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1991-2011*



The Center for Excellence in Operations, Inc.

Improvement Excellence™ in the Federal Government:

Addressing the Urgent Need to Reduce Waste and Deficit Spending, and Improve Service Delivery

By

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The contents, examples, and data provided in this report do not represent or promote the political values of Democrats, Republicans, the Tea Party, or any other political group. Government waste is not a partisan issue: waste has been created by political leaders in all parties and across all agencies and functions for the past fifty years and that trend continues today.

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How this White Paper was Created

The author's new book on strategic business improvement, "**Accelerating Lean Six Sigma Results: How to Achieve Improvement Excellence™ in the New Economy**" was released in January, 2011. As the book was being written during the recent economic meltdown and recovery, the author became very interested in how to apply the basic business improvement methodologies used in the private industry for the past 75 years to government agencies, processes, and programs. The author also recruited a bright doctoral candidate from Cornell University who was completing his PhD-Government thesis on the recent collapse of the banking industry to help with this Chapter. Together, they demonstrated the significant opportunities to improve government, and validated the feasibility and enormous benefits of government process improvement as a powerful enabler to eliminate waste and deficit spending, and improve service delivery and effectiveness. Government is no different from any other enterprise when it comes to inefficiencies and elimination of waste. Using the Lean Six Sigma methodology and tools, data-driven root cause problem solving and fact-based decision making become very logical, transportable, and necessary improvement processes. The contents of this white paper (Part 1 and Part 2) were intended to be incorporated into the last chapter of the book.

The publisher liked the timeliness of the Chapter's content and thought that the analysis and information would be extremely valuable to readers. However, due to the publisher's advertised price and volume constraints, a decision was made to remove the contents from the book because the number of pages exceeded the plan. Instead this Chapter has been published as separate digital eWhite Papers. It is our expectation that these eWhite Papers will build awareness of waste in government and the urgent need to reinvent and reengineer government strategy and purpose, processes, agencies, and programs. Please feel free to share these eWhite Papers with your peers.

*The new book - **Accelerating Lean Six Sigma Results: How to Achieve Improvement Excellence™ in the New Economy (January, 2011)** is available from J. Ross Publishing (www.jrosspub.com).*

*The Part 1 and Part 2 eWhite Papers - **Improvement Excellence™ in the Federal Government: Addressing the Urgent Need to Reduce Waste and Deficit Spending, and Improve Service Delivery (January, 2011)** are also available on the Web Added Value (WAV) section of the www.jrosspub.com website.*

- *Part 1 is included in this White Paper and builds a solid case for government process improvement and provides relevant facts about the costs and inefficiencies in government;*
- *Part 2 is included in a separate White Paper and includes "The 2010 Congressional Pig Book Summary: The Book Washington Doesn't Want You to Read." This is a detailed breakdown of pork spending and entitlements concealed within the recent Stimulus Package, broken down by functional agency, congressperson, program, and the amount of awarded funding.*

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Introduction

*While writing my recent book, **Accelerating Lean Six Sigma Results: How to Achieve Improvement Excellence™ in the New Economy**, a significant amount of research was conducted on government waste and opportunities for improvement. Not surprisingly, what we learned from this tedious effort was that the United States federal government is arguably the most inefficient, ineffective, and costly “waste producing” enterprises in the universe! In our nation’s most recent presidential election the promise of those running for office was that this would change, but the federal government continues on with its traditional bureaucratic practices of inconceivable waste, deficit spending, concealing, spinning or explaining away the real facts, playing the partisan blame game, and distracting people away from the situation. The notion of improvement is a foreign concept to many politicians and other government leaders because it promotes accountability, strategic leadership and vision, root cause problem solving, and management by facts for better results. Thanks to the internet and other technology, the facts are there for those who seek the truth about government waste and what is really going on.*

Many argue the position that government is not a business, and the strategic improvement initiatives in the private sector are therefore inapplicable. Nothing could be further from the truth. When any professional leader peels back the onion of government, they find customers (voters and taxpayers), customer and market needs, sales and marketing, advertising, objectives, planning, budgeting financial analysis, and measurement, service delivery execution processes, service outcomes, and customer satisfaction, and many other identical functions of a typical business. The problem is that in the absence of strategic improvement based on a sensible strategic vision, these functions become clogged with waste, inefficiencies, duplication of efforts, conflicting priorities and actions, and spiraling out-of-control deficit spending. Government always claims that it is different and cannot be compared to a business. While there are certainly differences between government and business, this does not mean that you can’t compare them or that government could not adopt the discipline, controls, accountability, and performance criteria of private enterprises and corporations in many respects. If the private sector ran their organizations like the government, few would be in business very long. It is time to consider a new management model.

The purpose of this report is fourfold:

1. To raise awareness of the true magnitude of government waste with facts and true root cause thinking, because the current tax and spend practices, the social equalization theme and the attempt to control and be all things to all people are a strategy for irreversible economic disaster;



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2. To expose specific examples of wasteful spending and demonstrate that these programs have little or nothing to do with stimulating the economy, creating jobs, or turning the present economic meltdown around;
3. To encourage politicians and other government leaders to adopt the concepts, methodologies, and practices of Improvement Excellence™ or other approaches used successful in the private sector, to reinvent government and optimize the service delivery processes;
4. To provide a proven roadmap for government stakeholders so that collectively and collaboratively, we can all begin to focus on the right actions to transform and industrialize the government infrastructure to operate within a balanced budget and continuously provide fiscally responsible benefits to American citizens, to the degree originally intended by the fore fathers of this great nation.

Forty years ago, anyone who went to work for IBM, General Motors, Polaroid, Motorola, Xerox, General Electric, and many other flagship organizations were provided with, and expected lifelong employment. Generations of families worked in these organizations. The emergence of global competition changed that scenario forever, and every organization needed to redefine and reinvent their business models to survive and remain competitive. Today, government is in a similar situation. Well-intentioned social programs which began with Franklin D. Roosevelt, Lyndon Johnson, Jimmy Carter, and others have evolved and helped many recipients, but globalization is also creating the need to adjust priorities, question continued feasibility, and reinvent the process of government and service delivery at a more affordable cost. The model of government that we have been using for the past half-century is on the brink of bankrupting generations of Americans if we continue on the same course. Private industry evolved by learning how to focus on core competencies and how to do more with less, and there is a dire need for government to evolve in a similar manner. Improvement Excellence™ is a core competency that will help reinvent the process of government and improve effectiveness with significantly less waste, variation, and cost.

Waste is Everywhere and Growing Exponentially

There is so much waste in the form of wasted costs, wasted time, and a never ending list of non value-adding activities that all of us tolerate on a daily basis. Think about the typical trip to the bank, grocery store, and doctor's office. Many of the situations everyone faces daily are incredibly inefficient, bureaucratic, frustrating, costly, and totally not customer focused.

However, the largest *waste factories* in the world are outside of work in the public sector, and touch our personal lives daily as well. Ever visit a school board budgeting session or the Department of Driver Services? The U.S. Postal Service is bankrupt, but they have many more employees today than they did ten years ago. Who is going to bail them out and what do you

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think a first class stamp will cost 10 years from now? The Internal Revenue Service spends 7.6 billion hours and \$335 billion dollars on IRS compliance. They make us use almost 500 different tax forms; The easiest form (1040EZ) has a 33 page instruction manual. What is the return on investment for this activity? Washington has become a mega campus of agencies with no unified purpose or strategy, working against each other, and trying to one-up, out-do, or undermine each other.



For nearly a century, public and private industry has improved their internal operations. As mentioned previously globalization forced companies to redefine their business models. The continued growth in globalization and many forces of the new economy have many public and private companies again rethinking and improving their business models. These improvement strategies include initiatives such as lean six sigma, outsourcing, rightsizing and talent development, doing more with less through innovation, digital supply chain collaboration, being more market focused and customer centric, becoming more agile, flexible and efficient, and improving their business operations as much as possible. Private industry is way ahead of other sectors in terms of recognizing new competitive forces and reinventing its business models. Financial and health care institutions are now falling in behind private industry with many early



and remarkable improvement initiatives. Lean Six Sigma is becoming a familiar improvement initiative in places like J.P. Morgan Chase, Fidelity, Red Cross Hospital, and a few isolated areas of government such as the City of Fort Wayne, Indiana.

