

GAO

Report to the Chairman, Subcommittee
on Military Readiness, Committee on
Armed Services, House of
Representatives

July 2000

DEFENSE MANAGEMENT

Actions Needed to Sustain Reform Initiatives and Achieve Greater Results



G A O

Accountability * Integrity * Reliability

Contents

| | | |
|-----------------------------|--|-----------|
| Letter | | 3 |
| Appendixes | | |
| | Appendix I: Objectives, Scope, and Methodology | 32 |
| | Appendix II: Assessment of DRI Elements | 35 |
| | Appendix III: Comments From the Department of Defense | 78 |
| | Appendix IV: GAO Contacts and Staff Acknowledgments | 82 |
| Related GAO Products | | 83 |
| Tables | | |
| | Table 1: Status of Some Major Defense Reform Initiatives | 5 |
| | Table 2: Adopting Best Business Practices Initiatives | 36 |
| | Table 3: Quality of Life Initiatives | 50 |
| | Table 4: DOD Reported Staff Reductions | 55 |
| | Table 5: Infrastructure Reduction Initiatives | 59 |
| | Table 6: Acquisition System and Workforce Initiatives | 66 |
| | Table 7: Homeland Defense Initiatives | 74 |
| Figures | | |
| | Figure 1: Overview of the Defense Reform Initiative | 9 |
| | Figure 2: Defense Management Council Membership | 14 |

Abbreviations

| | |
|-----|---------------------------|
| DOD | Department of Defense |
| DRI | Defense Reform Initiative |



United States General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

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July 25, 2000

The Honorable Herbert H. Bateman
Chairman, Subcommittee on Military Readiness
Committee on Armed Services
House of Representatives

Dear Mr. Chairman:

The Defense Reform Initiative, announced by the Secretary of Defense in November 1997, represents an important set of actions aimed at improving the effectiveness and efficiency of Department of Defense (DOD) business operations, particularly in areas that have had long-standing problems—weapon system acquisition, financial management, and logistics management. The ultimate goals of the Reform Initiative are to improve service to the war fighters, who depend on these operations for support, and help reduce infrastructure¹ costs so that savings in operations and maintenance funding can be shifted to support weapons modernization.² Last year we reported that the Secretary and Deputy Secretary of Defense had given the Reform Initiative their strong personal support and established a management oversight structure to bring sustained direction and emphasis to the effort. However, it was too early for us to assess how effective this management emphasis and oversight structure would be in the long term. Nevertheless, we noted that the initiative's potential for success could be enhanced if the Department developed a more comprehensive, integrated strategy and action plan for reforming its major business processes and support activities, and an investment plan for implementing them.³

¹ DOD defines infrastructure as those activities that provide support services to mission programs (such as combat forces) and primarily operate from fixed locations.

² The Department's goal is to increase weapons modernization from \$42 billion in fiscal year 1998 to \$60 billion in fiscal year 2001.

³ *Defense Reform Initiative: Organization, Status, and Challenges* (GAO/NSIAD-99-87, Apr. 21, 1999) and *Defense Infrastructure: Improved Performance Measures Would Enhance Defense Reform Initiative* (GAO/NSIAD-99-169, Aug. 4, 1999).

As you requested, this report provides updated information on the status of the Defense Reform Initiative. Specifically, it addresses the following questions:

- Has the Department's management emphasis and oversight structure been effective in providing sustained direction and emphasis to the program?
- What is the status of individual reform initiatives and what barriers could limit their success?
- To what extent has the Reform Initiative resulted in savings, enabling DOD to shift operation and maintenance funds to support weapons modernization?

The scope and methodology of our work is included in appendix I.

Results in Brief

The support of the Secretary and Deputy Secretary of Defense and the management oversight structure they created to help implement the Reform Initiative have provided the impetus to get the initiative off to a good start. Opportunities exist, however, to make the initiative more effective. For example, an important element of DOD's management oversight structure has been the Defense Management Council. This Council, which was created by the Secretary to be his Reform Initiative board of directors, could be more effective in advising the Secretary and helping sustain the emphasis on reform. The Council, for example, has not always (1) worked collaboratively to foster Department-wide solutions to major problems, (2) established reform priorities to focus attention and resources on the Department's most important problems, or (3) exerted authority to make decisions on key reforms. In addition, the Council received limited information on the status of individual reform initiatives that affected its ability to identify, discuss, and take corrective action on reforms that are not progressing as expected. Moreover, the Department initially agreed with but subsequently did not take action to implement our recommendations to develop an integrated strategy, investment plan, and funding targets for reforming its major business processes. Consequently, it does not have a clear road map to ensure that the interrelationships between its major reform initiatives are understood and addressed and that it is investing in its highest priority requirements. Such a road map would be a valuable tool in helping the Department manage the Reform Initiative and maintain programmatic continuity and momentum during the upcoming transition to a new administration and department leadership.

DOD has made some progress in implementing the numerous initiatives included in the Defense Reform Initiative. Table 1 identifies the status of some of the major initiatives by degree of progress.

Table 1: Status of Some Major Defense Reform Initiatives

| Initiatives Completed or Likely to Be Completed on Schedule | Initiatives Making Some Progress, but Behind Schedule | Initiatives That Will Require Many Years to Fully Implement |
|--|---|---|
| <ul style="list-style-type: none">• Organizational streamlining• Military pay increases• Purchase cards• Performance contracts• Defense Information System Agency center consolidations• Demolition and disposal of excess facilities | <ul style="list-style-type: none">• Competitive sourcing• Paperless contracting• Travel reengineering• Electronic malls• Household goods transportation | <ul style="list-style-type: none">• Acquisition reform• Financial management reform• Logistics transformation |

A number of barriers have kept the Department from meeting its specific time frames and goals. The most notable barrier is the difficulty in overcoming institutional resistance to change in an organization as large and complex as DOD, particularly in such areas as acquisition, financial management, and logistics, which transcend most of the Department's functional organizations and have been long-standing management concerns. Other barriers include (1) programming, including interfaces to older existing (legacy) and new systems, or other technical problems associated with new computer systems that are being developed to support areas like paperless contracting and travel reengineering and (2) employee concerns about the potential loss of jobs associated with competitive sourcing and the use of prime vendors to store, distribute, and manage DOD's inventory. Additionally, the Department will need to reach agreement with the Congress for future authority to hold additional base realignment and closure rounds and for additional authorities for housing privatization and property leasing.

Initially, Defense officials expected that savings from the Reform Initiative would help DOD increase funding for weapons modernization from \$42 billion in fiscal year 1998 to \$60 billion in fiscal year 2001. However, widespread savings have not been achieved, primarily because most individual initiatives are long-term efforts that require significant up-front

investments to implement. It could take a number of years before these investments are offset and net savings begin to accrue. Accordingly, the initiatives will not play as great a role initially in providing savings as originally envisioned. However, various initiatives are likely to produce significant savings once up-front costs are recovered. In the short term, the Department still plans to increase its modernization budget to \$60 billion in fiscal year 2001. Department officials expect that the additional funds will initially come from budget increases provided by the Congress and by delaying other activities, such as real property maintenance at military bases and installations. It expects that the initiatives will eventually result in enough savings to sustain an increased modernization budget in the future.

This report suggests that the Congress may want to consider requiring the Department to implement our previous recommendations to develop integrated reform and investment plans. It also recommends that the Secretary of Defense build on the Department's actions to implement the Defense Reform Initiative by improving the effectiveness of the Defense Management Council. In written comments on a draft of this report, DOD generally concurred with our conclusions and recommendations, as well as our matters for congressional consideration. It also provided additional observations about actions it has underway or planned to put long-term change mechanisms in place.

Background

Over the past decade, the Department of Defense conducted several major defense reviews to assess military force structure requirements in the post-Cold War era.⁴ Each of these reviews noted that excessive infrastructure limited DOD's ability to fund readiness and modernization requirements. During this time, the Department undertook a number of legislative and administrative initiatives to downsize the organization and improve the efficiency of its business operations. The most notable of these were the four base realignment and closure rounds that the Congress authorized between 1988 and 1995. Others include the

- President's Blue Ribbon Commission on Defense Management (also known as the Packard Commission), which resulted in 250 wide-ranging decisions in 1989 to consolidate business functions, improve

⁴ The 1991 Base Force Review, the 1993 Bottom-Up Review, and the 1997 Quadrennial Defense Review.

information systems, enhance management, and employ better business practices and

- Corporate Information Management initiative, which was a Department-wide effort in the early- to mid-1990s to improve administrative operations and reduce costs by streamlining business processes and consolidating, standardizing, and integrating information systems.

While each of these efforts produced savings, we found that the lack of reliable cost information made it difficult to precisely determine the amount of savings.⁵ In addition, our recent review of DOD's Future Years Defense Program showed that the infrastructure portion of the budget has not decreased as planned.⁶ In fiscal year 1999, for example, DOD estimated that infrastructure expenditures accounted for about 57 percent of the budget; about the same percentage as fiscal year 1994.

The Defense Reform Initiative (DRI) represents another major effort to modernize the Department's business processes and reduce its infrastructure costs. When he announced the program in November 1997, the Secretary of Defense said that his goal was to ignite a revolution in business affairs, similar to the revolution that had taken place in the private sector over the past several years. He also pointed out that the Department's fighting forces are more agile and responsive, but that its business and support functions were mired in old, inefficient processes and systems, many of which were based on 1950s and 1960s technology. By adopting the best business practices of the private sector, reducing and reorganizing headquarters elements, expanding the use of public-private competitions (using the Office of Management and Budget's A-76 process),⁷ and eliminating unneeded infrastructure, the Secretary anticipated that the Department could save significant amounts of money, which would then be used to fund readiness and modernization priorities.

⁵ Letter to the Chairman, Subcommittee on Readiness, Committee on Armed Services, House of Representatives (GAO/NSIAD-94-17R, Oct. 7, 1993); *Defense IRM: Poor Implementation of Management Controls Has Put Migration Strategy at Risk* (GAO/AIMD-98-5, Oct. 20, 1997); and *Military Bases: Status of Prior Base Realignment and Closure Rounds* (GAO/NSIAD-99-36, Dec. 11, 1998).

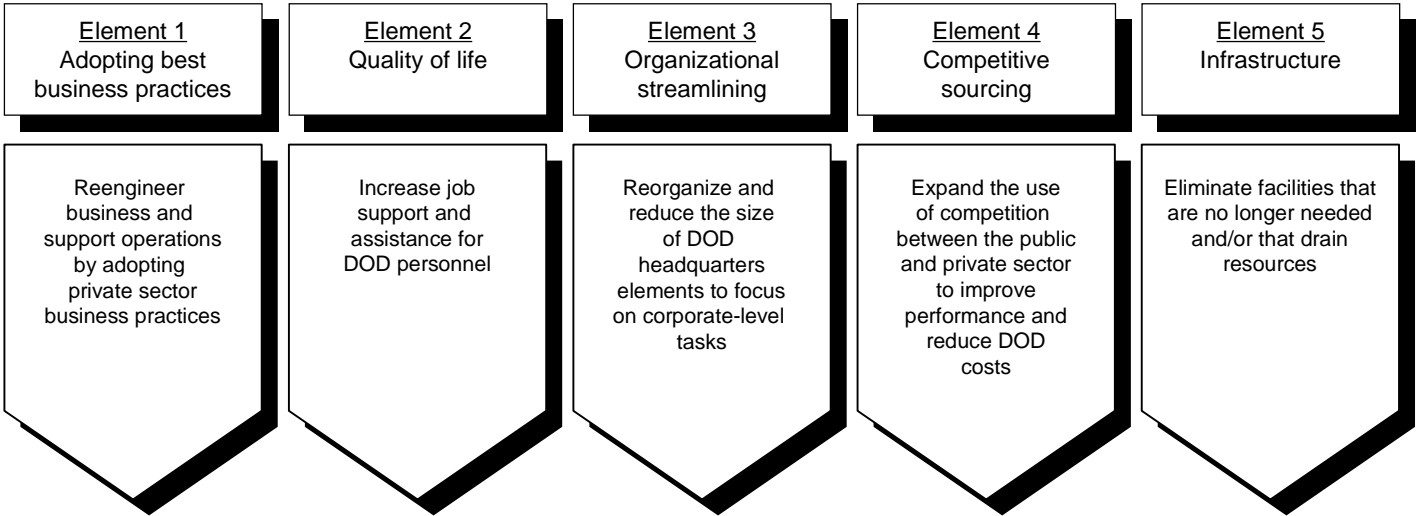
⁶ *Future Years Defense Program: Substantial Risks Remain in DOD's 1999-2003 Plan* (GAO/NSIAD-98-204, July 31, 1998).

⁷ Under A-76, agencies conduct public/private competitions to determine whether the public or private sector will perform selected commercial activities and functions.

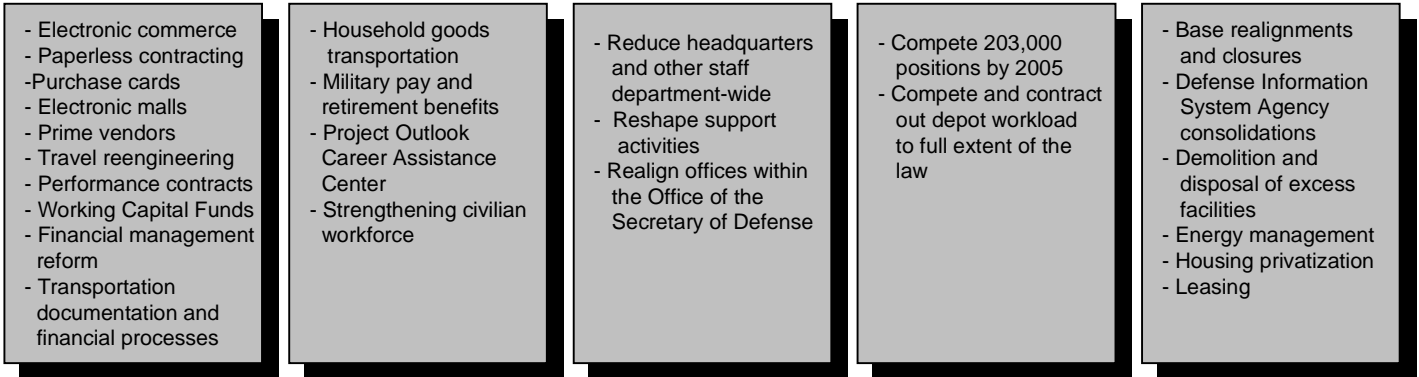
For the most part, the reform initiatives that were first included in the DRI were not new. A few were outgrowths of the Packard Commission and Corporate Information Management programs and had been ongoing for several years. Nor do they represent all of the Department's ongoing reform initiatives. In explaining why some ongoing initiatives were included and others were not, a representative of the Defense Reform Task Force, which was responsible for developing the DRI Report, said the Task Force judgmentally selected initiatives where commercial practices might be successfully applied across a range of DOD organizations, functions, and activities. In March 1999, the Secretary expanded the DRI to include most of the Department's major reform initiatives, including acquisition, financial management, and logistics reform. Figure 1 shows the current makeup of the DRI and selected initiatives.

