

Going under the knife

With budget deficits projected at nearly \$1 Trillion dollars for the upcoming fiscal year, there is increased scrutiny on any perceived excesses in the federal budget. During the campaign, Senator McCain suggested an across the board spending freeze, which was labeled by President Elect Obama as a “hatchet” solution. President Elect Obama opined, “When you deal with a budget you don’t take an axe to it, you use a scalpel.” The scalpel, or the “page by page, line by line” review is intended to identify the unsuccessful programs, underfunded programs, and the working programs.

The team charged with the detailed review of the federal budget will presumably be led by Peter Orszag, a former economic adviser to then-president Bill Clinton, and now the recently appointed director of the Office of Management and Budget (OMB). His task is monumental considering the following notes extracted from the FY2009 Presidential Budget report:

- Only 50 percent of agencies implement IT projects within 90 percent of cost, schedule, and performance expectations;
- While 19 major agencies received clean audit opinions on their financial statements, five did not;
- The Federal Government continues to spend \$138 billion on 222 programs that have not demonstrated results or are ineffective.

In order to prepare for their budget reviews, federal agencies will need to present their budgets with a level of detail and rigor that matches the severity of the country’s current fiscal crisis. Consideration of these five (5) key concepts should be mandatory.

1. **Make sure the numbers match.**
Efficiency and credibility are quickly lost if the accounting system of record doesn’t match the president’s budget, or budget numbers presented in the Inspector General Report, or the numbers used in

the last OMB audits. Any differences must be noted and justified. Hoping that no one will notice is not a viable plan.

2. **Decompose the budget.** Totals or global averages are not sufficient. The budget must be described in multiple ways: fixed vs. variable, human capital costs, IT costs, discretionary vs. non-discretionary, property and equipment costs, departmental, etc. Understanding the lower level costs will allow for greater effectiveness when determining the viability of budget line items.
3. **Know the program status.** Federal agencies must know whether individual line items or programs are on-schedule and on-budget, the anticipated completion date, and the expected benefits. One cautionary tale – careful review of previous budget submissions will expose selective re-baselining as a mechanism to hide budget and schedule overruns.
4. **Prioritize.** Discretionary programs should be prioritized based on a consistent, measurable, and transparent scoring system. The new administration will undoubtedly change the importance of certain factors or the overall program itself. However, it is best that the agency make an attempt to define priorities to ensure that the new administration does not overlook any localized issues or interdependencies with other programs.
5. **Conduct What if Scenarios.** Federal agencies should create planned budgets based on 5%, 10% or 15% cuts from the most recent fiscal year allocation. These budgets should include cutting, suspending, or extending the planned deployment date of programs.

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