On the flip side, federal, state, and most local government agencies are still in the traditional mode of tax and spend - passing the cost and effect of their inefficiencies on to us. The federal government alone employs over **2,700,000 workers** and hires hundreds of thousands each year to replace civil service workers that transfer to other federal government jobs, retire, or leave for other reasons. Average annual salary for full-time federal government jobs now exceeds **\$79,197**. The federal government is the largest employer in the United States, hiring about 2.0 percent of the nation's work force and the workforce is expanding significantly under the Obama administration. Federal government jobs can be found in every state and large metropolitan area, and overseas in over 200 countries. The average annual federal workers compensation in 2008, including pay plus benefits, was **\$119,982** compared to just \$59,909 for the private sector according to the *United States Bureau of Economic Analysis*. It's no wonder that it costs **over \$435 million per hour** to run the federal government! Do you think our fore fathers had this in mind when they were framing the Constitution back in 1789?

The U.S. Government is clearly broken with no end to the spending in sight. Voters have lost confidence in the Obama Administration and Congress to turn things around, and a significant injection of new talent is needed in Washington. The results of the recent midterm elections are not believed to be an endorsement of the Republican Party, but rather a message from the American people that we are not only fed up with the direction of the current administration but with politics as usual from either party.

The national debt will continue to increase by over \$900 billion per year. The recent stimulus package was not the \$789 billion price tag that we all hear about. The true 10 year cost of the stimulus package will exceed \$3.27 trillion, including miscellaneous service and debt charges. When government spends this kind of money and the economy gets worse, the leadership and decisions are at fault. Instead, our government blames the previous administration or crafts other self-fulfilling explanations for their own incompetency and waste. Talk about taking a huge sledgehammer to our grandchildren's piggy banks. In government and in business and in life in general, there is either performance, or excuses. Government waste is so obvious and so easy to identify, but nearly impossible to eliminate with the mind-sets of senior members of Congress that want "how things work in Washington" and the processes of the traditional government model to remain unchanged. A ridiculous example of this mind-set occurred prior to the midterm elections when members of Congress decided to create a committee to investigate waste in government. They reportedly invited hundreds of members of their entourage to the Ritz Carlton Hotel and Resort in Phoenix, Arizona to begin studying the problem. Were there no conference facilities in Washington? What do you think that cost us taxpayers? There are a number of factors that work against all of us in the pursuit of government improvement. The next section will outline the major detractors from government improvement.



The Largest Problem: No Long Term Strategic Plan

The federal government is one of the few organizations without a long term strategic plan: One that is consistent and carries through presidential elections and their administrations. Sure, every agency may have several strategic plans over the term of a presidency. The problem is that 400 different agency strategic plans is not a strategic plan at all. Every 4-8 years, the government operates as if it is shutting down the old business and starting up a whole new and different business. On top of this is the politics instead of substance, and the focus is on what they can appear to have accomplished in time for the next election. The recent meltdown revealed a clear lack of strategic and transcending focus with Fannie Mae and Freddy Mac. Every day we hear more and more about the continued lack of strategic and transcending focus in the areas of education, health and human services, defense, Medicare and Medicaid, energy, commerce, homeland security, housing and urban development, agriculture, and treasury. It seems like the more the Obama administration does, the worse things become. This form of leadership is reactionary firefighting on its grandest scale.

In private industry we might observe changes in executive leadership and periodic adjustments, but the mission of the strategic plan remains fairly consistent. When one thinks about it, the strategy and purpose of government is a fairly steady-state and lends itself to a strategic planning process with a longer horizon. If government had a long term strategic plan, and cascaded its actions and priorities by the plan, this would provide a great first step at eliminating waste and excess spending. An improvement methodology called *policy deployment* would be a great enabler for the management and improvement of government operations. With clear strategies, objectives, milestones, and performance metrics, it would be a cakewalk to evaluate the effectiveness of services and make the right strategic choices. These choices are not as simple as, or restricted to continuation vs. elimination. It might include additional funding for new infrastructure, changes in deployment and execution processes, different methodologies for the delivery of services, modifications to roles and responsibilities, etc. Instead we have politicians coming and going, each with their own priorities and objectives (heavily influenced by personal motives and outside lobbying forces). Voters are not allowed to vote for strategic priorities by design. In place of people with a cohesive and solid strategic plan, voters are asked to choose between candidates with shopping carts of priorities both favorable and unfavorable to voters, which often change as the wind blows and almost always change once elected candidates arrive in Washington. Lacking any solid strategic plan, if one program doesn't work, they create a new program with a new agency and a new budget, while leaving the failed infrastructure in place. Waste and inefficiency is built into the sub-optimization and arbitrage process of government. The longer the administration unfolds, the more short-sighted it gets – federal,



state, and local governments are all guilty of this mode of operation. Long term strategic planning is not a need for political parties to debate; it is simply a common sense need to improve government.

The Obsolete Government Model

The model of federal, state, and local governments provides no incentive for improvement, because from the perspective of government, taxes and spending are represented by a bottomless pit of money. If government agencies need more, they just go back to the well. They make sure that they spend their entire current budget so they can ask for more next year. Their belief system is “If people want things better, it’s going to cost more money.” Throwing money and people at problems does not work, and will never work. All it achieves is the manipulation of the true unemployment figures and the creation of more waste. The performance and reward systems in government are also foreign to improvement. No one gets rewarded for saving money in the government, and they get criticized for not spending the entire budget. Government will never be a profit and loss (P&L) and earnings per share (EPS) motivated enterprise, but they need to adopt private industry thinking to at least quantify and measure the supposed costs vs. value of their services. They also need to learn to “pull the plug” when an agency or program is producing more waste than value. America is reaching a diminishing returns point where we can’t afford to continue this rampant spending in the interest of socializing our government model. When individuals are feeling the personal budget pinch, the last thing they do is apply for more credit cards and then max them out. But this is exactly what our governments have been doing to us through this recent meltdown with the stimulus package. The largest Ponzi scheme in history was not Bernie Madoff – it was the oval office and congressional participants of the bailout, stimulus, and healthcare reform packages.

There are no real solutions in sight, no believable plans, just the usual rhetoric. We are being led by an elitist, idealistic group of individuals, many who have held their positions for 30-40 years or more. Most of them have never held a real job, and are totally out of touch with America and in particular, the people they are supposed to represent. Politicians filter their garbage through the *NY Times* and *Washington Post* before it reaches the American public. People are presented with several versions of the truth, and several concealed and *spun* versions of the truth. Technology is exposing these people because it has removed the *off Broadway* rehearsal time. Politicians are now on camera every second, and technology reveals their true identities. Every politician promises to cut spending and reduce government waste, but they always seem to get swallowed up by the bureaucratic monster. Most areas in the national budget are running in a deficit position. The bottom line is a total loss of trust and faith in the Government’s ability to turn things around.

During his campaign, President Obama repeatedly promised to streamline the federal government, reduce waste and make government more effective. Every President for the past



few decades, Democrat or Republican, has failed to deliver many of the same empty promises. Obama's Administration in particular, is violating basic management principles that have been firmly established over the past 75 years. Busyness masquerades as productivity improvement activities. Take the seemingly simple matter of priorities. Governmental change leaders must realize that the crucial question is: "What comes first?" rather than "What should be done?" This is why President Obama's stimulus and healthcare packages are duds. Everyone agreed, in general, what should be done. Very few agreed as to what should be done first. The normal human reaction of less experienced executives is to evade the priority decisions by attempting to do a little bit of everything. The "Let's do a little bit of everything" approach results in enormous staffs without concentrating enough effort in any one area to make things really happen.

In all fairness, most challenges in every government are complex *wicked problems* with conflicting objectives. Wicked problems can be tamed with the right improvement discipline and methodologies, thus removing the excuse to be grossly unfocused and inefficient. First of all, the larger Government grows, the more it introduces variation in processes and policies, organizational conflicts, and opportunities for waste. Today's government is attempting to micromanage every single pole on every single Pareto chart; so many agencies have no strategy, no focus, no logical plans, and no real justification for existence. Imagine creating value stream maps for various agency processes and activities: the ultimate in chaos, waste, confusion, and tangled spaghetti flows. Government operates on the basis of thousands of silos with their own motivations and self interests in mind, each working against the motivations and self interests of others. So there is no unified strategy and direction, just politicians jockeying for position against each other. It is impossible to define, strive for, and measure success in this environment. For example, How effective are Medicare and Medicaid? What are the underlying root causes of unemployment?