Figure 1: Overview of the Defense Reform Initiative

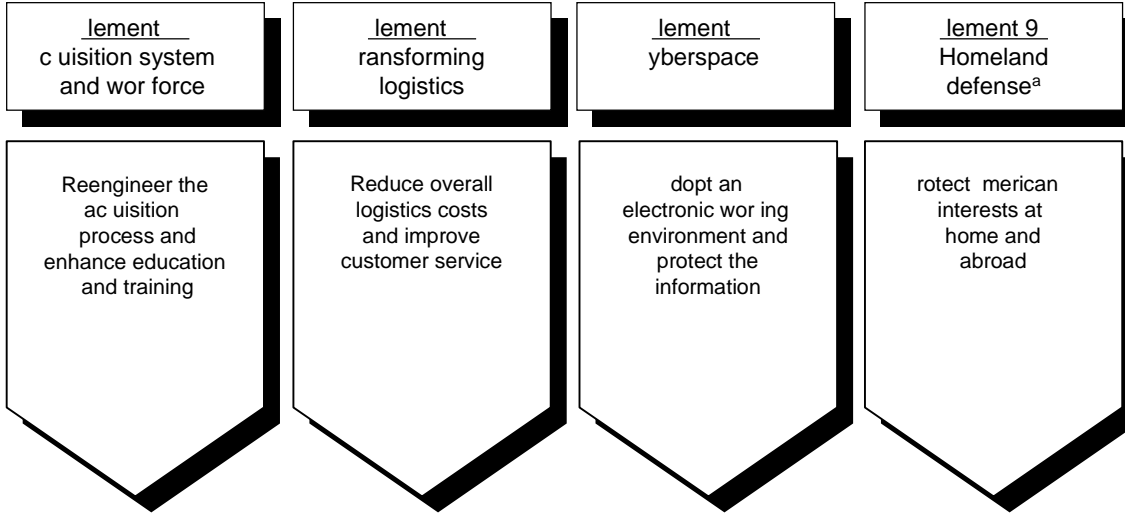
DRI Elements



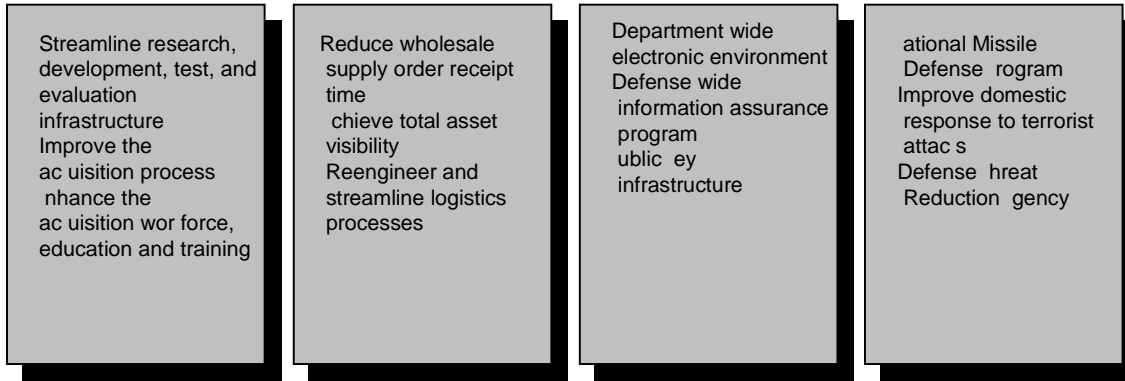
Key Initiatives



DRI Elements



Selected Initiatives



^aIn a February 11, 2000, memo, the Deputy Secretary of Defense removed oversight of Homeland Defense issues from the Defense Reform Initiative and placed it under the purview of other DOD organizations.

Source: Defense Reform Initiative Update, March 1999.

As we reported last year, DOD has established a management oversight structure to help sustain the direction and emphasis of the DRI effort. This structure includes a (1) Defense Management Council (chaired by the Deputy Secretary and consisting of key civilian and military leaders) to oversee the DRI efforts and advise the Secretary on new reform efforts,

(2) Coordinating Group to support the Management Council, and (3) Defense Reform Office to monitor progress and identify areas where management's attention is needed. The military services and Defense agencies, which are ultimately responsible for implementing the initiatives, also established small offices or points of contact to receive and collect information about the DRI.

Opportunities Exist to Improve the Management Emphasis and Oversight of the Reform Initiative

The high-level management attention and oversight structure established by the Department, particularly during the early stages of the program, have had a positive effect on the implementation of the DRI. Strong support and leadership from the Secretary and Deputy Secretary of Defense, for example, has given the initiative a high priority within the Department. In addition, periodic meetings of the Defense Management Council have reinforced the importance of the initiative and increased its visibility within the military services and Defense agencies. At the same time, however, opportunities exist to build on this management oversight structure to enhance the potential success of the program. The Defense Management Council, for example, could become more effective in advising the Secretary and helping sustain the emphasis on reform by working more collaboratively on Defense-wide problems, establishing review priorities, and asserting its authority in key reform strategies and decisions. In addition, the Department has not implemented our recommendations to develop an integrated reform strategy and action plan and identify investment requirements and funding targets for the DRI program. Consequently it lacks a clear road map to ensure that the interrelationships between its major reform initiatives are understood and addressed and that it is investing in its highest priority requirements.

Sustained Support From the Secretary and Deputy Secretary of Defense Is Key

Both the Secretary and Deputy Secretary of Defense have strongly advocated the need to dramatically reengineer business and support activities, and they have provided continuous, visible support for DRI goals and objectives. As we have previously reported, most recently with respect to the Department's Y2K efforts,⁸ this type of senior leadership is essential

⁸ *Department of Defense: Progress in Financial Management Reform* (GAO/T-AIMD/NSIAD-00-163, May 9, 2000).

to the success of any major reform effort.⁹ The Secretary and Deputy Secretary have also adopted several proven management concepts to help overcome some of the obstacles that we found had limited the success of past DOD reform efforts.¹⁰ These include (1) establishing a Defense Management Council of senior defense leaders to help oversee the DRI and advise the Secretary of Defense on new reform efforts, (2) developing directives to communicate specific goals and objectives, milestones, and decisions for selected initiatives, (3) creating performance contracts to hold selected Defense agencies and activities accountable for cost-cutting and service improvement goals, (4) directing that services and Defense agency strategic and implementation plans, as required by the Government Performance and Results Act,¹¹ address DRI objectives, and (5) using budget guidance to ensure services and Defense agencies adequately fund individual initiatives. As we reported last year, these actions have helped create a Defense-wide focus on infrastructure reduction and provide a forum where problems caused by cultural barriers and parochial interests can be addressed.¹²

Historically, when administrations come to an end, many of the Department's top civilian leaders leave their positions. For example, the Deputy Secretary, who many recognize as the leading advocate of defense reform, left the Department on March 31, 2000. The degree to which the emphasis on reform may diminish due to the departure of this senior official or any others will depend largely on the commitment of new

⁹ *Organizational Culture: Techniques Companies Use to Perpetuate or Change Beliefs and Values* (GAO/NSIAD-92-105, Feb. 27, 1992); *Reengineering Organizations: Results of a GAO Symposium* (GAO/NSIAD-95-34, Dec. 13, 1994); and *Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology* (GAO/AIMD-94-115, May 1994).

¹⁰ *Defense Management: Challenges Facing DOD in Implementing Defense Reform Initiatives* (GAO/NSIAD/AIMD-98-122, Mar. 13, 1998).

¹¹ The Results Act requires agencies to develop periodic strategic and annual performance plans. DOD's most recent strategic plan is the May 1997 *Report of the Quadrennial Defense Review*, and its most recent performance plan is included as appendix I in the February 2000 edition of the Secretary's annual report to the Congress. Among other things, the performance plans provide agencies with a vehicle to identify their long-term goals and objectives for all major functions and operations, the measures they will use to gauge performance, and the strategies and resources they will use to achieve their performance goals.

¹² *Defense Reform Initiative* (GAO/NSIAD-99-87, Apr. 21, 1999).

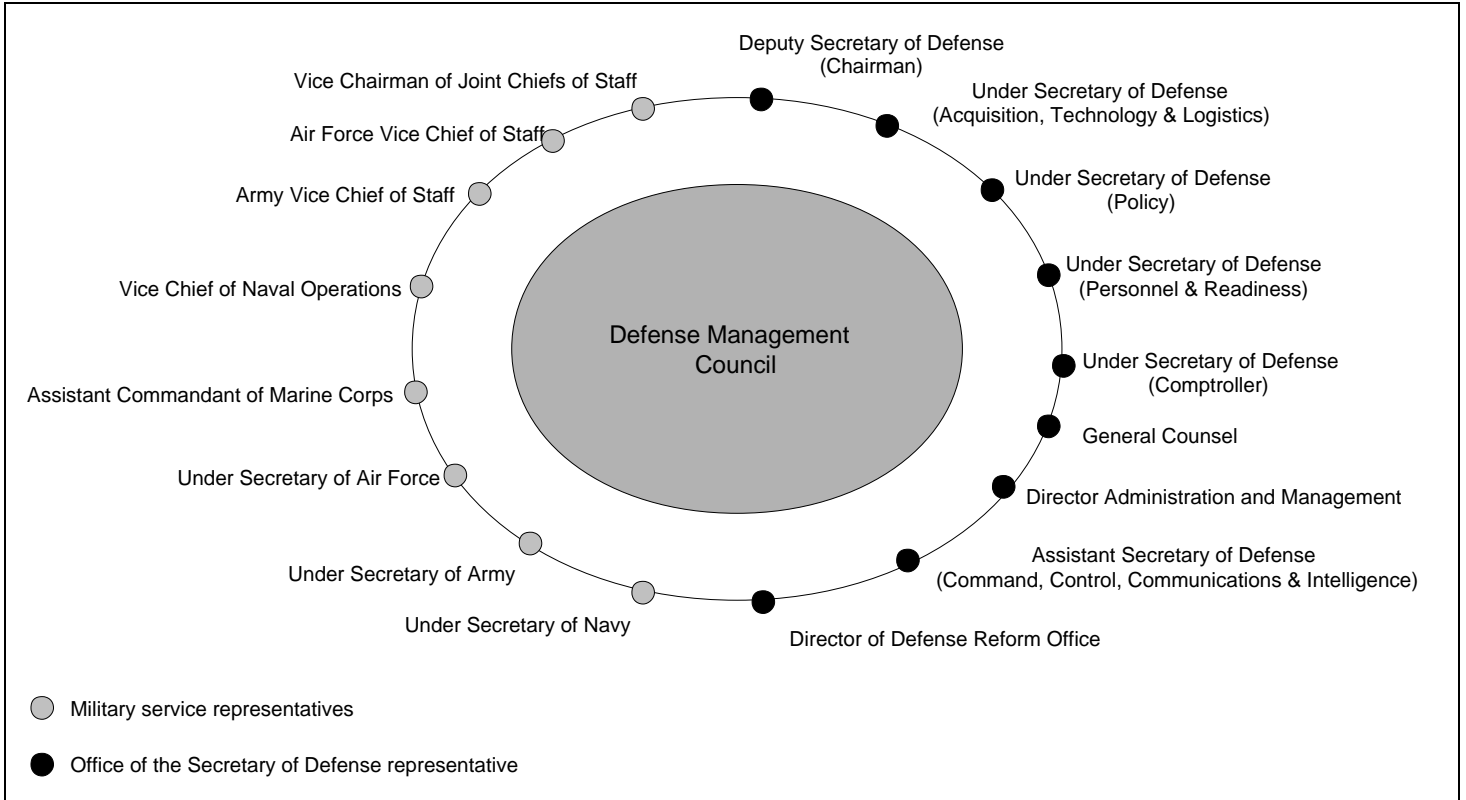
leadership to reform and the extent to which processes for achieving reform have been institutionalized.

The Defense Management Council's Effectiveness Could Be Improved

While the Defense Management Council played an effective role in getting the DRI started, opportunities exist to build on its success if Council members are able to (1) work in a more collaborative fashion on major Department-wide issues, (2) establish priorities among the numerous reform initiatives, (3) enhance the Council's decision-making role and authority, and (4) obtain better information on the initiatives' status. Such steps can provide greater assurances that the DRI will continue to be emphasized during any transition in DOD leadership.

The Defense Management Council is an important element of the Department's overall management strategy for implementing the DRI program. Established by the Secretary of Defense to be his "board of directors" for defense reform, the Council is chaired by the Deputy Secretary of Defense and includes other senior executives in the Office of the Secretary of Defense and the military services. According to the Deputy Secretary, these executives are at a high enough level to speak for their organizations and impact how the DRI is implemented either within their home organizations or across the Department (see fig. 2).

Figure 2: Defense Management Council Membership



Source: DRI Report.

