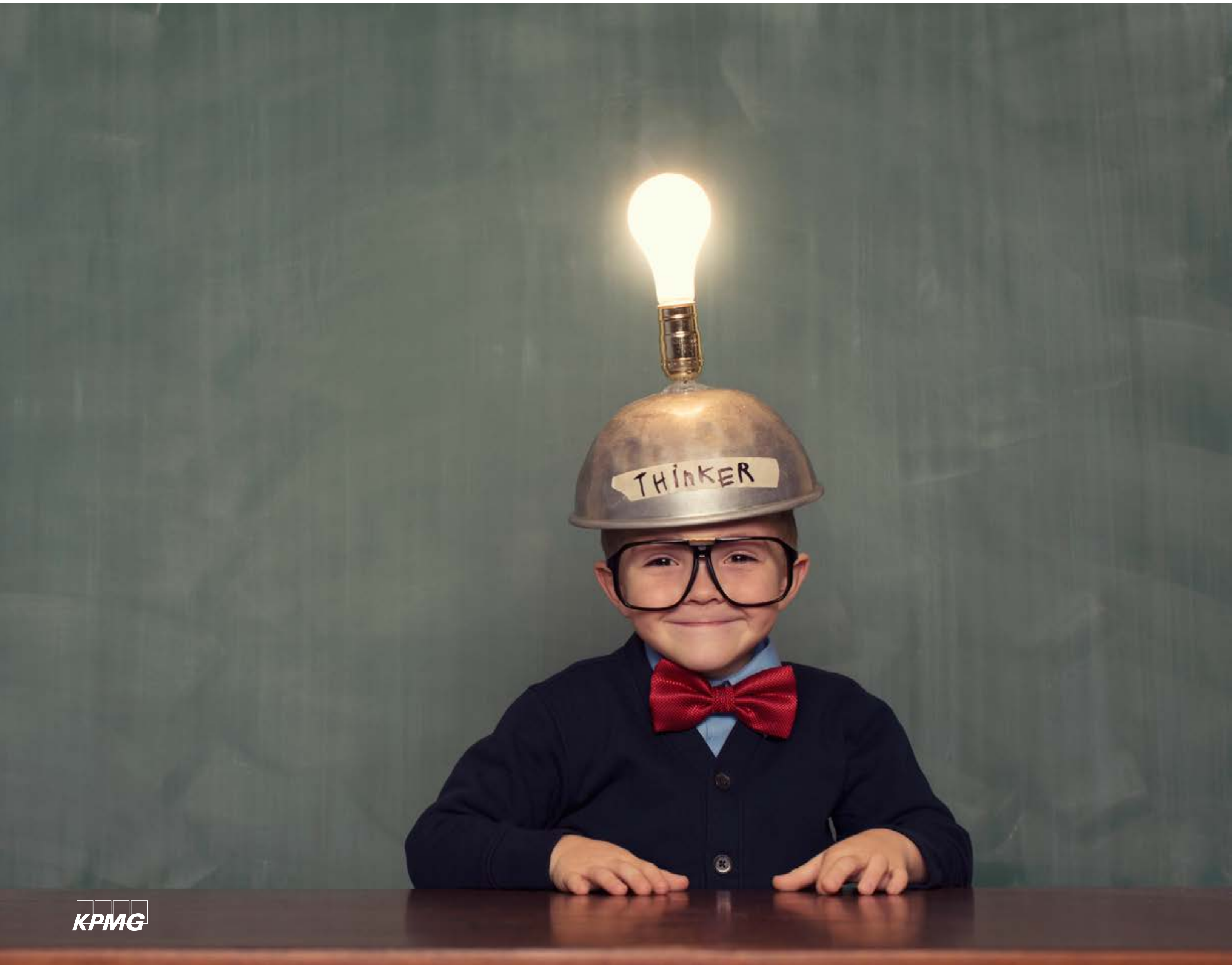
[25] Federal Data Center Consolidation Initiative, "Department of Defense 2011 Data Center Consolidation Plan & Progress Report," November 8, 2011.

[26] See footnote 14.

Final thoughts

Through the guidance in M-17-22, federal agencies are being given an opportunity to be an essential part of the solution in transforming the operations of the federal government. One way to view EO 13781 and the Hiring Freeze memorandum is that it is not really a matter of whether, but when significant changes will be made in the organization of the federal government. The status quo has been on borrowed time given the daunting realities of what it will take to establish long-term fiscal sustainability and the urgent need to improve the citizen experience with federal agencies. Agency leaders and staff will be challenged to think far outside the current box and to be open to new ways of operating and, in some cases, perhaps recalibrate mission delivery models. The magnitude of change envisioned will not occur by squeezing the last dime of savings out of existing process efficiency or pledging to eliminate fraud, waste, abuse, and mismanagement.

Tough choices await. But through active engagement and a willingness to challenge, and perhaps even uproot the status quo where needed, agencies have an opportunity to help chart their own future course. There must be a willingness to look at new solutions and creativity in doing so. As Albert Einstein said: "We can't solve problems by using the same kind of thinking we used when we created them."



How KPMG can help

In the face of budget constraints, expanding demand for services, disruptive technology, and information security challenges, government agencies are not only being challenged to do more with less, but also to do so effectively while transforming to serve the evolving needs of their diverse constituents. This is no small task given the enormity of the role government plays and public expectations.

For more than 100 years, KPMG LLP has assisted the federal government in the civilian, defense, and intelligence sectors. Today, we help these organizations adapt to new environments by working with them to transform their business models, leverage data, protect information assets, increase operational efficiencies, implement intelligent automation, move to and support shared services, and ensure greater transparency, while focusing on their mission.

Our partners and professionals possess the knowledge, insight, and awareness of pertinent legislation and regulatory implications needed to address the special needs of the public sector. We help transform financial and operational challenges into opportunities with cross-functional public sector knowledge, insights into leading practices in government and the private sector, open collaboration, and an insightful approach that is tailored to each client's situation and needs. We also support government at all levels through the KPMG Government Institute, which serves as a forum for ideas, a place to share leading practices, and a source of thought leadership.

Contact us

To learn more about Presidential Executive Order 13781, *Comprehensive Plan for Reorganizing the Executive Branch*, and KPMG's insights into the five areas of consideration covered in this white paper, please contact us:

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