Politicians are reactionary by nature because they want to keep their perceived popularity high and seize the moment. Government is literally clueless about improvement and root cause problem solving, and instead attempts to improve outcomes (e.g., balance the budget, reduce spending, create jobs, secure our borders, improve relations with other nations, etc.). Besides, root-cause problem solving would reveal the real facts, and nobody in Washington is interested in the real facts . . . Just their own facts. There are so many versions of the facts that it seems impossible to navigate through the chaos . . . But that's driven by the combination of the standard attorney mindset and individual political interests. Government employees are supported by powerful unions. God help all of us if they go on strike – It would save \$435 million per hour, reduce waste significantly, and maybe balance the budget! We could go on a never ending 5-Why analysis here and construct the largest fishbone in history, but government waste has become so obvious with the availability of technology that it isn't necessary to figure out this mess.

Government has the opportunity to set new benchmarks with improvement if it adopted a common structure and language of improvement (like the Lean Six Sigma Define-Measure-



Analyze-Improve-Control or DMAIC), focused on the tall Pareto poles of spending, implemented true root cause problem solving, and made more data-driven, fact-based decisions. However they are missing the motivation, sense of urgency, and core competencies to improve. It is the challenge of everyone to see that these missing components get transplanted in Washington and in our state and local government activities. Keep in mind that this is not a partisan or special interest problem. This is the largest, complex *wicked process* problem in existence. It needs to be broken down into its component chunks and *tamed continuously* like any other wicked problem. Improvement in Washington or any other government will not happen without voter intervention, a radical shift in focus, and the injections of new talent and skill sets required for execution.

Talent Neutralization

A second factor of the governmental model is the powerful labor unions that are very effective at preserving the status quo and promoting a lifelong civil service career. Between the government infrastructure and the labor unions, the environment is non-conducive to improvement. If a new employee comes with too much motivation, they are corralled by their co-workers until their behaviors are shaped into the expected norm. These people are encouraged not to think and take risks, but to *follow the recipe* - The established bureaucratic policies and procedures . . . Whether they are right, wrong, redundant, or inefficient. The performance and reward systems run counter to an improvement oriented culture and thinking out of the box. People are rewarded and promoted for acting and thinking myopically and for not making mistakes (i.e. not taking risks). Many people are happy occupying their work space each day for the next twenty years, for the security and benefits of government compensation. It is somewhere between difficult and impossible to develop any leadership, strategic improvement, teaming, or motivational skills in this environment. Many of these agencies are missing basic internal controls, and expenses (e.g., anything from scuba equipment, Ozzy Osborne tickets, clothing expenditures, hotels, and the big one from our research – overtime) begin to run out of control. Government agencies are overstaffed by an estimated 30% to 50%, so why is overtime necessary? As government adds more employees, it increases the organizational churn, creates agencies that conflict and undermine each other, increase process variation and waste, and accomplish little for their efforts.



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Leadership by Lawyering Up

Another built in inefficiency is the *Lawyering Up* of government. It is nearly impossible to work in the culture of a law firm without becoming a greedy, unethical practitioner, and these behaviors become the norm wherever they work, including Washington. The State Judicial and Attorney Conduct offices in most states protect more than monitor the unethical, corrupt, and unethical practices of their own judges and attorneys. This is not the author's opinion, but is based on research from numerous articles written by State Bar Associations, Law School professors, and practicing attorneys. Attorneys with conflicting and special interest agendas also bring with them a very different decision-making perspective that is adversarial in nature, which multiplies the significant waste of resources and inefficiencies in the process of government. This attorney-mindset culture promotes the negotiating away of our tax dollars on earmarks and other pork spending, all in the interest of striking up a deal – A deal that most voters do not want in the first place. This is also the point where the voice of the customer is replaced with the voice of self interests.

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This is not really a criticism of attorneys, but of their leadership practices. Private industry embraces simplification and improvement while government embraces litigation and complexity. Attorneys by nature look at all the reasons why something can't be done. When politicians arrive in Washington, they quickly forget about the people that they are supposed to be representing. Instead it becomes a political game of give and take, lobbyist politics, and trying to out-negotiate and out-litigate the opponent. Where else can one work in America for a \$170K salary, maintain an expensive duplicate residence in a Washington suburb, and become multimillionaires in a relatively short period of time? The lies and corruption and waste have reached sickening proportions to most people. People have the audacity to run for the presidency based on their ethical track record, which might include embezzlement, tax fraud, and several extramarital affairs. Many walk around with their elitist, *better than thou* attitudes while they openly and continuously lie and contradict themselves about their true platforms. There is a lot of motion around their platforms of the moment, and a lot less value-added results. At the end of the day, many politicians do not really stand for much except their own greed and self-interests. In short, there is a severe shortage of true leadership, ethics, formal processes, accountability and controls, and value-added or achievement-based results in government: Just billions upon billions of shenanigans, personal agendas, greed, and waste that the next generations will pay for. God bless the 10%-20% of great positive change leaders in Washington, many of whom are the Freshmen Congress folks.

Three Current Affairs Examples of Waste

There are thousands of examples of waste in government. Three that are most frequently on the radar screen at the time of this writing are the Economic Meltdown, Immigration, and the Gulf Oil Spill. Specific wastes from our research are provided for each of these topics.

Waste Example 1: The Economic Meltdown – Root Cause Analysis

We discussed earlier how politicians (Republicans and Democrats) alike play the partisan blame game. It is particularly useful when trying to get elected or in distracting people away from one's own shortcomings or the true facts. President George W. Bush has been blamed for the economic meltdown, and at this stage, just about anything that you can think of. So what is the truth?

The Financial Crisis Inquiry Commission (FCIC) is conducting an investigation into the root causes of the economic meltdown. There is definitely something wrong with "processes" if it requires almost three years to conduct this investigation. Their findings are conveniently scheduled to be released in 2010, after the mid-term elections.

The true root causes of the recent economic meltdown are directly connected to the founding, function, and fate of the US Government Sponsored Enterprises (GSEs) – Fannie Mae



and Freddie Mac. The current system of financing home mortgages has its roots in history dating back to the Great Depression. As part of the massive economic programs of the Franklin Roosevelt New Deal in 1938, congress created the original version of Fannie Mae to restore the mortgage credit markets destroyed during the Great Depression. The Federal National Mortgage Association (FNMA) was established in 1938, but privatized in 1968—acting as the guarantor for mortgages issued by other federal agencies and those it purchased in the secondary market.

The Federal Home Loan Mortgage Corporation (FHLMC), more commonly known as Freddie Mac, was established in 1970 as a secondary market conduit for mortgages. Then the Financial Institutions Reform Recovery and Enforcement Act of 1989 (FIRREA) was passed in the wake of the savings and loan crisis. FIRREA restructured Freddie Mac as a quasi-public corporation with a board selected by shareholders and president. Post Great Society Freddie Mac was created to compete with Fannie Mae as both were pushed off federal books and into the public sector.

Here is how Fannie Mae and Freddie Mac work: The function and mandate for both GSEs is to create and maintain a secondary market in which illiquid assets, namely mortgages, can be traded by converting the assets in asset backed securities that people can then trade in the financial markets. By creating a more liquid market for mortgages, these GSEs are able to make more capital available for housing finance in the U.S. – GSEs buy loans from banks, depository institutions, and mortgage companies, repackaging them as Mortgage-Backed Securities (bonds), and selling those securities to investment firms (like Lehman Bros, and AIG), which can then be traded by investors in financial markets . By creating a more liquid market for mortgages, these GSEs are able to make more capital available for housing finance in the United States. Both GSEs receive special terms because of the implicit backing they carry from the federal government and are able to borrow money directly from the Federal Reserve as AAA rated creditors. The mortgages they hold on their books alone totaled about \$2.4 trillion, as of 2008. This amounts to 20% of the US national debt before 2008.