In creating the Council in 1997, the Secretary said that he expected it to (1) ensure the initiatives are faithfully and expeditiously carried out, (2) maintain the momentum for change by identifying additional ways to improve business practices and consolidate activities, and (3) provide stronger departmental oversight of Defense agencies that would encourage them to adopt more efficient ways of accomplishing their missions. If properly constituted and managed, we believe that the Council could also help the Department break down organizational stovepipes and overcome the strong cultural resistance to change that has limited the success of past reform programs.

Last year we reported that the Council helped get the Reform Initiative off to a good start.¹³ During the first 18 months of implementation, for example, it met frequently; helped establish goals, objectives, and time frames for completing many of the reform initiatives; and supported the need for reform throughout the Department. The Council also seemed to have a positive impact in terms of ensuring that staff at all levels of the Department understood the significance and purpose of the DRI and were supporting the Secretary's goals. In particular, we found that Defense organizations had begun to include goals and objectives in their annual budgets and strategic plans and to establish offices to track implementation status and problems.

Over the last year of implementation, however, the Defense Management Council was not as active or fully engaged in the reform process. Among other things, there were considerably fewer meetings as higher priority national security events took place. For example, no meetings were held for 4 months in mid-1999, at the height of the Kosovo conflict. To gain a better understanding of how the Council is currently functioning, we met with 9 of its 17 members, including the Deputy Secretary who chairs the Council.¹⁴ While their opinions on the Council's role and effectiveness varied, most agreed in concept with the need for such an oversight body. It was also pointed out that if the Council did not exist, its current members would still have to be brought together from time to time to address reform or infrastructure-related issues. Others thought it was valuable because it brought both civilian and military leaders together to discuss business-related issues of common interest to the Department. Most, however, thought the Council's greatest contribution was that it increased overall awareness of the need for reform and helped communicate DRI goals and objectives throughout the Department. They thought this was valuable in getting the initiatives started in the right direction and maintaining their momentum.

¹³ *Defense Reform Initiative* (GAO/NSIAD-99-87, Apr. 21, 1999).

¹⁴ We also met with 11 members of the DRI Coordinating Group to obtain their views on Council operations. This Group, which was created by the Defense Management Council at its first meeting, provides advice and assistance to the Council, drafts policy statements for the Council's review, and provides a forum for the military services and Defense agencies to discuss concerns with DRI policy statements. It is headed by the Director for Program Analysis and Evaluation in the Office of the Secretary and is comprised of senior level representatives from the military services and Office of the Secretary.

Nevertheless, most of the members believe the Council could be more effective in serving as the Secretary's "board of directors." Among other things, we were told that:

- Council members have not been able to completely put aside their individual service and agency interests and focus on Department-wide approaches to long-standing infrastructure and administrative problems. Most Council members also participate in other high-level management groups such as the Defense Resources Board, where they meet regularly to discuss budget issues and compete for resources. Consequently, it has been more difficult than expected to work in a unified, collaborative fashion.
- The Council has not prioritized the importance of the various initiatives based on the potential for savings and improved business processes. The DRI initially included over 70 initiatives, which were treated equally even though some were clearly more important. For example, efforts to determine the number of personnel positions that could be competed with the private sector (using the Office of Management and Budget's A-76 process) were treated the same as reducing the number of committees that meet within the Department. This approach tended to dilute or marginalize the Council's effectiveness. The situation was exacerbated when the Secretary expanded the DRI to include major Department-wide efforts such as acquisition, financial management, and logistics reform. These initiatives had not been discussed at Council meetings, even though the Department considers their successful implementation a high priority.
- The Council has largely not been a decision-making body, which affected members' approach to and participation in meetings. For example, meetings generally evolved into little more than informational updates on selected initiatives and the information was often not sufficiently organized or detailed to reach conclusions or make suggestions for change. Over time, this lack of authority and focus reduced the "intellectual energy" members brought to the meetings and raised questions, among members and others, about the contribution the Council was making to the reform effort.

We also found that the Council did not have good information to monitor the status of the initiatives. The Defense Reform Office periodically collected status information, but it contained few details on actual results, costs incurred, or issues needing resolution. In addition, this information was not current for many initiatives. Consequently, the Council lacked sufficient information to identify initiatives that were not progressing as expected and to make needed midcourse corrections. Based on a recommendation we made last year,¹⁵ the Defense Reform Office has recently developed additional output- and outcome-oriented performance measures¹⁶ for many of its major DRI initiatives such as purchase cards, travel reengineering, prime vendors, and financial management reform. Defense Reform Office officials believe the measures will provide Council members with adequate information to gauge the success of these initiatives. Although we have not reviewed these measures to determine their validity or accuracy, the Department's actions seem to be a step in the right direction.

Because of problems noted above, the Council is not playing as strong a role as needed to break down organizational stovepipes and ensure that DOD is arriving at common, Department-wide solutions to its major problems. Rather, major reforms in areas such as acquisition, financial management, and logistics are being managed as they have always been—in functional or organizational “stovepipes”—increasing the risk that solutions will serve the functional area but not the Department as a whole. In discussing our work with the Deputy Secretary and Director of the Defense Reform Office, they pointed out, however, that in recent months Council meetings had begun to focus on some of the larger Department-wide initiatives. The Director said, for example, that the Council had recently received briefings on both financial management and logistics reform efforts. Because of concerns about the focus and directions of logistics reforms, the Council was instrumental in preparing a new Defense Reform Initiative Directive that requires the military services, Defense Logistics Agency, and Transportation Command to rethink their approaches and report back to the Council with a new logistics reform plan by July 1, 2000 (see app. II for more details).

¹⁵ *Defense Infrastructure* (GAO/NSIAD-99-169, Aug. 4, 1999).

¹⁶ Output measures focus largely on implementation progress or status. Outcome measures show results or outcomes related to an initiative or program in terms of its effectiveness, efficiency, and/or impact.

An Integrated Strategy and Action Plan Would Provide a Road Map for Reform and Help Sustain Momentum

Our April 1999 report recommended that the Secretary of Defense use the framework provided by the Government Performance and Results Act to establish a comprehensive, integrated strategy and action plan for reforming the Department's major business operations and support activities. While DOD initially said it would review its ongoing reform efforts and include them in its performance plans as appropriate, officials subsequently said that they believed the Department's current DRI and Results Act plans were sufficient to guide the reform program and ensure that the major reform initiatives were adequately integrated.

In updating our past work, it is clear that DOD's current reform strategy is still missing some key elements to facilitate management oversight and maximize the potential that its key reform efforts (e.g., acquisition, financial management, and logistics reform) will be fully integrated. These include (1) identifying where interdependencies exist between the key reform efforts and functional areas, (2) specifying the specific strategies that will be used to address the interdependencies as reforms are implemented, (3) assigning management responsibility and accountability for carrying out reforms in a coordinated or matrixed manner, (4) establishing appropriate performance measures and tracking progress toward developing integrated systems and processes, and (5) providing periodic management oversight by the Defense Management Council or other appropriate body to gauge the level of progress being made and ensure that individual managers are not attempting to unilaterally redesign or reform their functional areas.¹⁷

An integrated strategy and action plan could also help DOD maintain program momentum and continuity during any transition in Department leadership. Without a well-documented strategy and plan, future leaders could lose valuable time as they attempt to understand the rationale for past decisions and the importance of dealing with the Department's major reforms in an integrated fashion.

¹⁷ According to the Department of Defense, very high level interdependencies of information are now being denoted in DOD's End-to-End Procurement Process Model which include basic finance, contracting, logistics, and industry interrelationships in the procurement/acquisition process.

Identifying Investment Costs Would Help Establish Funding Priorities and Overall DRI Affordability

Last year we also recommended that DOD identify investment requirements for the major reform initiatives, establish Department-wide funding targets for the entire program, and communicate the results to the Congress during the annual budget process. In response, Defense officials initially stated that they were reviewing DRI funding and considered it a high priority. However, in discussions this year, officials stated that the Department's current budgetary process was sufficient to establish funding priorities for the military services and Defense agencies and to communicate DRI funding requirements to the Congress. Therefore, they did not see a strong need to adopt our recommendations.

In establishing the DRI program, DOD did not select potential projects in a systematic manner. Rather, it attempted to increase attention to the need for reform by selecting a sample of ongoing or planned initiatives across the Department. It later expanded the program to include most major ongoing initiatives in the Department. While this approach has been useful in mobilizing the Department toward reform, it has put senior leadership in a position of supporting every reform initiative without regard to its potential cost or return on investment. In addition, we found that DOD's leadership was requiring the military services and Defense agencies to fund the DRI initiatives out of their existing budgets without a clear understanding of overall investment requirements.

In contrast, the private sector commonly uses a technique known as portfolio management to select, control, and evaluate major reform projects or other types of investment options.¹⁸ Generally, portfolio management involves (1) creating a complete portfolio of potential investment projects, (2) analyzing each project to determine the cost of maintaining the current process versus investing in new ones, (3) comparatively ranking the projects based on expected net returns, and (4) selecting projects for investment based on their expected contribution to the most pressing organizational needs. When coupled with other management controls and evaluation techniques, portfolio management often helps organizations ensure that they are undertaking the most important, cost-effective projects. It also gives them information to make budgetary tradeoffs and determine where they can best invest their resources and management attention to meet organizational priorities.

¹⁸ Portfolio management is also a technique the Department plans to use to enhance agency management of information technology projects as required by the Clinger-Cohen Act of 1996 (P.L. 104-106, Division E).

During our work this year, we did not find any substantial change in DOD's approach to analyzing investment requirements. For example, the military services and Defense agencies are still required to fund DRI investment costs out of their existing budgets, and senior leadership still lacked adequate information on the investment costs of individual initiatives and the overall DRI program. Consequently, senior leadership was not fully aware of either the affordability of the DRI program or the impact the program was having on the ability of the military services and Defense agencies to fund other priority programs. Moreover, the ability of the Congress to understand the total investment costs or relative funding priorities for specific initiatives is impeded as well.

Implementation Progress Is Mixed and Barriers Remain

The Department of Defense has made some progress in implementing the various reform initiatives. A few of the reform initiatives, such as organizational changes in the Office of the Secretary of Defense, have been completed. While most of the remaining initiatives are progressing at various rates, a number of barriers could keep them from meeting specific time frames and/or goals. The most notable barrier, which we have reported on several times in the past, is the difficulty in overcoming institutional resistance to any type of major reform in an organization as large and complex as the Department of Defense. Other barriers include (1) programming, including interfaces to legacy and new systems, or other technical problems associated with new computer systems that are being developed to support areas such as paperless contracting and travel reengineering and (2) employee concerns about the potential loss of jobs associated with competitive sourcing and the use vendors to store, distribute, and manage the Department's inventory. Additionally, the Department will require new congressional authority to hold additional base realignment and closure rounds and expand other initiatives such as housing privatization and property leasing.

The following information, based on our analysis, summarizes the status of some of the major initiatives by degree of progress. See appendix II for more complete summaries of these and other initiatives.

Initiatives Completed or Likely to Be Completed on Schedule

- Organizational streamlining
- Military pay increases
- Purchase cards
- Performance contracts
- Defense Information System Agency center consolidations
- Demolition and disposal of excess facilities

Organizational streamlining includes over 50 initiatives to reorganize and reduce staff within the Office of the Secretary of Defense, Defense agencies and field activities, and military service headquarters.¹⁹ They are aimed primarily at creating flatter, more streamlined headquarters offices by eliminating overlap, complexity, and redundancy. Some examples of initiatives reported as complete include (1) transferring overseas military banking operations from the Office of the Secretary of Defense to the Defense Finance and Accounting Service, (2) reducing the number of boards and committees in the Office of the Secretary of Defense, and (3) reducing Office of the Secretary of Defense staff by 33 percent (about 1,000 people). These streamlining initiatives received a great deal of senior management attention and priority during the first months following the Secretary's announcement of the DRI.

The Department proposed and the Congress enacted annual pay increases for military personnel. As a result, a 4.8-percent pay raise for military personnel began January 1, 2000. DOD also reports that it is using government purchase cards²⁰ to pay for almost 92 percent of purchases costing \$2,500 or less—exceeding its goal by almost 2 percent. Performance contracts have also been developed for eight Defense agencies/activities to improve the Department's oversight of them and outline goals for cost reductions and service improvements.

Although the DRI did not establish specific completion time frames, the Defense Information System Agency expects to reduce the number of

¹⁹ We have a separate review underway addressing DOD's progress in making headquarters personnel reductions in line with congressional direction; that report will be completed later this year.

²⁰ A purchase card is essentially a credit card issued to authorized individuals throughout DOD. Its use reduces the need for purchase orders and receiving reports, significantly reducing the time and cost required to purchase relatively low-cost items.

computer megacenters from 16 to 6 by the end of fiscal year 2000. In addition, the initiative to demolish 80 million square feet of excess or unused buildings at defense installations around the world has resulted in the demolition of a reported 30 million square feet through fiscal year 1999, a pace that was ahead of the demolition schedule.

Initiatives Making Some Progress, but Behind Schedule

- | | |
|---|---|
| <ul style="list-style-type: none">• Competitive sourcing• Paperless contracting• Travel reengineering | <ul style="list-style-type: none">• Electronic malls• Household goods transportation |
|---|---|

Under the competitive sourcing element, DOD plans to use the Office of Management and Budget A-76 process to compete over 200,000 positions with the private sector between fiscal years 1997 and 2005. The Department expects to realize \$9.2 billion in savings during this period and \$2.8 billion in annual savings thereafter.²¹ In anticipation of savings from this effort, the services are already shifting these funds from their future year operations and maintenance accounts to meet other needs. However, undertaking such a massive competitive sourcing effort has proved to be more difficult and costly than expected. For example, the Navy was unable to meet its fiscal year 1998 competitive sourcing goals because it lacked the personnel and resources needed to effectively conduct the competitive sourcing studies. For these and other reasons, the Navy proposed, and was given approval, to use alternative approaches (e.g., reengineering, reorganizations, and privatizations) along with the A-76 process to meet its savings targets.²² Other services are also considering these other approaches.