The original intent was to help people experience the American Dream by providing them with the opportunity to own their own home. For people who worked hard and saved up the down payment, and then paid their bills on time - they too could become recipients of this American Dream. Additionally, government passed tax legislation which allowed people to take an interest deduction to help pay for their homes. The problem with this logic is that it did not address the concerns of some liberal thinkers out to social-engineer society. They argued: What about people who do not work hard (or work at all), cannot save up a down payment, or do not pay their bills on time, or make other choices about their personal lifestyle and finances? Shouldn't these people have the right to experience the American Dream too? This led to the Community Reinvestment Act (CRA) of 1977 under the Carter Administration. CRA was pitched as pro-consumer, cleansing of racial overtones, and billed as a way to revitalize neighborhoods. The basic purpose of this legislation was to require banks to make credit and mortgages available to more groups of people formally excluded from traditional financing



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options with stricter qualification requirements and controls. In effect, banks were required to provide loans to people with poor credit in the form of affordable mortgages (i.e., mortgages with low variable interest rates that required that the borrower need not put money down, just pay the interest for a set number of years, and then sell their real estate at a profit).

In 1992, President Clinton said, *“I think every major urban area and every poor area ought to have access to a bank that operates on the idea that they ought to make loans to people who deposit in their bank.”* In 1995 the Clinton Administration made radical changes to the original CRA legislation which increased access to credit by inner city and distressed communities – and in short, it provided public underwriting of sub-prime mortgages. It forced banks to issue over \$1 trillion in risky mortgages to questionable recipients (many of whom were not qualified), or face penalties and legal action. This legislation and the Fed maintaining low interest rates expanded lending and created a housing boom. From 1995 to 2005 the number of sub-prime mortgages skyrocketed, and so did the market value of homes. But the lending mandates of the Democratic Congress were the equivalent of hedge funding all of these sub-prime mortgages. The whole social engineering effort was a big risky bubble waiting to burst.

In 2003 the Bush administration saw the obvious handwriting on the wall in the form of millions of unqualified adjustable rate mortgages (ARMs) originated without proper documentation and validation of the loan, in a period of artificially low interest rates. As interest rates rose, the notion of *everyone deserves to own a home* would quickly turn into a *house of cards*. Bush recommended a major regulatory overhaul in the housing finance industry, but the democratic congress stymied the legislation claiming that it would seriously limit access to credit for low-income families, and it was not necessary since Fannie Mae and Freddie Mac were both in great financial shape. Then in 2005 and again in 2007, John McCain co-sponsored the Federal Housing Enterprise Regulatory Reform Act, which recommended tighter controls and more oversight over Fannie Mae and Freddie Mac. Two prominent and powerful Democrats were right in the middle of these actions: Chairman of the Senate Banking Committee, Chris Dodd, Democratic Senator from Connecticut and Chairman of the Financial Services Committee, Barney Frank, Democratic Congressman from Massachusetts.

Chris Dodd and other powerful Democrats including Barack Obama opposed this legislation recommended by John McCain, and instead introduced legislation to help sub-prime lenders in financial trouble rather than fix the problem at the source. In July, 2008 Dodd said, *“What’s important are facts – and the facts are that Fannie and Freddie are in sound situation. They have more than adequate capital. They’re in good shape.”* As an interesting side note, our research also revealed that Chris Dodd received money from Fannie Mae and favorable treatment in personal loans from Countrywide Financial. He also received \$165,400 in Fannie Mae and Freddie Mac campaign contributions, including contributions from PACs and individuals.

As Chairman of the Financial Services Committee, Congressman Barney Frank “sits at the center of power in the mortgage industry.” In 2003, Frank and his constituents opposed the

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Bush administration and congressional Republican efforts and the Federal Housing Enterprise Regulatory Reform Act. At the time, Frank was the ranking Democrat on this committee. In July, 2008 Barney Frank commented, “The more people exaggerate these problems, the more pressure is put on these companies, the less we will see in affordable housing.”

Our research also revealed that President George Bush had persistently asked the Democratic controlled Congress seventeen times for more regulation of Fannie Mae in 2007, and 2008 to no avail. By September 2008, Congress declared Fannie Mae and Freddy Mac bankrupt. The *Housing and Economic Recovery Act of 2008* signed by Bush July 30th gave the Treasury authority to purchase the two GSE’s assets should they fail and create a new agency to regulate them, the Federal Housing Finance Agency (FHFA). However, their conditions quickly worsened such that they verged on insolvency leading the FHFA to place them into conservatorship in early September after much prodding from the Treasury and the Fed.

Interest rates rose as everyone predicted including the ARM interest rates, which increased mortgage payments and reduced the ability of people to pay their mortgages. This in turn increased the number of defaults and foreclosures, which created a bust in the housing market, and lower market values of homes (less than the outstanding mortgage in many cases). Also, having put little or no money down some people found it more worthwhile and easier to just abandon their properties and leave them with their lenders. This in turn reduced the availability of money which increased interest rates further and rapidly pulled more homeowners with ARMs into bankruptcy and caused stock values of corporations to fall— Bingo, the economic collapse of 2008.

The real 5-Why root cause analysis is more complicated, but the legislative process could have been improved to prevent or at least minimize and contain the problem. The causes and effects, and the decisions in the absence of facts and analysis are so obvious and so predictable. The root causes of the recent meltdown can be traced back to Jimmy Carter. Since that time, both parties failed to do anything about this problem. So are former President Bush’s economic policies to blame? The truth is no. Bush’s failure was in not effectively persuading Congress to act on this problem. However, the legacies of powerful Congressmen Dodd and Frank should be that they and their faithful followers passed the legislative changes that caused the greatest economic collapse since the Great Depression.

Although it wasn’t Bush’s policies that got us into this mess, the meltdown occurred during his presidency, and therefore he is definitely responsible as well. To give credit where due, Bush did finally manage to sign into law the *Troubled Asset Relief Program*, commonly referred to as TARP, to purchase assets and equity from financial institutions to strengthen the financial sector and to address the subprime mortgage crisis. Originally expected to cost the federal government (taxpayers) \$356 billion, the most recent final net estimate of the cost, as of October 5, 2010, was significantly less at around \$30 billion, including expected returns from interest in AIG. While it was once feared the government would be holding companies like GM, AIG and Citigroup for several years, those companies are preparing to buy back the Treasury's



stake and emerge from TARP within a year. Of the \$245 billion invested in U.S. banks, over \$169 billion has been paid back, including \$13.7 billion in dividends, interest and other income, along with \$4 billion in warrant proceeds as of April 2010. AIG is considered "on track" to pay back \$51 billion from divestitures of two units and another \$32 billion in securities. In March 2010, GM repaid more than \$2 billion to the U.S. and Canadian governments. Another important goal of TARP is to encourage banks to resume lending again at levels seen before the crisis, both to each other and to consumers and businesses. TARP is set up as a revolving form of credit of up to \$350 billion dollars. As money is paid back it goes into a pool and then is approved by Congress to be used to fix other issues related to the meltdown and mortgage crisis. This appears to have worked thus far. Whether it continues to work or not will depend on the Obama administration.

The *American Recovery and Reinvestment Act of 2009*, also known as the economic stimulus package enacted by the Democratic Congress, 3 Republican Senators and President Obama is a totally different story. The stimulus intended to create jobs and promote investment and consumer spending during the recession has been a disaster. The Act includes federal tax incentives, expansion of unemployment benefits and other social welfare provisions, and domestic spending in education, healthcare, and infrastructure, including the energy sector. The Act also includes numerous non-economic recovery related items, which we'll get to more specifically later.

Before moving on, let us review just one of the many disturbing elements of this Obama stimulus plan—social welfare provisions. President Bill Clinton felt that welfare should be a second chance and not a way of life. He enacted a welfare reform bill in 1996 that was successful. Welfare rolls dropped substantially from 12.2 million in 1996 to 4.5 million in 2006, and over one million former welfare recipients became gainfully employed. Robert Rector, a prominent welfare researcher and one of the architects of Clinton's 1996 reform bill, warned that Obama's "welfare spendathon" would amount to the largest one-year increase in government handouts in American history. Douglas Besharov, author of a big study on welfare reform, said the Obama stimulus bill would "unravel" most of the 1996 reforms enacted by Clinton. Paul Krugman, the 2008 Nobel prize-winning economist, declared that Obama's stimulus victory "feels more than a bit like defeat". "I've got a sick feeling in the pit of my stomach – a feeling that America just isn't rising to the greatest economic challenge in 70 years."

Does Anyone Not Care About the Facts?

The exhibit on the following page provides the Ishikawa or cause-and-effect (CED) diagram for the recent economic collapse. CED Analysis combined with the 5 Whys (e.g., ask why five times to deep dive into root causes) is used widely in private industry for root cause problem solving. The CED displays the effect (Recent Economic Collapse), the primary root causes (main branches of diagram) and the next level root causes. This simple analysis reveals



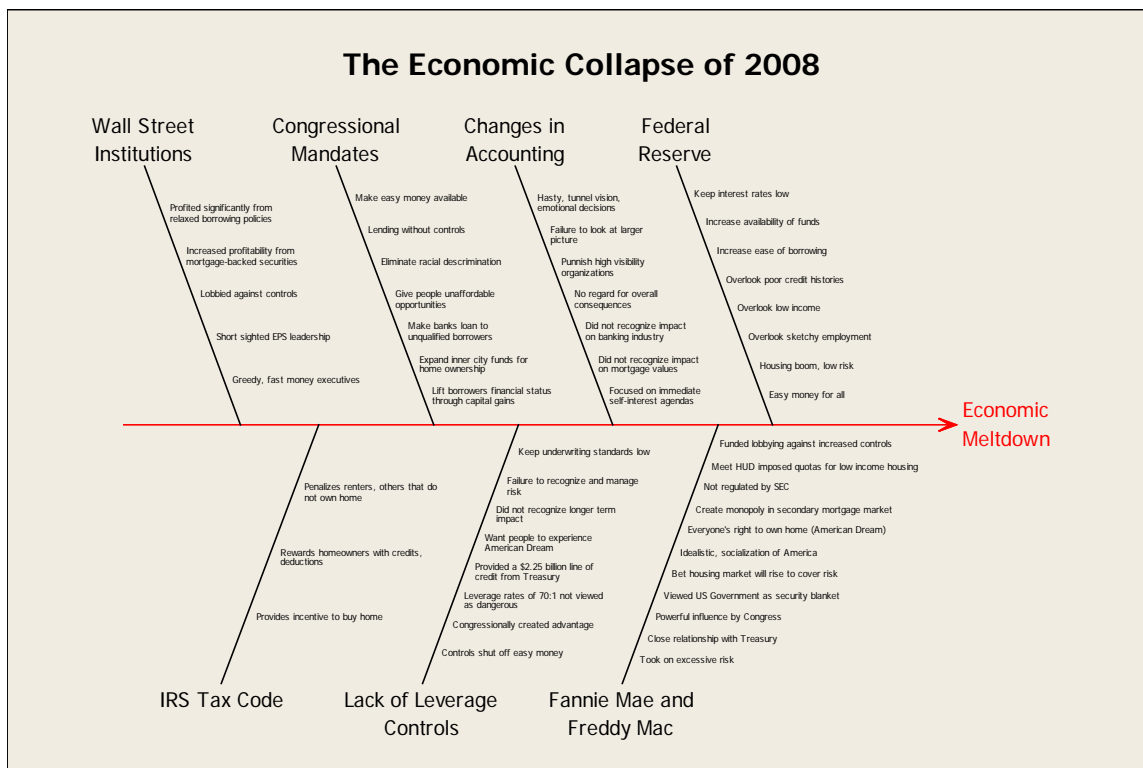
significant information and demonstrates the power of root cause thinking and problem solving in government. There are a multitude of root causes for the meltdown, all of which could have been avoided by a long term strategy, competent leadership, a focus on service quality, adequate legislation and controls, and accountability for results. The CED includes the following root causes and sub-causes:

- **The Federal Reserve and Easy Money:** For years, the Federal Reserve (which controls the money supply) set interest rates that were exceedingly low, especially from the period after September 11, 2001 until 2005. These low interest rates made it easy for individuals and businesses to borrow money, even those with sketchy credit histories or little income. This helped to create an enormous bubble in home prices that we have seen burst in stunning fashion recently. There was much debate during this time and the nineties about using the Fed to prick asset bubbles, but Greenspan and his supporters adamantly refused, believing the Fed and its operators weren't in the position to determine whether assets were overvalued.
- **Fannie Mae and Freddie Mac:** Fannie Mae and Freddie Mac were, until recently, government-sponsored enterprises that operated as private companies with the implicit backing of the American taxpayer. Because of their cozy relationship with the Treasury and their patrons in Congress, Fannie and Freddie took on much more risk than any truly private company could and were overleveraged. That paid off when the housing market was on the rise, but declining housing prices led to the collapse of many of their investments and an eventual takeover by the federal government.
- **Hastily-designed Accounting Rules:** After the Enron accounting scandal, members of Congress acted with extraordinary speed to create a huge new web of regulations. One of these regulations, called mark-to-market accounting, forces institutions to record the market value of their assets rather than the income they produce. This is fine in many instances, but depressed housing prices mean that some assets based on mortgages have a much lower value on paper than in reality. These governance practices drive banks and other investors to "write down" their value, in some cases to the point of insolvency. These practices played a role on the Savings and Loan crisis of the 1980s. In the recent economic meltdown, the impact of these continued practices creates a serious multiplier effect.
- **Lack of regulations on leverage:** Basel II is the revised accord which aims to improve the consistency of capital regulations internationally, make regulatory capital more risk sensitive, and promote enhanced risk-management practices among large, internationally active banking organizations. Basel II introduced different weights and corresponding capital requirements depending on the type of assets. The problem with Basel II was due largely to its flawed design, which contributed to the problem of "regulatory arbitrage."



A large part of the issue here is poorly designed risk weighting system as mortgages were considered riskier than mortgage backed securities - thereby necessitating higher levels of capital. The other part of this issue was the strategy of hope (hoping that the housing market would continue to rise), and a total lack of action to the warning signals of the collapse.

- Harmful Lending Mandates from Congress:** The Community Reinvestment Act (CRA), enacted in 1977 and revised in the 1990s, requires banks to “meet the needs” of all types of borrowers in their communities. It was originally meant to combat racial discrimination, but quickly turned into a vehicle for the “affordable housing” goals of many in Congress. In plain English, that means that the federal government effectively strong-arms banks to extend loans to low- and moderate-income individuals, some of whom are unable to repay them.
- IRS Tax Code:** Our income tax code is filled with hundreds of credits, exemptions, and deductions, some of which are directly aimed at promoting home ownership and lowering its costs. Some of these provide powerful selling points on behalf of home ownership for individuals who might not otherwise be in the market.





The CED Analysis summarizes how powerful Democrats in Congress insisted that government-subsidized housing be geared to serve the purposes of social justice at the expense of sound lending practices. With an implicit subsidy to American homeowners in the form of reduced mortgage rates, Fannie Mae and its sister government sponsored enterprise, Freddie Mac, squeezed out their competition and cornered the secondary mortgage market. They took advantage of a \$2.25 billion line of credit from the U.S. Treasury. Congress, by statute, allowed them to operate with much lower capital requirements than private-sector competitors. They used their congressionally-granted advantages to leverage themselves in excess of 70-to-1. This is suicidal for anyone who knows anything about lending. Root cause analysis in this particular example, is an effective methodology to conduct process post-mortems and implement corrective actions and controls. We could continue to drill down into the why-why-whys and really understand the problems and what needs to change. However, root cause analysis is best when used proactively on the front end of proposed processes and policies to flush out potential risks and consequences, or to validate proposed strategic actions and policies.

The two GSEs were the only publicly traded corporations exempt from Securities and Exchange Commission (SEC) oversight. All their securities carried an implicit AAA rating regardless of the quality and state of the mortgages. The Department of Housing and Urban Development set quotas for GSE investment in affordable housing. Reduced underwriting standards spread into the entire U.S. mortgage market to those at all income levels. A complete decoupling of home prices from Americans' income fed the growth of the housing bubble as borrowers made smaller down payments and took on higher debt.

Wall Street firms that specialized in packaging and investing in the lowest-quality tranches of mortgage-backed securities profited hugely from the increased volume that government affordable lending policies sparked. Wall Street firms, homebuilders and the GSEs used money, power and influence to block attempts at reform. Between 1998 and 2008, Fannie and Freddie spent over \$176 million on lobbyists. In 2006, Freddie paid the largest fine in Federal Election Commission history for improperly using corporate resources to hold 85 fundraisers for congressmen, raising a total of \$1.7 million. In short, our U.S. Government manipulated the U.S housing market in an attempt to achieve their idealistic, socialization of America. This is a great objective, but the devil is always in the details of implementation. It will take years to recover from this government-sponsored Ponzi scheme. All of the decision makers behind the root causes of the meltdown just walked away, leaving the rest of us holding the bag. This compelling case study demonstrates why there is an urgent need for improvement in Washington and every State Capitol.