The paperless contracting initiative was expected to make all aspects of the major weapons systems contracting process paperless by January 1, 2000, primarily through increased use of computer technology. While substantial

²¹ An additional 42,000 positions are expected to be reviewed under a business process reengineering emphasis referred to as strategic sourcing. This is expected to help the Department achieve a total of \$11.7 billion in savings by 2005 and increase the annual recurring savings to \$3.5 billion annually thereafter.

²² We currently have a separate review underway examining the Department's progress in implementing its competitive sourcing program and how the services also expect to make use of the alternative approaches; that report will be completed this summer.

progress has been made in this area, a new standard procurement system that is needed to fully implement this initiative will not be fielded to all contracting offices until 2003. In addition, key technical issues (such as developing electronic signature capability) have yet to be resolved. Efforts to develop electronic signature interoperability and signature archiving criteria continue between the Department of Defense, federal agencies, and industry. Technical problems have also affected progress on the initiative to reengineer the travel management system. This initiative, which is to significantly improve the process for requesting, approving, and paying for employee travel, may not be fully deployed in 2001 as expected. One of the problems the Department must correct is that the travel system will pay a traveler without first having funds obligated to cover the cost of the travel.

DOD personnel are beginning to use electronic malls—virtual one-stop shops where customers have access to electronic vendor catalogs as well as government contracts—to buy parts and supplies over the Internet. However, mall sales are lower than expected due in part to the small number of commercial catalogs currently on the system.²³ Progress is also being made toward implementing a new system to move the personal property of military personnel and their families. However, delays in getting one of the Department-wide pilot programs underway have caused officials to now estimate that a new system will not be in place until the summer of 2002, about 2 years later than originally expected.

Initiatives That Will Require Many Years to Fully Implement

- Acquisition reform
- Financial management reform
- Logistics transformation

Over the past several years, acquisition, financial management, and logistics reforms have received significant attention within DOD.²⁴ Yet the

²³ See *Defense Management: Electronic Commerce Implementation Strategy Can Be Improved* (GAO/NSIAD-00-108, July 18, 2000) for the status of the Department's electronic mall efforts, as well as the implementation status of other electronic commerce initiatives.

²⁴ We have previously identified the areas of Defense acquisition, inventory, and financial management as high risk because of their vulnerabilities to waste, fraud, abuse, and mismanagement. See *Major Management Challenges and Risks: An Executive Summary* (GAO/OCG-99-ES, Feb. 1999).

Department is still many years away from resolving its major problems in these areas. For example, DOD has undertaken numerous initiatives to improve its acquisition process. The DRI program highlights some of these acquisition initiatives, including (1) reducing research, development, test, and evaluation infrastructure; (2) reducing total ownership costs of weapon systems;²⁵ and (3) better training and management of its acquisition workforce. While some progress is being made in these areas, each is many years away from being completed. DOD, for example, is planning to use a variety of methods, including competitive sourcing, to reduce its research, development, test, and evaluation infrastructure. Even though our work has shown that large-scale consolidations of this infrastructure are possible, they are not likely to take place outside of base closure rounds. Likewise, efforts to improve the acquisition process by reducing total ownership costs for weapon systems are progressing, but will not be fully realized until systems and processes are established to develop reliable data on actual costs incurred and factors are changed that drive program managers to underestimate costs, rely on immature technologies, and underestimate the risk of cost, schedule, and performance problems.²⁶

Weaknesses in the financial management area continue to undermine the Department's ability to manage its \$260 billion budget and an estimated \$1 trillion in assets. The DRI program highlights DOD's intent to reduce the number of finance and accounting systems from 324 in 1991 to 32 or fewer by 2005 and produce auditable financial reports. While progress has been made in reducing the number of finance and accounting systems, no major part of the Department has been able to pass the test of an independent audit. While DOD has made genuine progress in such areas as increased accountability over property, plant, and equipment and recognition of cleanup and disposal costs, major problems remain. These problems hamper financial reporting; impair DOD's ability to safeguard assets from physical deterioration, theft, or loss; and result in the purchase of assets already on hand in sufficient quantities. Also, inaccuracies in DOD's logistical, acquisition, budgetary, and other program feeder systems prevent its managers from receiving the key financial information they need to make informed decisions. Although the Department has recently

²⁵ Costs associated with the development, production, operations, support, and disposal of weapon systems.

²⁶ *Best Practices: DOD Training Can Do More to Help Weapon System Programs Implement Best Practices* (GAO/NSIAD-99-206, Aug. 16, 1999).

issued its second Financial Management Improvement Plan, we have reported that DOD still faces major challenges and that a sustained commitment from the highest levels of DOD leadership will be necessary for DOD to achieve its financial management improvement goals.²⁷

Finally, there are hundreds of individual efforts underway to reform logistics practices, and the Department in recent years has developed a logistics strategic plan to guide programmatic improvements in this area. While some progress has been made in reducing wholesale supply stocks and adopting best management practices for certain types of inventory items, the Department still faces major challenges in providing adequate control and visibility over its inventory assets. Consequently, it is still many years away from successfully completing its major reforms.

The Program Will Provide Few Short-term Cost Savings, but Future Savings Could Be Substantial

Generally, DRI-related savings will likely be limited in the short term. However, future savings for a number of the initiatives, while not easily quantified, could be substantial if the initiatives are successfully completed and result in the reduction of personnel. In the meantime, the Department plans to achieve its \$60 billion modernization goal primarily through increased congressional funding and by delaying other budget priorities.

Initially, Defense officials expected that the DRI program would reduce operating costs and help it increase funding for weapons modernization from \$42 billion in fiscal year 1998 to \$60 billion in fiscal year 2001. For several reasons, however, the program will not make a major contribution toward achieving this goal.

- First, many of the initiatives require substantial up-front investments. However, as discussed in a previous section, the full extent of these investment costs is not known nor have priorities been established to ensure that the Department funds projects that offer the greatest potential net return. As a result, for several years the program will likely consume more funds than it saves as the initiatives are implemented.
- Second, the Department has been overly optimistic in estimating the savings to be realized from its A-76 competitions. Because of delays in initiating and completing these competitions and the need to offset associated investment costs, it is uncertain to what extent the

²⁷ *Department of Defense: Progress in Financial Management Reform* (GAO/T-AIMD/NSIAD-00-163, May 9, 2000).

Department will realize the \$9.2 billion in savings it expected between fiscal years 1997 and 2005.²⁸ Because Defense components have already adjusted their current and future years' budgets to reflect these expected savings, they will likely experience funding shortfalls in their operations and maintenance or modernization accounts, unless other adjustments are made or additional funds are provided.

- Third, because of concerns associated with the administration's handling of closure decisions for two maintenance depots in the 1995 base closure round, the Congress did not approve the Department's request to conduct two additional base realignment and closure rounds in 2001 and 2005. Defense officials expected that these additional rounds would generate net savings of \$3.4 billion annually, once the cost of implementing the closures had been recovered. While the timing of the additional base closures would not contribute directly to the fiscal year 2001 goal, DOD was relying on the savings to help sustain a \$60 billion modernization budget in future years. As part of its fiscal year 2001 budget request, the Department is asking for base realignment and closure authority in fiscal years 2003 and 2005.

Notwithstanding the uncertainty of actual cost savings, DOD budget documents show it will reach its \$60 billion modernization goal in fiscal year 2001. Our analysis of these documents shows that the majority of the increase is expected to come from additional congressional funding for specific weapon systems.²⁹ In addition, the Department is reducing or delaying funding for specific programs that could eventually have a negative impact on readiness. For example, we recently reported³⁰ that the Air Force identified \$355 million it needed for real property maintenance projects in fiscal year 1998 that had been rated critical.³¹ In addition, its budget plans do not provide any funding for these types of critical-rated projects between fiscal years 1998 and 2003. According to the Air Force Installations and Logistics office, repair projects were zeroed out of the

²⁸ *DOD Competitive Sourcing: Questions About Goals, Pace, and Risks of Key Reform Initiative* (GAO/NSIAD-99-46, Feb. 22, 1999).

²⁹ *Future Years Defense Program: Funding Increase and Planned Savings in Fiscal Year 2000 Program Are at Risk* (GAO/NSIAD-00-11, Nov. 22, 1999).

³⁰ *Military Infrastructure: Real Property Management Needs Improvement* (GAO/NSIAD-99-100, Sept. 7, 1999).

³¹ A critical rating indicates a significant loss of installation mission capability and frequent mission interruptions; continuous work-arounds are needed.

budget until fiscal year 2003 to fund weapon modernization programs. As a result, Air Force officials have noted that its total funding backlog for critical or degraded repair projects is growing.³²

If the DRI can be sustained, however, there are a number of initiatives that have the potential to not only improve the Department's business and support operations but also to save significant amounts of money in the long term. DOD, for example, is showing a commitment to adopting more efficient commercial standards and best practices in its acquisition, financial management, and logistics programs, which are some of its most inefficient and long-standing problem areas. It is also aggressively pursuing several electronic commerce initiatives that have the potential to make its buying and bill paying operations much more efficient and effective.

Conclusions

The DRI program has provided a much-needed emphasis on improving the Department's business processes and reducing infrastructure costs. While some progress is being made, the program is at risk of not achieving the quantum change in process efficiency envisioned by the Secretary. To keep the program on track, we believe DOD needs an overall integrated plan to guide its implementation and an approach for assessing and making key investment decisions. The Department has considered our prior recommendations on these matters but plans no action. Without such action, DOD cannot ensure, nor can the Congress evaluate, that initiatives that have the potential for yielding the greatest results are emphasized and that limited resources are directed to initiatives that promise the greatest benefits.

Additionally, opportunities exist to strengthen the role of the Defense Management Council and ensure that it takes a more active role in providing direction and oversight to key reform initiatives, particularly for Department-wide initiatives which hold promise of achieving the greatest benefits if addressed in an integrated fashion, such as in the areas of acquisition, financial management, and logistics reform. Ensuring that the Council has timely information on the status of key initiatives is also important to sustaining and maintaining momentum to the initiatives during the upcoming change in administrations. The absence of these actions also places initiative progress and success at risk.

³²A degraded rating indicates a significant loss of installation mission capability; work arounds to prevent mission disruption and degradation are often required.

Matters for Congressional Consideration

Because the Department decided not to implement our prior recommendations to (1) undertake a comprehensive approach in reforming its major business and support activities and (2) develop an investment plan to better ensure that it is undertaking the most cost-effective and important reform, and because of the importance of sustaining the initiatives into future administrations, the Congress may want to consider requiring the Department to

- follow the framework provided by the Results Act to establish a more comprehensive, integrated strategy and action plan for reforming the Department's major business processes and support activities, particularly in the areas of acquisition, financial management, and logistics reform and
- more fully identify investment funding requirements for the major reform initiatives and Department-wide funding requirements for the DRI and communicate them to the Congress during the annual budget process.

Recommendations

To build on the effectiveness of the current DRI management framework and to help achieve desired results, we recommend that the Secretary of Defense strengthen the role and effectiveness of the Defense Management Council. These actions should include efforts to

- focus the Council's attention on the key reform initiatives that, if addressed in an integrated fashion could produce the greatest results;
- strengthen the Council's decision-making role, authority, and accountability, particularly with respect to the key Department-wide acquisition, financial management, and logistics reforms; and
- provide the Council with current and accurate information on the status of key reform initiatives so it can better gauge progress and identify and address implementation problems.

Agency Comments and Our Evaluation

In commenting on a draft of this report, DOD generally concurred with our conclusions and recommendations, as well as our matters for congressional consideration, and provided additional information about actions underway or planned. However, it also expressed concern that the report had not adequately acknowledged the Department's extensive efforts to put in place long-term change mechanisms and disagreed with our conclusion that the DRI program was at risk of not achieving the

quantum change in business process efficiency originally envisioned. In addition, the Department provided more detailed technical comments, including information about several electronic commerce initiatives and performance measures it has created to assess its reform initiatives. We incorporated the additional information and technical comments into the report where appropriate. The Department's comments concerning our recommendations and matters for consideration are reprinted in appendix III.

Concerning our recommendation to strengthen the role of the Defense Management Council, DOD concurred without specifying the actions that it would take. It noted, however, that recent Council meetings have, even when no specific decisions were required, been increasingly lively, open, and robust. At the time we were concluding our review, we also noted that the Council appeared to be taking on a more active role than it had during the preceding year. As we state in our recommendations, however, we believe the Department can build on this increased activity by strengthening the Council's role and effectiveness. This would involve actions to focus the Council's attention on the Department's most important reform initiatives while ensuring the Council has accurate and current information on the status of key reforms, and give the Council greater decision-making responsibility and authority, while holding it accountable for results.

Concerning our matters for congressional consideration, DOD concurred with the need for a more integrated strategy and action plan and to more fully identify investment funding requirements for the major reform initiatives; however it did not specify what actions it would take. It disagreed, however, that the Department has not fully identified funding requirements for the major reform initiatives. DOD noted that while the funding requirements are not centralized, the services and Defense agencies have appropriate lines in the Planning, Programming, and Budgeting System to cover the cost of individual reform initiatives. The fact that the services and Defense agencies have included some funding for the initiatives in their budgets does not mean that the Department has a full grasp of the total cost of the DRI program. As stated in our report, DOD's leadership has required the military services and Defense agencies to fund the reform initiatives out of their existing budgets without a clear understanding of the overall investment requirements or the impact on other service and agency programs. By developing an integrated strategy and action plan for selecting, controlling, and evaluating major reform projects or investment options, we believe DOD would have a better

understanding of the program's full costs and gain additional assurance that it is undertaking the most important, cost-effective projects.