Waste Example 2: Immigration: Case In Point

Another current event that is not so current. The Justice Department has filed a lawsuit challenging Arizona's immigration policy, claiming the state's law interferes with federal immigration responsibilities. Arizona officials say the lack of federal action has forced them to



take matters into their own hands. Who is really at fault in this legal battle? How many decades have politicians allowed this problem to manifest itself with billions of spending on rhetoric but inaction?

In a recent speech on comprehensive immigration reform, President Obama did not pull any punches. He was direct about the broken government system and the politics of the immigration issue. He also talked about how there were more “boots on the ground” at the Southwest border than any time in history and the fact that the border is more secure than any time in the last twenty years. Yet Arizona acted because there are thousands of new crimes being committed by illegal aliens – Including domestic violence, armed robberies, rapes, and murders. At the time of this writing, one border town was holding over 1000 illegal aliens in jail for felony criminal behavior. This was not happening five years ago, so who is telling the truth?

According to our federal government, the Arizona law is just a distraction. It does not really address the problem of immigrants who are not documented but who are already living in this country and it does not address border security, and it makes the job of law enforcement in Arizona a nightmare. In addition S.B. 1070 is preempted by federal law and violates the Supremacy Clause of the Constitution. There is broad consensus that Arizona has acted on its own, "going rogue" and that if other states pass their own laws it would mean that each state will end up acting as its own country. That is just plain nuts. The possible patchwork of individual states setting their own immigration policy exists because Congress can't get it together to pass a comprehensive law. Why is the federal government challenging a law it enacted against illegal immigration?

The Justice Department's suing Arizona over a law it is legally responsible to enforce is just another game of smoke and mirrors by the Obama administration. Arizona repeatedly asked for federal help for years regarding the flow of approximately 450,000 illegals to Arizona. What is perplexing is that this is the government's duty as mandated in the Constitution. It's the federal government that should be getting sued for arbitrarily turning a deaf ear to Arizona's requests for help. This is a matter of national security, yet the Obama administration just wants to play another game of appeasement.

Once again congressional republicans have politicized the Immigration debate. Senator Lindsey Graham (R-SC), who thought that the Arizona law (S.B.1070) was unconstitutional back in April, now thinks that the Justice Department lawsuit against the State of Arizona is an attempt by the Obama administration to get out the Hispanic vote for Democrats in general and Harry Reid in particular. The White House's contention that the president had nothing to do with the decision to challenge Arizona's immigration law is laughable . . . Our politicians continue to take us for complete morons. From a principal-agent perspective, the White House's argument is rather stupid in that the administration would have you believe the President doesn't know what his own Attorney General is doing.



The reality is that President Obama's handlers don't want his fingerprints on the challenge because the law is widely supported by the American people, and the president and his liberal base have been scared to death about the midterm elections. Based on the recent results of the midterm elections, it appears they had reason to be.

Waste Example 3: The Gulf Oil Spill: More Waste and Tragedy

At the time of writing this example, it is Day 85 of the oil spill in the Gulf of Mexico. A recent headline in the *Biloxi Sun Herald* is pretty appalling: “No skimmers in sight as oil floods into Mississippi waters.” The *Biloxi Sun Herald* shares the bad news: “A morning flight over the Mississippi Sound showed long, wide ribbons of orange-colored oil for as far as the eye could see and acres of both heavy and light sheen moving into the Sound between the barrier islands. What was missing was any sign of skimming operations from Horn Island to Pass Christian. Why was there no skimming? In the article, Admiral Allen was asked about the lack of skimmers by Carol Rosenberg of the Miami Herald. His response was: “The discussions we are having with the Navy and other folks right now are about the availability of skimmers. They are on standby currently because they might be needed for a spill someplace else. And how we might go about assessing the availability of those resources..., that’s a work in progress inside the administration right now.”

So out of 2,000 available skimmers, the cleanup operations have about 1% of them on the water, while the remainder are moored to the bulkhead of bureaucratic inefficiency. While the Gulf Coast dies . . . Both economically and environmentally . . . In Washington, D.C. they are still looking at what forms to fill out to requisition additional skimmers. That's the Obama administration for you, working night and day, "not resting" until all proper forms are filled out in triplicate and approved. That’s the story of government, regardless of what party or politicians are in place. Some organizations are attuned to the possibility of looming catastrophe and know how to either prevent it or minimize the casualties with great processes. Others are unprepared for risk and even unable to get their priorities straight when risk turns to reality. Three days after the BP oil spill in the Gulf of Mexico began on April 20, 2010 the Netherlands offered the U.S. government ships equipped to handle a major spill, one much larger than the BP spill that then appeared to be underway. To protect against the possibility that its equipment wouldn’t capture all the oil gushing from the bottom of the Gulf of Mexico, the Dutch also offered to prepare for the U.S. a contingency plan to protect Louisiana’s marshlands with sand barriers. One Dutch research institute specializing in deltas, coastal areas and rivers, in fact, developed a strategy to begin building 60-mile-long sand dikes within three weeks. Ironically, the superior European technology runs afoul of U.S. EPA and environmental rules. The voracious Dutch vessels, for example, continuously suck up vast quantities of oily water, extract most of the oil and then spit overboard vast quantities of nearly oil-free water. Nearly oil-free isn’t good enough for the U.S. regulators, who have a standard of 15 parts per million — if water

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isn't at least 99.9985% pure, it may not be returned to the Gulf of Mexico. What is Washington thinking? Or not thinking?

The Americans, overwhelmed by the catastrophic consequences of the BP spill, finally relented and took the Dutch up on their offer — but only partly. Because the U.S. didn't want Dutch ships working the Gulf, the U.S. airlifted the Dutch equipment to the Gulf and then retrofitted it to U.S. vessels. And rather than have experienced Dutch crews immediately operate the oil-skimming equipment, to appease labor unions the U.S. postponed the clean-up operation to allow U.S. crews to be trained. This is a major catastrophe that could have been averted, but it is now playing out without a strategy, direction, and a believable corrective action plan: just the normal bureaucracy, rhetoric, and waste.

For the three cases presented above and every federal, state, and local government, there is a serious call to action. Some may skirt the true problem by saying that it's easy to be the Monday morning quarterback. But the real problems stem from a lack of strategy and priorities; irresponsible decisions based on short-term political motives and self-interests; a total misunderstanding of data, facts and consequences of actions; complex, wasteful bureaucratic execution processes; lack of definition and metrics of success; weak monitoring, control, and formal corrective action processes based on real root causes; and the total lack of accountability. The typical daily decisions and actions in government are grounds for dismissal in private industry. Why? As we mentioned previously, if businesses ran like government, they would be out of business. The American people are certainly sending many signals for change, and they will send many more until things begin to visibly turn around in government.

Urgent Need - The Industrialization of Government

What is needed is federal, state, and local governments is the discovery and execution of their own industrial revolution – A major paradigm shift that focuses on the true needs of our great country. There are simply too many bottom-feeders in the present government model: More than people who work and make an honest living can afford. Washington uses the political machine to discredit anyone who speaks out against these wasteful and underhanded policies. Education is a wonderful thing, especially when it comes to politics and the respective players. Unfortunately most voters are uninformed about the people they vote for and the larger implications of their decisions. Accordingly, people vote based on their party line or some other irrelevant reason (e.g., hope, candidate visual appearance or charisma, race, religion, etc.), instead of their educated and fact-based conscience. People need to open their eyes and brains, get on the internet, and seek the real truth from non-partisan sources and avoid listening to the politically motivated popular media and stop placing too much emphasis on the quality of a politician's speeches and look at their records. When Thomas Jefferson was elected to the



presidency in 1801, there was a high degree of honesty and integrity in the overall government infrastructure and process. People could see the candidates for who they really were and could vote accordingly. Today government has evolved into a universe of unnecessary complexity, dishonest processes, snake oil marketing, and spin doctors who play with voter's minds and conceal the real facts. Regardless of what is promised in the primaries, candidates go off to Washington and continue the complex legal and political maneuvering games of give and take – And the ultimate outcome is the same: Government *takes* more, voters *give* more, and the waste continues to grow. This will only change if people rise up and express their disappointment with the present infrastructure, process, and the decisions of those who are part of this mess.

Everything in the world cannot be viewed as a constitutional right. Government is stuck in a scattered strategy of trying to be all things to all people, over-manage and over-control, and transform too many privileges into constitutional rights. One does not need to be a rocket scientist to see through the nonsense. Think about it – Government provides financial subsistence the first few days of every month, to people who are here illegally and to people who have no intention of working. As soon as they get their checks, these people run to the store and spend it on alcohol, cigarettes, prime rib, candy, and other non-essential purchases. Their money for the month is spent in the first week. Then government provides these people with free, superior health and dental benefits while the rest of us work and fund these permanent bottom feeders. Today there are too many people on the take and not enough people on the make. Some of these people are clever enough to give themselves several names and sign up for subsistence in multiple towns. Whatever happened to the Puritan ethic of working hard, paying bills, being responsible for one's actions, and making an honest living? Where is the motivation to do these things when it is much easier to do nothing and sign up for the gravy train? Spending and government expansion is not the answer. The answer is not more of the same with more urgency. That is insanity and it does not work. Why does Washington think there is this new emergence of a Tea Party and other groups against the traditional two party system?

The first place to trim runaway federal spending is in waste, fraud, and abuse. Congress, however, has largely abandoned its constitutional duty of overseeing the executive branch and has steadfastly refused to address the waste littered across government programs. In 2003, an attempt by House Budget Committee Chairman Congressman Jim Nussle (R-IA) to address wasteful spending was rejected by the House of Representatives and similar calls in 2004 by then-Senate Budget Committee Chairman Don Nickles (R-OK) were rejected by the Senate. A small group of House lawmakers has formed the Washington Waste Watchers, but their agenda has not been embraced by the whole House.

There is certainly no shortage of information about government waste, and we encourage everyone to investigate these sources as well. Today, government waste investigations and recommendations can be found in hundreds of reports, such as:



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- Studies published by the U.S. Government Accountability Office (GAO)
- The Congressional Budget Office's *Budget Options* book,
- Inspector General reports of each agency,
- Government Performance and Results Act reports of each agency,
- The White House's Program Assessment Rating Tool (PART) program reviews, and
- The Senate Governmental Affairs Committee's 2001 *Government at the Brink* reports.

These organizations do a thorough job of identifying and reporting government waste. On the other hand, there is a shortage of corrective actions against government waste. A few examples that drive this point home include the following:

- ***The Missing \$25 Billion:*** Buried in the Department of the Treasury's *2003 Financial Report of the United States Government* is a short section titled "Unreconciled Transactions Affecting the Change in Net Position," which explains that these unreconciled transactions totaled \$24.5 billion in 2003. The unreconciled transactions are funds for which auditors cannot account: The government knows that \$25 billion was spent by someone, somewhere, on something, but auditors do not know *who* spent it, *where* it was spent, or on *what* it was spent. Blaming these unreconciled transactions on the failure of federal agencies to report their expenditures adequately, the Treasury report concludes that locating the money is "a priority." The unreconciled \$25 billion could have funded the Department of Justice for an entire year.
- ***Unused and Duplicate Reimbursement of Airline Tickets:*** A recent audit revealed that between 1997 and 2003, the Defense Department purchased and then left unused approximately 270,000 commercial airline tickets at a total cost of \$100 million. Even worse, the Pentagon never bothered to get a refund for these *fully refundable* tickets. The GAO blamed a system that relied on department personnel to notify the travel office when purchased tickets went unused. Auditors also found 27,000 transactions between 2001 and 2002 in which the Pentagon paid twice for the same ticket. The department would purchase the ticket directly and then inexplicably reimburse the employee for the cost of the ticket. (In one case, an employee who allegedly made seven false claims for airline tickets professed not to have noticed that \$9,700 was deposited into his/her account). These additional transactions cost taxpayers \$8 million. This \$108 million could have purchased seven Blackhawk helicopters, 17 M1 Abrams tanks, or a large supply of additional body armor for U.S. troops in Afghanistan and Iraq.
- ***Redundancy upon Redundancy upon Redundancy:*** Government's layering of new programs on top of old ones inherently creates duplication. Having several agencies perform similar duties is wasteful and confuses program beneficiaries who must navigate each program's distinct rules and requirements. Some overlap is inevitable because some



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agencies are defined by *whom* they serve (e.g., veterans, Native Americans, urbanites, and rural families), while others are defined by *what* they provide (e.g., housing, education, health care, and economic development). When these agencies' constituencies overlap, each relevant agency will often have its own program. With 342 separate economic development programs, the federal government needs to make consolidation a priority. Consolidating duplicative programs will save money and improve government service. In addition to those programs that should be eliminated completely, Congress should consolidate the following sets of programs:

- **342** economic development programs;
- **130** programs serving the disabled;
- **130** programs serving at-risk youth;
- **90** early childhood development programs;
- **75** programs funding international education, cultural, and training exchange activities;
- **72** federal programs dedicated to assuring safe water;
- **50** homeless assistance programs;
- **45** federal agencies conducting federal criminal investigations;
- **40** separate employment and training programs;
- **28** rural development programs;
- **27** teen pregnancy programs;
- **26** small, extraneous K–12 school grant programs;
- **23** agencies providing aid to the former Soviet republics;
- **19** programs fighting substance abuse;
- **17** rural water and waste-water programs in eight agencies;
- **17** trade agencies monitoring 400 international trade agreements;
- **12** food safety agencies;
- **11** principal statistics agencies; and
- **Four** overlapping land management agencies.

And the list goes on and on and on without accountability and corrective action. Powerful politicians suppress these reports because they do not want any affiliation and corrective action . . . Because it will expose their corruption . . . And plug up the gravy train for others. The American people are ones holding the bag for these out of control wastes. Enough is enough.

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The Industrialization of Government Action Plan

Improving Government Action Plan

Most seasoned executives will openly agree that the best way to deal with complexity is through rationalization and common sense. Often the analogy of a gorilla in the room is used to refer to a large festering problem in an organization. The government is a thousand Godzillas in the room. It takes the right swift actions to tame the gorilla in the room, and most of these are logical common sense actions. The following paragraphs outline a practical approach for eliminating waste and inefficiencies in government.

Step 1: Your Involvement Matters (Vote)

The first step is to containment. This is not a Democrat, Republican, Tea Party, or other political interest action. The level of waste and spending has not only become disgusting, but it has also become obvious through technology and real time information. The real issue here is a government culture that promotes leadership incompetence, lack of talent development, and fantasy-based decision-making. This culture is promoted the strongest by those who have been in Congress for more than 15 years with very few exceptions in either the Democratic or Republican parties. Washington, like any other infested organization, needs new people with new ideas. It would probably do the Country good to replace every incumbent in Washington with new blood. If a politician is not representing the best interests of the country and your vote, they need to go . . . Vote them the hell out in future elections and send a strong message of change. This is the only viable option that effective executives have when their organizations are infested with old thinking and lack of talent. This is not a malicious and uncaring strategy, but a



strategy that is fair to both the customer and the employees who would be better suited and happier working in a more conducive environment. If government followed the GE talent model (i.e. replacing the low performing 10% of their organization every year), there would be significant talent acquisition and development within the next 5-7 years. The situation is not going to change without new people with new thinking and new ideas. In fact, this situation is a cancer to organizations because people begin to focus more on entitlements than the performance of their jobs. We are already seeing the repercussions of this happening before our very eyes as people are taking the initiative to fight back with their vote. The newly elected congressmen show visible and encouraging hope for change, while the fortunate reelected incumbents continue to ignore the peoples' message and continue down the same tax and spend road. Those who build a real track record for change and turning things around will be reelected in two years. Those who fall victim to, or continue with the Washington games will be replaced in two years. Hopefully this positive trend will continue through the next presidential election because the people are through with the blatant and obvious waste in Washington, and also in their State and Local governments.

Step 2: Attract Private Sector Professionals to Executive Government Positions

As the entire global economy is finding ways to do more with less, our federal and state governments continues to grow. It is a well known fact that when an organization is broken, throwing more people and money at the problem only introduces more waste, variation, and inefficiencies. Adding more agencies and departments only serves to create redundancies, duplication of efforts, and conflicting objectives and priorities. Many influential and highly financed areas of the government are being run by people who found their way there by political favors, not expertise. The lack of term limits adds fuel to the fire as many bureaucrats can hold these positions for decades. It has become increasingly apparent that people in Washington are lacking the necessary expertise in areas such as strategic planning, organizational design, program management, business process improvement, performance management, financial management, human resources and talent management, and several other disciplines.