Finally, DOD expressed concern that the report had not adequately acknowledged its extensive efforts to put in place long-term change mechanisms and disagreed with our conclusion that the DRI program is at risk of not achieving the quantum change originally envisioned. It noted that significant reform initiatives have already been completed and that numerous performance measures have recently been developed in keeping with tenets of the Results Act to gauge the program's effectiveness. Last year, we reported that most of the performance measures used to gauge the progress of individual initiatives were output-oriented.³³ In April 2000, the Department provided us about 40 performance measures, which included both output- and outcome-oriented measures it is currently using to gauge progress. We are encouraged by the Department's increased emphasis on performance measures and believe the measures could provide the Defense Management Council with valuable information when determining progress or making decisions on individual initiatives. To be useful, however, the Department must ensure its status information is accurate and kept current. We have previously noted limitations in this area. At the same time, we believe that DOD's ability to sustain the program is at risk because it lacks a comprehensive, integrated strategy and action plan for managing the program and addressing the most significant issues, and an investment strategy for ensuring that it is making best use of its limited resources.

We are sending copies of this report to the Honorable William S. Cohen, Secretary of Defense; the Honorable F. W. Peters, Secretary of the Air Force; the Honorable Louis Caldera, Secretary of the Army; the Honorable Richard Danzig, Secretary of the Navy; Lt. Gen. Henry T. Glisson, Director, Defense Logistics Agency; the Honorable Jacob J. Lew, Director, Office of Management and Budget; and interested congressional committees and members. We will also make copies available to others upon request.

³³*Defense Infrastructure: Improved Performance Measures Would Enhance Defense Reform Initiative* (GAO/NSIAD-99-169, Aug. 4, 1999).

GAO points of contact concerning this report and other key contributors are listed in appendix IV.

Sincerely yours,

A handwritten signature in black ink that reads "Henry L. Hinton, Jr." with a stylized flourish at the end.

Henry L. Hinton, Jr.
Assistant Comptroller General

Objectives, Scope, and Methodology

The Chairman, Subcommittee on Military Readiness, House Committee on Armed Services, asked us to continue our oversight of the Defense Reform Initiative (DRI) and provide an update on the status of Department of Defense's (DOD) efforts to implement the various initiatives. Specifically, we addressed the following questions:

- Has the Department's management emphasis and oversight structure been effective in providing sustained direction and emphasis to the DRI?
- What is the status of individual reform initiatives and what barriers could limit their success?
- To what extent has the DRI resulted in savings, enabling DOD to shift operations and maintenance funds to support weapons modernization?

To assess the effectiveness of the Department's oversight structure, we relied primarily on testimonial evidence provided by the following 9 of 17 Defense Management Council members:

- Deputy Secretary of Defense;
- Under Secretary of Defense (Acquisition, Technology & Logistics);
- Assistant Secretary of Defense (Command, Control, Communications & Intelligence);
- Under Secretary of Defense (Personnel & Readiness);
- Vice Chairman of Joint Chiefs of Staff;
- Air Force Vice Chief of Staff;
- Army Vice Chief of Staff;
- Under Secretary of Navy; and
- Director of Defense Reform Office.

We used a common set of questions during our discussions with senior managers to ensure that we were consistent in the topics we addressed. Among other things, we asked Council members to discuss the Department's position on previous recommendations we made related to the DRI, the adequacy of current performance measures to gauge success, the frequency of Council meetings, whether a Council is needed to guide reform, and the impact of bringing additional initiatives such as financial management reform under the DRI. In addition to answering questions related to the topics listed above, the members also gave their impressions of the success of the Council and areas where it could be improved.

We also addressed similar questions to 11 members of DOD's Coordinating Group and to representatives of the Defense Reform Office. The Coordinating Group was established at the first Defense Management

Council meeting to help it consider DRI-related issues and provide additional support to the Council as needed. It consists of senior-level defense managers and has met regularly since the DRI program was established. The Defense Reform Office is a small office established by the Secretary of Defense to help track the implementation of the initiatives and advises him when reform efforts were not progressing as expected. Discussions with Coordinating Groups members and Defense Reform Office staff gave us a better understanding of the type of information presented and discussed at Council meetings, initiatives that have received the most attention, and problems that have to be overcome to make the Council and Coordinating Group structure more effective.

To assess the status of individual reform initiatives and barriers that could limit their success, we held general discussions with officials responsible for overseeing overall military service efforts at the following organizations at the Pentagon in Arlington, Virginia:

- Air Force Management Reform Office;
- Army Program Analysis and Evaluation Directorate;
- Assistant Secretary for the Navy, Research, Development and Acquisition; and
- Marine Corps Deputy Director for Programs and Resource Division.

We discussed the implementation of specific initiatives, including barriers encountered, with appropriate officials within the following offices and organizations:

- Under Secretary of Defense (Acquisition, Technology, and Logistics), Arlington, Virginia;
- Deputy Under Secretary of Defense (Acquisition Reform), Acquisition Process and Policies, Arlington, Virginia;
- Deputy Under Secretary of Defense (Installations), Arlington, Virginia;
- Deputy Under Secretary of Defense (Logistics), Logistics Reinvention Office, Arlington, Virginia;
- Under Secretary of Defense (Personnel and Readiness), Arlington, Virginia;
- Under Secretary of Defense (Comptroller), Arlington, Virginia;
- Directorate for Administration and Management (Organizational and Management Planning), Arlington, Virginia;
- Joint Chiefs of Staff, Arlington, Virginia;
- Defense Contract Audit Agency, Fort Belvoir, Virginia;
- Defense Finance and Accounting Service, Arlington, Virginia;

- Defense Information Systems Agency, Arlington, Virginia;
- Defense Logistics Agency, Fort Belvoir, Virginia;
- Air Force Material Command, Wright Patterson Air Force Base, Ohio;
- and
- 88th Squadron, Wright Patterson Air Force Base, Ohio.

We also relied on past and current work performed by our office to obtain information on the status of initiatives and on potential implementation barriers for specific initiatives.

While we did not conduct an in-depth review on every major DRI initiative, we discussed and obtained supporting documentation related to the status of implementation, barriers encountered, and efforts to overcome these barriers.

To determine the extent to which savings have and are likely to be achieved, we focused our attention on the status of DOD's two primary cost savings initiatives—base realignment and closures and A-76 competitions. We relied on other GAO reports and ongoing work for information on the status of A-76 efforts and the extent to which DOD believes it will achieve savings. We also attempted to obtain information on implementation costs and expected benefits for other DRI initiatives. However, because DOD does not have good financial data, officials were not able to provide us with precise information on the savings the initiatives have or will achieve. Nevertheless, we discussed the status and likelihood of achieving savings with the responsible officials. We also consulted with another GAO team that reviewed DOD's Future Years Defense Plan to determine if it reflects an \$18 billion increase in modernization spending as called for by the Quadrennial Defense Review and, if so, how DOD achieved this increase. Because many DRI initiatives require significant up-front investment to implement, we also discussed costs and potential savings with responsible officials.

We performed our work from July 1999 through May 2000 in accordance with generally accepted government auditing standards.

Assessment of DRI Elements

Each of the nine DRI elements includes a variety of initiatives, many of which were underway before they were brought under the DRI umbrella. DOD has identified formal savings goals for only two initiatives: competitive sourcing (included in element four) and base realignment and closure rounds (included in element five). Each reform initiative varies in its progress toward meeting its objectives and milestones, and many of the initiatives still face a variety of obstacles that could affect their ultimate success. Last year we reported that most of the initiatives have output performance measures, which largely focus on implementation progress or status, rather than results or outcome measures.¹ The following is an overview of the reported progress on major initiatives within each element.

Element 1: Adopting Best Business Practices

The goal for this DRI element is to reengineer Defense business and support operations primarily by adopting and applying new, world-class business and management practices used by the private sector. DOD believes these initiatives, which range from increased use of electronic commerce to streamlining and redesigning Department-wide financial processes, will not only improve efficiency and save money, but also better position Defense activities to respond to war-fighters' requirements in today's and tomorrow's dynamic defense environment. Based on DOD reports and our own analysis, we found that progress varies among the 10 individual initiatives. Table 2 provides an overview of the goals, status, and issues related to each initiative.

¹ *Defense Infrastructure: Improved Performance Measures Would Enhance Defense Reform Initiative* (GAO/NSIAD-99-169, Aug. 4, 1999).

**Appendix II
Assessment of DRI Elements**

Table 2: Adopting Best Business Practices Initiatives

| Initiative | Goal/milestone | Status | Issues |
|-----------------------------|---|--|---|
| Electronic commerce | Revolutionize the way the Department does business. | Vendors can now register to do business with DOD over the Internet and the Department established a World Wide Web home page to serve as a single entry point for industry to shop for business opportunities. | The Department has not developed a detailed plan to implement its strategic vision or electronic commerce architecture. It also has not determined how to best manage the electronic commerce program or fully implemented key security measures that are needed for electronic commerce. |
| Paperless contracting | Make all aspects of the major weapon systems contracting process paperless by January 1, 2000. | The Department is making progress, but did not meet the DRI goal. As of January 2000, the Department met the goal for three of six components of the contracting process. | Partially implemented new systems and technology problems have kept the Department from meeting its goals. |
| Purchase cards | By fiscal year 2000, use the purchase card for 90 percent of purchases costing \$2,500 or less (micropurchases). | Goal has been exceeded. The Department reports that it used the credit card for almost 92 percent of these purchases in fiscal year 1999. | Emphasis is now on using the card to pay for purchases over \$2,500 where a contract has already been established. |
| Electronic mall | Expand the use of the electronic shopping mall by (1) allowing for on-line payment with purchase cards by July 1998, (2) using purchase cards for all mall purchases by January 1, 2000, and (3) reaching \$25.5 million in sales in 1999. | Some progress is being made. The electronic mall is now capable of receiving on-line payments via the purchase card. However, sales for fiscal year 1999 amounted to \$2 million. | Computer software is not user-friendly, services have different philosophies on when the mall should be used, and most of the items offered through the mall can be purchased through other mechanisms. |
| Prime vendors | Increase the use of prime vendors for Defense Logistics Agency-managed items. For one category of hardware items—facility maintenance supplies—make prime vendor contracts available for all installations in the United States by January 1, 1999, with sales of \$56 million and \$112 million in fiscal years 2000 and 2001, respectively. | Overall prime vendor sales have increased from 18 to 27 percent of Defense Logistics Agency sales between fiscal years 1997 and 1999. Contracts for facility maintenance supplies are in place and the services are now pilot testing the initiative. The Department exceeded its sales goal by purchasing \$59.2 million of these items from prime vendors in fiscal year 1999. | Several obstacles repeatedly surface in DOD's attempt to implement or expand prime vendor programs. These obstacles include employee fears of job loss and customers' lack of confidence in a new process. |
| Travel system reengineering | Privatize Washington, D.C., travel office functions by October 1, 1998, and implement a new system for official Department-wide travel by October 2000. | DOD privatized Washington, D.C., travel office functions, but will not fully deploy a new travel system before 2003. | The travel system encountered significant testing problems that have not been resolved. |

**Appendix II
Assessment of DRI Elements**

(Continued From Previous Page)

| Initiative | Goal/milestone | Status | Issues |
|--|--|--|--|
| Performance contracts | Develop eight performance contracts for fiscal year 2000 to allow for stronger departmental oversight and increased accountability of selected Defense agencies and activities. | All eight contracts are in place for fiscal year 2000. Contracts will be reviewed annually to modify goals and performance measures. | Military services play a key role in organizations meeting some of their contract goals. |
| Working capital funds | Establish a task force to make recommendations on improving the buyer-seller relationship and on emphasizing incentives that will reduce logistics costs, improve customer satisfaction, and ultimately, enhance weapon systems supportability. | The task force developed 11 issue papers that addressed issues such as the prices charged to customers and the need for a more flexible workforce. The Deputy Secretary approved the proposed changes. | The changes will require the Department to educate managers on new concept of operations and address employee concerns related to benefits and job protection. |
| Financial management reform | Redesign financial processes and streamline organizations for optimum effectiveness. Specific goals are to (1) reduce the number of finance and accounting systems from 109 in 1998 to 32 or fewer by 2005 and (2) produce auditable financial statements. | Some progress is being made, but there are major obstacles to overcome. While the number of finance and accounting systems are being reduced, the Department cannot account for billions of dollars of inventory and equipment. | Data accuracy problems have not been resolved, which limit the Department's ability to support day-to-day decisionmaking, including reliable program cost information. |
| Transportation documentation and financial processes | Replace government unique transportation documents with commercial documents that are electronically generated and test the use of a third-party logistics provider. | The Department is using a commercial-off-the-shelf software package called PowerTrack to replace government-unique documents and to process transportation bills and payments at about 150 sites. Also, plans are in place to select a third-party logistics provider in May 2000. | Questions remain about PowerTrack's capabilities. Interfaces with accounting systems also need to be developed. |

Note: The original DRI Report included two additional initiatives under the adopting best business practices element—total asset visibility and household goods transportation. Total asset visibility now falls under the transforming logistics element and the household goods transportation initiative is now included in the quality of life element.

Source: Our analysis based on information in the DRI reports, Department officials, and program documents.

Electronic Commerce

In May 1998, the Department of Defense established its Joint Electronic Commerce Program to increase the use of electronic business practices that are common in private sector companies, practices such as using the

Internet and commercially available computer software to conduct business.² Through this program, the Department expects that all of its business functions—from acquisitions to health care—will be able to reduce operating costs and streamline business processes. It established the Joint Electronic Commerce Program Office to facilitate the implementation and acceleration of electronic commerce. During 1999, the Department unveiled its first electronic business/electronic commerce strategic plan. At its core, the plan expresses a vision in which technologies are used not to simply automate existing processes but to also help fundamentally change the way the Department does business. While DOD's electronic commerce program will encompass all of the Department's business operations, this element of the DRI focuses on the following two electronic commerce initiatives

- streamlining the process vendors use to do business with DOD through a one-time registration process and
- providing industry one-stop shopping for procurement opportunities within the Department over the Internet.

DOD is making progress in implementing these two electronic commerce initiatives. For example, as of March 2000, the Department reports that 163,000 vendors have been registered through its Internet-based central registry known as the Central Contractor Registration. In addition, it developed a World Wide Web site, referred to as "DODBusOpps.com," to provide vendors with information about the goods and services that DOD organizations want to buy. According to the project office, as of January 2000, the site was posting 15,000 to 30,000 solicitations a month from 267 buying locations worldwide, reflecting 85 percent of DOD's total solicitation volume. It was also experiencing an average of 860,000 inquiries or "hits" a month from prospective vendors or contractors, with the average user inquiry lasting about 8 minutes.

Although the benefits have not been quantified, both the central registry and business opportunities web page are expected to help reduce the administrative and clerical burdens that have always accompanied the paper-bound solicitation and bidding processes. In addition to process

² This section on electronic commerce was added in response to DOD's comments on a draft of this report. We had not initially included this information because we recently issued a report that addressed the Department's electronic commerce initiatives in more depth. (See *Defense Management: Electronic Commerce Implementation Strategy Can Be Improved* (GAO/NSIAD-00-108, July 18, 2000).

improvements, the Department believes the business opportunities web site can help stimulate competition by making solicitations more accessible to the general public. However, our recent report on the Department's electronic commerce program pointed out that the Department faces several implementation issues that, if not resolved, could adversely effect the success of the program. Specifically, the Department has not yet (1) completed a detailed plan to implement its strategic vision, (2) developed an electronic commerce architecture,³ (3) determined how to best manage the electronic commerce program, and (4) fully implemented key security measures that are needed for electronic commerce.

Paperless Contracting

The DRI established a goal of making all aspects of the contracting process paperless for major weapon systems by January 1, 2000. For many years, each military service and Defense agency has used a different process (e.g., computer systems, data formats, and operating procedures) to administer its respective contracts. This condition resulted in numerous nonstandard processes that were largely manual, paper intensive, and characterized by redundant, time-consuming actions. Moreover, this condition resulted in pervasive inefficiencies in contract administration, not the least of which were inaccurate payments and accounting records.

The Department is making progress, but did not meet the goal for this initiative. According to statistics provided by the paperless contracting program office, about 78 percent of the Department's contracting transactions were being accomplished electronically by the end of 1999. DOD efforts to date have been focused on the following six components of the contracting process. The three components that met the 90 percent goal are asterisked:

- contract requirements*
- solicitations*
- awards/modifications*
- receipts/acceptance

³ Architecture development is a primary means of integrating business areas or processes across an organization in a cost-effective manner. Architectures align information system requirements with the business areas and processes that they support and promote systems that readily exchange and share information. A system architecture defines the critical attributes of an agency's collection of information systems in both business/functional and technical/physical terms.

- invoice/payments
- contract closeout

Partially implemented new systems and technology problems have kept DOD from meeting its paperless contracting goals. For example, the Standard Procurement System has been partially implemented, but it is not expected to be available to support major weapon system procurement actions until sometime in 2002. Likewise, according to DOD, the Wide Area Work Flow system, which processes receipts and invoices, had positive results during the pilot phase, but has had minimal implementation to date. The Defense Procurement Payment System, the bill-paying system, will not be implemented until August 2003. In addition, key technological issues (such as developing electronic signatures to prevent unauthorized access and use) are yet to be resolved. Until these systems and processes are fully deployed, DOD will continue to rely on numerous existing systems to support paperless contracting processes.

Additionally, even after DOD meets its goal for these six components, the contracting process will not be entirely paperless. While some initiatives not included in these six components are also being transformed to an electronic process (such as initial requirements definitions), other efforts (such as maintenance of the official contract file) must still be accomplished in paper until the technical aspects of long-term records keeping and electronic signature archiving are resolved.

Purchase Cards

The DRI set a goal for Defense components to use purchase cards to pay for 90 percent of purchases that cost \$2,500 or less (referred to as micro-purchases) by fiscal year 2000. Purchase cards are commercial credit cards that are issued to authorized DOD military and civilian users to acquire and pay for low-cost supplies and services. The Department implemented the card program to help streamline the acquisition process.

The Department has exceeded its purchase card goals. As of the end of fiscal year 1999, almost 92 percent of all micro-purchases—about 9 million—were made using the purchase card, representing \$4.6 billion in sales. Although DOD officials do not know how much this program will save the Department, they believe savings will accrue because the purchase card eliminates much of the administrative and documentation requirements of traditional procurement methods. The purchase card also reduces the number of contracting documents and associated invoices that the Defense Finance and Accounting Service must process for payment.

Together, these improvements reduce process time and personnel requirements, thereby producing savings.

At one time, the Department sought congressional support for legislation that would increase the micro-purchase threshold to \$10,000. That increase would further reduce the volume of purchase transactions using traditional procurement methods. The Congress, however, did not take action on this proposal. According to the program manager, the current emphasis is on expanding use of the card as a payment vehicle for larger procurements where an underlying contract is in place. Also, deployed forces overseas have the authority to use the card for purchases up to \$25,000.

DOD Electronic Mall

The DRI supported expanded use of electronic tools such as Internet-based catalogs and shopping malls to enable DOD customers to shop for the best buy from the convenience of their desktop computers. In addition, to make the buying process as paperless as possible, the DRI required that, by January 1, 2000, all such purchases would be made with the government purchase card. Shortly after the DRI report was issued, however, the Congress directed that the Department construct a central gateway to the individual catalogs that Defense organizations had established. This gateway was to provide a single view, access, and ordering capability. DOD's strategy has been to integrate the various catalogs into its Department-wide mall, which features items from internal stocks as well as from a number of commercial catalogs.

The Department has not made as much progress as it expected on this initiative. While the mall can accept purchase cards for on-line payment, customers often do not use them because they dislike the cards' monthly reconciliation process. Department statistics show that only 53 percent of the mall's transactions were made using the purchase card during February 2000. In addition, it has not yet been able to integrate all of the various electronic catalogs into the mall. Several service-established catalogs still remain separate. Finally, mall sales continue to be low. For fiscal year 1999, sales totaled only \$2 million.⁴

⁴ The Department has at times listed electronic mall sales for fiscal year 1999 at \$51 million. This figure is somewhat misleading, however, because it includes sales of clothing and textiles through the Defense Logistics Agency's Automated System for Cataloging and Ordering Textiles. Although personnel can access this system through the mall, the vast majority of purchases are made outside of it; the mall portion of this system's sales are included in the mall's \$2 million sales figure.

Officials offered a variety of reasons for the low sales volume. First, most of the 2.3 million items featured through the mall are Defense Logistics Agency items; Defense organizations, however, generally have other mechanisms for ordering these items, so personnel generally do not need to go to the mall for them. Although the Department is working to increase the number of commercial offerings to alleviate this problem, progress has been slow. Second, some military service policies have effectively discouraged mall use. For example, one organization said the mall could be used only for purchasing commercial items, while another instructed personnel not to use the purchase card over the Internet. Finally, some believe the mall simply is not user friendly enough and turns off would-be users.

Prime Vendor

The DRI highlighted the need to increase the use of prime vendors⁵ to manage parts, reduce government inventories, and improve delivery times for all types of commodities managed by the Defense Logistics Agency. Specifically, the DRI tasks the Defense Logistics Agency with establishing regional prime vendor contracts for one category of hardware items—facilities maintenance supplies—and the military services have been directed to work with the Agency to identify sites for implementation and opportunities for expansion. Examples of these types of supplies include electrical, plumbing, heating and air conditioning supplies, lumber, paint, small tools, assorted hardware, and building materials.

The Department is making progress in implementing various prime vendor programs, but has a long way to go. The Defense Logistics Agency reports that prime vendor sales for all categories of secondary items⁶ have increased from about 18 percent to an estimated 27 percent between fiscal years 1997 and 1999. In terms of facilities maintenance supplies, the Defense Logistics Agency met the DRI goal of establishing regional contracts. As of October 1999, DOD reports that 110 of 278 potential customers were participating in this prime vendor program, and fiscal year 1999 sales reached over \$59.2 million. While the military services exceeded the prime vendor sales goal for 1999, substantial opportunities

⁵ Prime vendors are contractors that buy inventory from a variety of suppliers, store it in commercial warehouses, and ship it to customers when ordered.

⁶ Secondary inventory includes repairable components, subsystems, and assemblies; consumable repair parts; bulk items and material; food; and expendable end items, including clothing and other personal gear.

exist to expand the program. According to Defense Logistics Agency estimates, fiscal year 1999 prime vendor sales represent less than 10 percent of the \$670 million the military services spend for facility maintenance supplies.

We recently reported that in its efforts to adopt best practices, including prime vendor programs, the Agency and the military departments have faced a variety of implementation issues.⁷ Many issues are related to concerns over whether the new practices can adequately meet military supply needs and how the new practices will affect employees' jobs. Though these obstacles were overcome in some cases, they are significant because they can slow or stop implementation efforts, or they can deter the military department's full participation in the initiatives.

We have ongoing work focused on the facilities maintenance supplies prime vendor program, and we expect to issue a report later this year that will discuss DOD's efforts to implement this program as well as opportunities to improve the effectiveness of program implementation.

Travel System Reengineering

The DRI highlighted DOD's efforts to institute a new travel system and set a goal to privatize travel office functions in the Washington, D.C., office by October 1, 1998, and to implement a reengineered travel process throughout DOD by October 2000. The Department began reengineering its travel management system for temporary duty travel in 1994 after recognizing that the process used to request, approve, and pay for official travel by its personnel required substantially more administrative costs and took much more time than best management practices in the private sector. Once implemented, the Department expects that the new paperless system will allow travel requests and vouchers to be submitted and approved electronically through digital signatures. The Department also expects that the new system will be able to interface with departmental accounting and disbursing systems. The Department estimates the new system will save \$4.4 billion between fiscal years 1999 and 2011 largely by reducing the time and amount of paperwork needed to process transactions.

Although the Department privatized its Washington, D.C., office travel functions, it is having significant problems implementing the newly

⁷ *Defense Inventory: Opportunities Exist to Expand the Use of Defense Logistics Agency Best Practices* (GAO/NSIAD-00-30, Jan. 26, 2000).

redesigned travel system and is still pretesting the program. DOD awarded a contract for automated travel services in 1 of 19 regions of the United States in May 1998. The Department plans to implement the new system in this region first and then fully implement the new system in all remaining regions over the course of 3 years.

Due to problems encountered during the testing phase, the Department has not yet been able to fully implement the new system in the first region. For example, the travel system will pay a traveler without first having funds obligated to cover the cost of the travel. Another problem is that, in some instances, the system does not correctly process a travel order amendment and, as a result, the system will not pay the traveler. It is unknown at this time how long it will take for contractors to resolve these problems. However, it is unlikely that full implementation will occur before 2003.

Performance Contracts

The DRI Report called for the establishment of performance contracts for selected Defense agencies and activities that provide numerous products and services (finance and accounting, telecommunications, computers, supplies and parts, etc.) to the military services and other Defense agencies. The contracts are a formal agreement between the principal staff assistant in the Office of the Secretary of Defense, the Deputy Secretary, and the Defense agency or activity, and they are intended to improve DOD's oversight of these agencies. Contracts are to include improvement goals for organizations in terms of cost, productivity, quality, and responsiveness to customers. The contracts are to also include specific performance measures and annual reporting requirements. According to Defense agency officials, the leadership of these agencies will be held accountable, through annual performance appraisals, for meeting assigned goals.

Four organizations began using performance contracts in fiscal year 1999 and four additional organizations began using the contracts in fiscal year 2000. The Defense agencies and activities that have contracts include the

- Defense Finance and Accounting Service*
- Defense Logistics Agency*
- Defense Contract Audit Agency*
- Defense Health Program*
- Defense Education Agency
- Defense Information Systems Agency
- Defense Security Cooperation Agency
- Defense Security Service

Defense officials generally stated their belief that performance contracts are useful. After 2 years of experience, officials from the four Defense organizations who were first to implement the contracts (identified with an asterisk) said the contracts are the first formal agreements between the agencies and the Office of the Secretary of Defense that measure performance against defined objectives and cost targets. While officials within the Office of the Secretary of Defense and Defense agencies are also encouraged by the increased emphasis on performance brought about by the contracts, some agency officials told us that many of the contract goals cannot be achieved without a concerted effort by the military services to help the organization reach the goals. For example, to reduce the number of in-transit disbursements⁸ and problem disbursements,⁹ the Defense Finance and Accounting Service is relying on the Defense components to provide accurate and complete commitments, obligations, payment demands, travel settlements, and accounting adjustments electronically and in a mutually agreed upon standard format.

Working Capital Funds

This initiative was added to the DRI as part of the March 1999 update and is intended to address problems associated with working capital fund¹⁰ operations. Working capital funds provide essential goods and services needed for maintaining military readiness, including the (1) overhaul of ships, tanks, and aircraft and (2) sale of over 5 million types of vital inventory items such as landing gears for aircraft.¹¹ The primary goal of this program is to focus the attention of all levels of management on the total costs of carrying out certain critical DOD business operations to encourage support organizations, such as maintenance facilities, to provide quality

⁸ An in-transit disbursement occurs when a payment is made by a Defense Accounting Office or operating location or other disbursing office that does not have control of, or the ability to input payment data into, the accounting system that holds the original obligation information.

⁹ Problem disbursements are specific disbursements that have not been matched with corresponding obligations.

¹⁰ Working capital funds, a type of revolving fund, rely on sales revenue, rather than direct appropriations, to fund their operations. Working capital funds are expected to (1) generate sufficient revenue to cover the full costs of their operations and (2) operate on a break-even basis over time—that is, not make a profit nor incur a loss.

¹¹ In December 1996, DOD established four working capital funds by reorganizing activities included in the Defense Business Operations Fund, which had already consolidated nine industrial and stock funds operated by the military services and other DOD entities in 1991.

goods and services at the lowest cost. While the Department seeks to furnish customers and providers with incentives that will lead to the required level of readiness at the least cost to the military, it acknowledges that the current system is out of balance. For example, customers often perceive the price charged by a Defense Working Capital Fund provider as too high, due in part to the inclusion of the total costs, including overhead costs, in its prices. We previously found that some activities seek to have maintenance work performed at non-depot maintenance facilities to avoid perceived higher costs and surcharges associated with depot activities operating through the working capital fund.¹² Thus, while these customers are making the most cost-effective decision for themselves, these decisions may not be the most cost-effective from DOD's overall standpoint.