There are thousands of unemployed executives and managers from the private sector with the necessary expertise and experience in these areas. Why not inject these skills in government with these well educated and experienced leaders who understand the concepts of leadership, planning, budgets, performance, and accountability? Injecting skills here implies replacing low performing resources with more talented resources. Again, this might be viewed as malicious and uncaring actions for those affected, but in reality it is nothing more than talent management. Government needs to replace the traditional resource multiplication with talent management. Many of the people who have been stifled previously by their government jobs will find more meaningful employment or possibly start up new small businesses.



Step 3: Right-size (Downsize) Government

As the entire global economy is finding ways to do more with less, our federal and state governments continue to grow out of control. In fact there is no managerial rhyme or reason why many government agencies even exist, other than political motivations and power. In the last decade, many privately held corporations grew significantly while productivity and technology enabled them to either reduce or hold the line on corporate population: Doing more with less. This has not occurred through random slashing and burning. These improvements have been strategic and deliberate in nature, eliminating all of the waste and non value-added activities from their organizations. The executives who have led these impressive turnarounds were intelligent and resourceful enough to think and act differently. If these executives exhibited the behaviors and thinking of their bureaucratic counterparts, they would have been terminated on the spot.

On the other hand the federal government had doubled in size in just the past few years. The government operates with an infinite budget that we and the next generations of our families will pay for over the next several decades. The year 2011 is beginning to feel like a repeat of 1773 when the colonists refused to submit to Parliament's taxation without representation in the famous Boston Tea Party incident. The direction of out of control government spending cannot continue without severe fiscal and human consequences down the road. Government has been trying to become all things to all people, and in the process, has encouraged too many people to join in on subsistence programs while the rest of us are paying their way. There are too many non-essential employees and bottom-feeders in the political system, and this needs to change.

Step 3 is a massive evaluation and cost benefit analysis of government agencies conducted by an independent third party of professionals seasoned in strategic improvement. The purpose of government has been replaced by a disconnected bureaucracy of departments, agencies, and programs. Government needs to reinvent itself and reengineer how services are identified, prioritized, deployed, managed, delivered, and economically sustained. There are so much obvious redundancies and duplications of services that could easily be cut out with absolutely zero negative effects. There is no need for an exhaustive study to execute a few immediate actions. The government needs to be right sized based on the services that they should and should not be providing to the citizens of this great country. Another aspect of this effort would be to consider outsourcing to organizations that can perform services more effectively and efficiently than the government. Private industry has benefited by outsourcing the non essential core competencies of their businesses to suppliers and third party contractors. There are so many opportunities to privatize government activities and services which would spawn innovation and create more private sector jobs. These are the jobs that contribute to GNP and true economic growth.

Step 4: Adopt a Zero Base Operating Philosophy

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As the entire global economy is finding ways to do more with less, our federal and state governments need to follow suit. America is reaching the point of diminishing returns by taxing and spending, and then expecting future generations to pay for it. Every business, activity, or service provided by the government needs to be justified by a purpose. By this we mean, “What is the problem and root causes? What is the objective and purpose, and what major societal problem are we trying to solve? Why is this service absolutely necessary? What are the consequences of no action? How does this need stack up against every other need? How does this need fit into the overall infrastructure? Is it really necessary or can we reengineer the activities of an existing organization?” In short it means legitimate societal and financial justification for existence. The problem with performance measurement in government is like beauty, it is in the eye of the beholder. Politicians have become great at creating bogus statistics or selecting metrics that justify their positions. Recently Jimmy Carter was interviewed by NBC’s Brian Williams who brought up comments by voters about the Obama administration being the worst presidency since the Carter administration. Mr. Carter responded, “I feel that my role as a former president is probably superior to that of other presidents.” The Carter presidency has been criticized for decades as one of the worst administrations in history – One that left a legacy of double digit inflation, the highest interest rates in history, and a failed attempt to rescue American hostages in Iran to name a few. Then Mr. Carter defended his position by saying “My administration passed more legislation than any other administration in the history of the United States.” That was Mr. Carter’s performance metric, but unfortunately the Country paid for most of his poor legislation for the next two decades. However, President Carter did accomplish a few positive things. He successfully enacted airline deregulation, and in 1980 passed into law the Depository Institutions Deregulation and Monetary Control Act, a financial statute which gave the Federal Reserve greater control over non-member banks and forced them all to abide by the Fed’s rules.

Another Carter proposal that would have added value to government operations was his proposal for zero-base budgeting. A zero base operating philosophy begins with a clean slate. This is a very different operating philosophy from the traditional eternal agency/eternal funding practices. Today government agencies make sure they spend their entire budgets so they can ask for more next year. There is never a formal process for justifying an organization’s or program’s existence. With a zero base approach, the purpose of an activity with its cost/benefit analysis, budgets, budget horizons, performance criteria, and expectations are clearly established up front. There is a formalized justification and prioritization process for the purpose and objectives of government strategies and programs. There are very formal practices for the daily program management of quality, cost, efficiency, effectiveness, performance feedback, corrective actions, continuous improvement, and service delivery excellence. Progress against objectives, costs, and objectives are monitored throughout the budget horizon. There are defined go/no go gate reviews which provide decision points for continuing, modifying, or cancelling an effort. Private



industry does this routinely in prioritizing and evaluating new product and service development opportunities and managing their time-to-market cycle. These practices are easily adaptable to government activities and services, and could save billions of dollars in waste.

Step 5: Get Involved, Drive Improvement

The problem with government waste is that they have not been challenged by their customers, the voting public. As we mentioned earlier, government waste is documented by various government agencies, but it is either hushed up or conveniently explained away and swept under the carpet. The methodology of Lean Six Sigma in its broadest sense can become a powerful means of challenging this waste because it demands the use of data and facts, vs. opinions and perceptions. Therein is another problem. Politicians and attorneys generally work on the basis of opinions or whatever facts best support the position they choose to take. These people generally fabricate and spin many versions of the facts to suit their own self interests.

Maybe it's a bit more difficult to fix Pennsylvania Avenue, but think about the Lean Six Sigma methodology and improvement in general the next time you attend a school board budget hearing or some other movement to raise your taxes on frivolous spending. School boards have continued to spend and spend for years, yet the incremental quality of education does not support their supposed success. School boards (and government agencies in general) never look back – They just keep proposing new ways to spend money. Logic tells one that if all the spending of the past has not worked, then the infrastructure (people, processes, materials, etc.) should be able to be removed (downsized) with zero impact. This is the exact opposite thinking of government agencies. Nevertheless, nothing will ever change unless we all get involved and challenge what is going on before our very eyes. Federal, state, and local governments have always operated in a corrupt manner. Today we have the internet and other portals to obtain up-to-the-minute information about what is going on.

The Final Plea for Change

Our Government continues to add \$3 billion/day to the deficit and this is not only an unsustainable model, but a path to economic collapse. While the rest of the world is figuring out how to do more with less, our government continues on a direction of *doing less with more*. Improvement Excellence™ - The mastery of developing and implementing successful strategic and continuous improvement initiatives, transforming culture, and enabling organizations to improve how they improve – Is an adaptable philosophy to all types of organizations. Manufacturing companies, financial institutions, hospitals, government agencies, and other organizations all have processes, wastes, and the opportunity to improve. When it comes to strategic improvement, government is clearly far behind all other organizations. Improvement Excellence requires the Strategic Leadership and Vision, Deployment Planning, and Execution



infrastructure to be successful. Those who have lived through several Lean Six Sigma deployments appreciate the importance of the details behind this infrastructure.

Although improvement has been around since Frederick Taylor in the 1920s, we are now approaching a new apex of improvement opportunities. Technology is evolving faster than organizations can learn and assimilate it. The new economy is full of new opportunities and new problems . . . EVERYWHERE, and more opportunities than ever before. No one is, and should be exempt from improvement, including government. These opportunities require an investment in talented people that can identify, discern, analyze, and execute successfully on improvement opportunities. Executives and organizations need to wave good-bye to the economic meltdown and take more charge of their own destinies because there are trillions of improvement opportunities ahead of us.

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