To address the problems with the Working Capital Fund operations, a task force drafted a series of 11 papers detailing various problems and making recommendations for improvement. The Deputy Secretary of Defense subsequently reviewed and approved the recommendations in early 2000. Examples of approved changes include

- making quarterly adjustments to the rates charged by the information services business activity if the activity experiences significant unbudgeted losses that would result in year end net operating results varying from the budget by more than \$10 million;
- creating a more flexible workforce to respond to workload fluctuations and ultimately to decrease labor costs; and
- improving training to managers on operational effectiveness to ensure they understand the costs associated with providing products and services.

Implementing the changes may be difficult. The Department will have to educate its managers on the new way of doing business and address concerns of the Office of Personnel Management and several employee organizations regarding employee benefits and protection.

Financial Management

Financial management reform was added to the DRI in March 1999. In adding financial management to the DRI, the Department set out its intention that comprehensive financial management reforms are intended

¹² *Depot Maintenance: Army Report Provides Incomplete Assessment of Depot-type Capabilities* (GAO/NSIAD-00-20, Oct. 15, 1999).

to streamline and redesign financial processes for optimum effectiveness—reduce costs and improve service quality. Specifically, the DRI goals are to reduce the number of finance and accounting systems used from 324 in 1991 to 32 or fewer by 2005 and produce auditable financial statements.

To date, no major part of the Department has been able to pass the test of an independent financial audit. Auditors have consistently issued disclaimers of opinion because of pervasive weaknesses in the Department's financial management systems, operations, and controls. Such problems led us in 1995 to put Defense financial management on our list of high-risk areas vulnerable to waste, fraud, abuse, and mismanagement, a designation that continued in last year's update.¹³ While DOD has made genuine progress in the financial management arena in areas such as increased accountability over property, plant, and equipment and recognition of cleanup and disposal costs, as discussed in our recent testimony,¹⁴ major problems remain—problems that are pervasive, deeply rooted, and complex in nature. The Department's most difficult financial management challenges include an inability to account for billions of dollars of inventory and property, plant, and equipment, and accurately report the net cost of its operations and produce accurate budget data.

The Department has acknowledged that it is impossible to reverse decades-old problems overnight, and some reforms will require several more years to implement. For example, DOD reported as of March 2000, that it had reduced the number of finance and accounting systems it uses to 96 and expects to reduce that number to 32 or fewer by 2005. The Department has hundreds of initiatives underway intended to address its financial management shortcomings. Many of these initiatives are included in DOD's second Financial Management Improvement Plan that was issued in 1999, and are designed to help achieve a "clean" financial audit opinion.¹⁵ While such opinions represent an important milestone, the final goal of the

¹³ *High-Risk Series: An Overview* (GAO/HR-95-1, Feb. 1995); *High-Risk Series: Defense Financial Management* (GAO/HR-97-3, Feb. 1997); and *Major Management Challenges and Program Risks: A Governmentwide Perspective* (GAO/OCG-99-1, Jan. 1999).

¹⁴ *Department of Defense: Progress in Financial Management Reform* (GAO/T-AIMD/NSIAD-00-163, May 9, 2000).

¹⁵ DOD was directed to submit this plan by the National Defense Authorization Act for Fiscal Year 1998. The plan is to address all aspects of financial management within DOD, including the finance systems, accounting systems, and data feeder systems that support financial operations.

Department's financial management improvement efforts must be correcting serious systems and control weaknesses that impair both asset accountability and the production of timely and reliable financial and performance information DOD needs to manage its operations on a day-to-day basis. Lessons learned from DOD's Year 2000 experience, including a business process focus and top leadership involvement, and adopting a strategic approach to improving the Department's financial management human capital will be invaluable to achieving this final goal.

Transportation Documentation and Financial Processes

The DRI also calls for changing the Department's transportation documentation and financial (i.e., billing, collection, and payment) processes to reduce infrastructure costs, eliminate government-unique documentation and processes, and employ commercial practices. In March 1998, the Deputy Secretary of Defense approved four prototype tests in different modes of transportation—airlift, sealift, surface, and express deliveries—to test the use of commercial documentation and credit cards to pay transportation bills. As a result of the prototype tests, in February 1999, the Deputy Secretary directed DOD to (1) eliminate government-unique documentation, (2) use PowerTrack software—a commercial product—to track transportation transactions and pay transportation bills, and (3) develop a 1-year regional prototype to test the use of a third-party logistics provider for domestic freight transportation and its associated financial management functions. These initiatives were then included as part of the March 1999 update of the DRI.

The Department is making progress in implementing these initiatives. We recently reported that the military services and Defense agencies have begun to use commercial documentation instead of government-unique documents, which officials estimate will result in the elimination of 1.6 million government-unique documents.¹⁶ In addition, as of April 2000, PowerTrack has been implemented at 153 of 204 sites and officials expect to have it fully implemented by December 2000. Finally, the Department plans to award a contract sometime after July 2000 to test the use of a third-party logistics provider for domestic freight transportation and associated financial management functions. Total investment costs for implementing these initiatives are estimated at \$41.4 million for fiscal years 1997 through 2000. DOD officials believe eliminating government unique documentation

¹⁶ *Defense Transportation: Process Reengineering Could Be Enhanced by Performance Measures* (GAO/NSIAD-00-7, Dec. 20, 1999).

and using PowerTrack software will save about \$11.2 million annually, once fully implemented.

Before these savings can be realized, we reported that the Department must overcome several implementation problems related to the PowerTrack initiative. For example, DOD must modify its electronic payment system to accommodate the existing unique interagency billing process, which is plagued with data accuracy and reliability problems. In addition, some bases and installations are unable to access PowerTrack through the Internet because they do not have the technical infrastructure or equipment necessary to access the Internet. In addition, the Department does not have sufficient system security to protect it against hackers.

Element 2: Quality of Life

DOD added this element to the DRI in March 1999 to highlight the Department's goal of increasing the level of job support and assistance it provides to both military and civilian employees. As table 3 shows, DOD has made significant progress in implementing its quality of life initiatives. All the initiatives were added to the DRI when it was updated in March 1999 with the exception of household goods transportation, which was included in the adopting best business practices element of the original DRI.

**Appendix II
Assessment of DRI Elements**

Table 3: Quality of Life Initiatives

| Initiative | Goal/milestone | Status | Issues |
|--|--|---|--|
| Household goods transportation | Reengineer processes for moving Defense personnel and their families. | The services plan to pilot test improved approaches to moving household goods, but they are experiencing difficulties getting the projects started. As a result, DOD does not expect to have a new process in place until the summer of 2002. | The Department is still determining how it will measure performance in terms of both customer satisfaction and cost. |
| Military pay and retirement benefits | Improve pay and benefits by (1) increasing pay 4.4 percent beginning January 1, 2000, and 3.9 percent annually in fiscal years 2001-2005 and (2) reforming the retirement package for members. | Congress approved several pay changes, including a 4.8 percent pay increase for calendar year 2000 and additional pay increases through calendar year 2005. Changes were also made in retirement benefits for members that entered service after July 31, 1986. | Legislation is pending that would authorize implementation of service members' participation in the Thrift Savings Plan. |
| Project Outlook Career Assistance Center | Provide counseling and job assistance to personnel affected by downsizing efforts in the Office of the Secretary of Defense. | The Center provided assistance to almost 670 DOD personnel and dependents. The Center was closed in January 2000, following the completion of Office of the Secretary of Defense downsizing efforts. | None. |
| Strengthen civilian workforce | Establish a Chancellor for Education and Professional Development to raise the quality of civilian training and professional development to world-class standards by January 1, 2000. | Progress is being made, but some delays have occurred. A Chancellor for Education has been appointed, an office is staffed and running, and a task force was formed to develop DOD education standards. | Performance measures and standards for a wide range of academic programs are being developed. |

Source: Our analysis based on information in the DRI reports, Department officials, and program documents.

Household Goods Transportation

The movement of servicemembers' household goods is viewed as an important quality of life issue. According to the March 1999 DRI Report, the Department moves approximately 650,000 military and civilian families every year—more than any U.S. corporation—at a cost of nearly \$1.2 billion. Yet, its system provides personnel some of the worst service in the nation, with damage claims resulting from 25 percent of all moves, compared to 10 percent in the private sector. While no implementation time frames were established, the DRI Report highlighted several initiatives to reengineer the personal property shipping process, including

- selecting vendors based on “best value” rather than lowest cost;
- contracting for the management of the entire household goods shipment process to a commercial relocation company;
- increasing the monetary allowance for personnel who move their own belongings from 80 to 90 percent of what the government would have paid; and
- using purchase cards to ensure prompt and easy payment.

DOD has one Department-wide pilot program underway and another planned that incorporate some, but not all, of the initiatives listed above. The Navy is also pilot testing a new approach on its own. DOD plans to complete its evaluation of all pilots by April 30, 2002, and could pick one pilot or elements of each pilot and the current process to revise the household goods transportation program. Officials expect a new process to be in place by summer 2002—2 years later than officials originally expected.

Last year we testified before the Subcommittee on Military Readiness, Committee on Armed Services, House of Representatives, that improving DOD’s personal property program has been a slow, complex process and that before any type of conclusion about these efforts can be reached, DOD must have accurate and credible data to determine the type and extent of changes that should be made.¹⁷ To its credit, DOD is developing an evaluation plan with the assistance of a private company to measure the performance of the pilots in relation to each other and against the current program. However, there have been some delays in developing an evaluation plan. Officials are still trying to resolve issues related to the questions to be included in customer satisfaction surveys and how best to capture cost information. In addition, potential bid protests involving the second pilot mentioned above could further delay the start of the testing period.

We are continuing to monitor the Department’s efforts in this area and plan to issue a report later this year related to DOD’s evaluation plan and on-going pilot test results.

¹⁷ *Defense Transportation: Efforts to Improve DOD’s Personal Property Program* (GAO/T-NSIAD-99-106, Mar. 18, 1999).

Military Pay and Retirement Benefits

The DRI report calls for improving pay and retirement benefits to adequately compensate its military personnel. DOD also hopes this initiative will help it meet recruitment goals and compete with the effects of a strong civilian economy. In 1999, top DOD and service officials testified that dissatisfaction with pay and retirement played a significant role in the decision of many servicemembers to leave the military. In order to address retirement and compensation concerns, the DRI called for (1) pay increases of 4.4 percent for all military personnel beginning January 1, 2000, and of 3.9 percent annually in fiscal years 2001–2005 and (2) changes in the retirement package offered to personnel joining the service after 1986.

The Congress approved pay raises even higher than DOD's request. The January 1, 2000, pay raise was set at 4.8 percent, representing a four-tenths percentage point increase over what was requested in the Fiscal Year 2000 President's Budget. The Congress also approved pay raises of one-half percentage point above the employment cost index for fiscal years 2001–2006. Pay changes for this past year also included a variable pay raise resulting from a restructuring of the military pay table, which the Department believes will provide a greater reward for personnel getting promoted rather than years of service. In addition, the Fiscal Year 2000 National Defense Authorization Act now gives members that entered the service after July 31, 1986, and retire with less than 30 years of creditable service, the option to either retire under the pre-1986 military retirement plan, or to accept a one-time \$30,000 lump sum bonus and remain under the current retirement plan at its reduced rate of retired pay. As a result, the Department believes these enhancements will give servicemembers a retirement plan that is just as attractive as the plan given to servicemembers who entered service in the early 1980s.

The Fiscal Year 2000 National Defense Authorization Act also authorized servicemembers to participate in the Federal Thrift Savings Plan to build tax-deferred retirement savings. Under that legislation, DOD participation is contingent upon the President proposing, and the Congress enacting, additional legislation that would offset (under the budget rules) the loss of tax revenue resulting from members' participation in the plan. Although no such offsetting legislation has been proposed, both the House and Senate versions of the fiscal year 2001 defense authorization bill being considered by the Congress would authorize the implementation of the military's participation in the Thrift Savings Plan. The proposed legislation would eliminate the requirement for the President to identify mandatory spending offsets that are currently provided in the fiscal year 2001 budget resolution.

Project Outlook Career Assistance Center

Another DRI initiative called for the establishment of the Project Outlook Career Assistance Center, which would provide transition assistance to DOD personnel in the Office of the Secretary of Defense and their dependents affected by downsizing, A-76 competitions, and other DRI changes. The Department's intention was to bring in the human resources community early to reduce employee fears that they would be involuntarily separated from their jobs.

Since 1998, the Career Assistance Center has helped 666 DOD personnel and their dependents with counseling and employment assistance. Specifically, it helped 93 persons find employment within DOD, other government agencies, or the private sector. Besides giving employment support, the Center helped to educate and counsel affected personnel by offering seminars and workshops on topics such as preparing electronic resumes, improving communication skills, and determining career options and strategies. Individual counseling was also offered to assist personnel in assessing their skills, networking, preparing resumes and cover letters, interviewing, and negotiating techniques.

The Center was closed in January 2000, following the completion of the Office of the Secretary of Defense downsizing efforts. A Center official said advanced planning and early placement services were most likely the primary reasons why DOD was able to achieve the DRI reductions without having to involuntarily separate people.

Strengthening Civilian Workforce

In 1997 the DRI established a goal of providing a world-class education system for all DOD civilians by January 1, 2000. The DRI report cited the education of DOD civilians as an area that needs improvement and that DOD has been rendering second-rate education, training, and professional development to its civilian employees. To achieve its goal, the DRI calls for (1) the appointment of a Chancellor for Education and Professional Development, (2) every DOD educational institution to be accredited, and (3) all courses to be certified by a recognized accreditation authority.

Although some progress has been made within the last year, it may be a year or more past the original 2000 deadline before this initiative is fully implemented. On October 2, 1998, DOD's first Chancellor for Education and Professional Development was sworn in to head this effort. The Chancellor's mandate is to improve the quality of DOD's professional education, eliminate duplicative or unnecessary programs and curriculum development efforts, and ensure that DOD education and training responds

to valid needs, competency requirements, and career development patterns.

The Chancellor's Office is now focused on the two remaining DRI initiatives related to accreditation. To assist in these efforts, DOD established a special task force led by the Chancellor to develop accreditation-like standards that can be applied to and adopted by the diverse range of DOD civilian education institutions and programs. For example, DOD provides classes for all types of positions, including administrative staff, computer programmers, and engineers. The Department expects the development of prototype standards to be completed by the end of fiscal year 2000 and DOD-wide implementation of approved standards to be completed by the end of fiscal year 2001.

Element 3: Organizational Streamlining

Under this element, the DRI called for a series of reductions, reorganizations, and other organizational adjustments within the Office of the Secretary of Defense, Defense agencies and activities, and the military services. The goal is to have a flatter, more streamlined headquarters throughout DOD to (1) ensure that the headquarters focuses on core, corporate-level tasks rather than program management and day-to-day management of subordinate activities; (2) strengthen headquarters' focus on long-term strategic, program, and financial planning; and (3) weed out unnecessary overlap, complexity, and redundancy in tasks. To accomplish these ends, DOD initiated over 50 separate efforts. These efforts include

- consolidating existing offices,
- moving responsibilities from the Office of the Secretary of Defense to other DOD components,
- reducing the total number of committees and boards that exist in DOD by 25 percent, and
- reducing personnel throughout the Department.

Although the DRI stated that these changes could result in savings, the expected savings were not quantified and were secondary to the primary goal of fashioning a more responsive, less bureaucratic organization.

The Department reports that significant progress is being made in meeting the various organizational streamlining goals. For example, it has completed action on over two-thirds of the reorganizations and consolidations. It has also reduced the number of boards and commissions by 40 percent—from 550 to 338. Finally, personnel reductions are starting

to occur. Table 4 shows the progress DOD reports it has made as of January 1, 2000. While the Office of the Secretary of Defense and field activities reductions were to be completed by fiscal year 2000, the remaining reductions are not expected to be complete until 2003.

Table 4: DOD Reported Staff Reductions

| Organization | Reduction goals (percent) | Total personnel to be reduced | Actual personnel reduced (as of 1/00) | Reductions achieved as of 1/00 (percent) |
|--|----------------------------------|--------------------------------------|--|---|
| Office of the Secretary of Defense | 33 | 986 | 989 | 100 |
| DOD field activities | 36 | 3,221 | 2,817 | 87 |
| Defense agencies | 21 | 27,095 | 19,249 | 71 |
| All other headquarter elements, including the headquarters of the military departments and their major commands ^a | 10 | 3,490 | 2,871 | 81 |
| Total | | 34,792 | 25,926 | 75 |

^aInformation provided by the Navy and Marine Corps represent Headquarters personnel reduced as of January 1999. Therefore, military headquarters personnel reductions are likely to be higher than stated in the chart.

Source: Under Secretary of Defense (Comptroller) and Director, Administration and Management.

As shown, the Office of the Secretary of Defense, field activities, Defense agencies, and military headquarters organizations have reduced almost 26,000 positions, and these organizations appear to be on track for meeting their DRI goals. Currently, the Office of the Secretary of Defense is the only organization that has achieved its DRI goal.

Downsizing efforts take time and can be difficult to achieve. For example, reductions at the Office of the Secretary of Defense level are a combination of one-third transfers to other DOD organizations and two-thirds elimination of job positions. According to DOD officials, these reductions were difficult to implement, and DOD probably would not have met its downsizing goal without the direct involvement of the Deputy Secretary of Defense. For 2 years, the Deputy Secretary was provided quarterly reports on downsizing efforts. While organizations provided compelling arguments not to complete some of the specific organizational downsizing goals (i.e., changes in organizational responsibilities require more, not fewer staff, and the same workload would be spread to fewer staff), the Deputy Secretary continued to push for the reductions.

Element 4: Competitive Sourcing

Under this DRI element, DOD plans to subject commercial-type activities now conducted by the government to the competitive forces of the marketplace. DOD believes this will sharpen performance and lead to better value. It also believes competition, regardless of whether the public or private sector wins, can achieve significant savings. DOD is making progress in meeting its goals for both initiatives under this element—A-76 competitions and outsourcing depot maintenance workloads—but it will have to address a variety of problems to fully implement them.

The A-76 Program

DOD is using Office of Management and Budget Circular A-76 to conduct competitions between the public and private sector. These competitions, known as competitive sourcing, determine whether the public or private sector could best perform selected commercial activities and functions. DOD is in its fourth year of a program to evaluate activities that involve approximately 203,000 positions for potential competitive sourcing, which is expected to result in estimated savings of \$9.2 billion by 2005, and \$2.8 billion in annual recurring savings thereafter.

Between fiscal years 1997 and 1999, DOD announced 97,211 positions for study (about 48 percent of its current A-76 study goal), completing full competitions on about 8,500 of these positions. The services have made varying degrees of progress in initiating planned studies but are finding they are taking longer than expected to complete. We previously reported on delays in completing these studies as well as how the Department's savings will likely be smaller than expected in the short term because it had not fully calculated either the investment costs associated with undertaking these competitions or the personnel separation costs likely to be associated with implementing them.

The services have expressed concern about the reductions in their future operating budgets that have already been planned in anticipation of A-76 savings. For example, the Navy was having difficulty identifying positions for A-76 competitions. In response, the Navy proposed a broader, systems engineering approach to be used in concert with competitive sourcing. This strategy, referred to as strategic sourcing, relies on a broad range of manpower management techniques—such as reengineering, reorganization, and privatization—to achieve savings rather than relying solely on A-76 competitions. According to DOD officials, strategic sourcing provides DOD with an opportunity to achieve efficiencies in areas that may not be subject the A-76 competitive processes.

While the Navy is the furthest along in its strategic sourcing plan (it plans to review functions that would involve almost 42,000 positions),¹⁸ the Air Force and the Army say they too are considering strategic sourcing initiatives. The services insist they are not abandoning their A-76 goals; rather, they are adjusting those goals to include this form of sourcing. The Office of the Secretary of Defense has issued interim guidance on the strategic sourcing program, which emphasizes that commercial activities included in strategic sourcing remain available for competition in the future.

We have several ongoing jobs in this area and plan to issue reports on the status of DOD's A-76 program studies and savings later this year.

Depot Maintenance Workload

Another DRI goal is to pursue public-private competitions for depot maintenance work to the full extent of the law to lower maintenance costs and improve services. Currently, several statutes in title 10 of the U.S. Code govern depot maintenance competitions and allocations of workload between the public and private sectors. One key provision is in section 2466, which places a 50-percent ceiling on the amount of depot maintenance funds that can be used for contracted work.

We recently reported¹⁹ that each department is moving closer to the 50-percent ceiling, continuing the trend of recent years and consistent with DOD policies and plans to increase reliance on the private sector for depot work. The Air Force held three major competitions for workload performed at two Air Force depots slated for closure as a result of base realignment and closure decisions. A DOD depot won the first competition (for C-5 aircraft workload), with projected savings of \$190 million over 7 years. Defense depots, each in partnership with a contractor, won the other two competitions. The Air Force projects savings of \$1.8 billion over 15 years from the competition for engine workloads and \$638 million over 9 years for the other competed workloads. In total, the three competitions

¹⁸ Strategic sourcing studies involving these 42,000 positions are expected to produce additional savings of \$2.4 billion by 2005 and \$.7 billion in annual recurring savings thereafter. Collectively, A-76 and Navy strategic sourcing are expected to yield about \$11.7 billion in savings by 2005 and \$3.5 billion annually thereafter.

¹⁹ *Depot Maintenance: Future Year Estimates of Public and Private Workloads Are Likely to Change* (GAO/NSIAD-00-69, Mar. 1, 2000).

are expected to save about 16 percent compared to the estimated baseline costs.

The Air Force, however, is having difficulties in managing the workload within the 50-percent limitation. Our March 2000 testimony²⁰ discussed the reasons behind the Air Force's difficulties and the Secretary's decision to waive the section 2466 requirement for fiscal year 2000 and, potentially, for 2001. We cited Air Force decisions to contract for more depot work and the results of the three public-private competitions as the primary reasons why the Air Force has little flexibility in the near term to stay within the ceiling and will continue to face significant challenges in the coming years. Air Force officials, however, have indicated plans to identify workloads that might be brought back in-house to permit them to stay within the 50 percent limitation.

Element 5: Infrastructure

The DRI Report supports shrinking the size of DOD's physical infrastructure by eliminating excess infrastructure, consolidating or restructuring operations and support activities, and demolishing unneeded buildings. Collectively about the size of the state of Virginia (40,000 square miles), DOD has the world's largest infrastructure. The Secretary of Defense and other officials have expressed concern that the Department continues to retain more infrastructure than needed despite four base closure rounds between 1988 and 1995. At the same time, DOD continues to report a significant backlog in funding requirements for maintenance and repair of its facilities. Maintenance of unneeded facilities drains resources that might otherwise be used on facilities and installations needed for the future or to support modernization and readiness priorities. Table 5 shows the progress DOD has made on its six infrastructure initiatives. With the exception of building demolitions and Defense Information Systems Agency consolidations, the other reform initiatives have proven to be very difficult to implement.

²⁰ *Depot Maintenance: Air Force Faces Challenges in Managing to 50-50 Ceiling* (GAO/NSIAD-00-112, Mar. 3, 2000).

**Appendix II
Assessment of DRI Elements**

Table 5: Infrastructure Reduction Initiatives

| Initiative | Goal/milestone | Status | Issues |
|--|---|---|---|
| Base realignment and closure | Hold additional rounds in 2001 and 2005. | The Congress did not approve the request for more rounds. | Congressional approval is needed for future base closure rounds. |
| Defense Information Systems Agency consolidations ^a | Reduce the number of centers from 16 to 6. | As of February 2000, the number of centers has been reduced to seven. Officials expect to meet the goal by the end of fiscal year 2000. | The agency is having problems hiring qualified staff at the centers gaining new workload. |
| Demolition and disposal of excess facilities | Demolish over 80 million square feet of buildings by fiscal year 2003. | 30.6 million square feet were demolished through fiscal year 1999. | None. |
| Energy management | Reduce energy consumption and privatize all utility systems by September 30, 2003. | New ways to reduce energy costs have been tested, but significant problems are being encountered in privatizing utility systems and the Department is unlikely to meet its goals. As of December 31, 1999, DOD has privatized only 13 of the approximately 1,700 systems it is considering for privatization. | This effort is complex, time-consuming, and expensive. It requires analyzing state and local laws governing utilities and evaluating offers received from interested utility companies. |
| Military housing privatization | Privatize: 1,000 units in fiscal year 1998; 13,000 units in fiscal year 1999; and 30,000 by fiscal year 2000. | The goals have not been met. As of January 1, 2000, DOD had issued contracts to privatize 3,083 units in two housing projects. | In general, structuring privatization deals is complex and time consuming. The Congress and we have also expressed concern over privatization deals. |
| Leasing | Market unused and underutilized property to the private sector and seek legislation to expand the types of in-kind consideration, such as the construction of new facilities, the Department can receive. | DOD proposed new legislation in January 2000. | Congressional approval is needed. |

^a The Defense Information Systems Agency consolidation initiative was in the original DRI Report but was not mentioned in the March 1999 update. According to a Defense Reform Office official, this initiative is still considered to be part of the DRI.

Note: The original DRI Report included an initiative to consolidate research and development, test and evaluation facilities. This initiative is now included in the 21st century acquisition system and workforce element.

Source: Our analysis based on information in the DRI reports, Department officials, and program documents.

Base Realignment and Closure

The DRI Report called for additional base realignment and closure rounds in 2001 and 2005. More recently, the President's fiscal year 2001 budget request calls for rounds in 2003 and 2005. Despite four rounds between 1988 and 1995, Defense officials believe excess facilities remain and are a burden on the budget in a resource-constrained environment. Both the Quadrennial Defense Review and DRI reports support this view. Defense officials now project that two additional rounds would generate new savings of \$3.4 billion a year once realignment and closure actions were completed and the costs of implementing these actions were offset by savings. The Department's future years budget plans reflect the impact of these savings. Because of concerns about issues such as cost and savings from prior rounds, their economic impact, and executive branch handling of two closure and realignment decisions in the 1995 round, the Congress has been reluctant to authorize additional rounds.

Our work has shown that, despite limitations in precision, past base realignment and closure recommendations will result in substantial savings once implementation costs have been offset and net savings begin to accrue.²¹ Further, our December 1998 report also found that the majority of communities surrounding closed bases are faring well economically in relation to the national average. Our analysis of lessons learned found that, despite the difficulties of base realignment and closure decision-making, the processes that evolved over the past four rounds are regarded by many as a good starting point for future legislation and decision-making processes. We noted that the processes used between 1988 and 1995 had several checks and balances to keep political influences to a minimum. At the same time, we also noted that the success of the processes requires the cooperation of all participants.

Defense Information System Agency Consolidations

The original DRI called for reducing the number of computer megacenters from 16 to 6. Operated by the Defense Information Systems Agency, these megacenters were established by consolidating the workload and equipment of 194 computer centers. Today, the Agency provides various computer and telecommunications services and command and control support throughout the Department. Despite the earlier consolidations, the Department believes its information-processing infrastructure needs

²¹ See *Military Bases* (GAO/NSIAD-99-17, Nov. 13, 1998) and *Military Bases* (GAO/NSIAD-99-36, Dec. 11, 1998).

further reduction. Agency officials project that, once completed, the new structure will result in operating and personnel cost reductions that will help the Agency achieve \$1.5 billion in savings over a 10-year period ending in fiscal year 2007. The DRI did not establish any deadlines for completing the consolidations, but the emphasis on this initiative is reflected in a performance contract that was developed in direct response to the DRI. The consolidation goals that have been incorporated into the contract reflect the Defense Information Systems Agency's plans to have the revised structure in place by the end of fiscal year 2000.

Consolidation efforts are nearly complete. As of February 2000, the Defense Information Systems Agency had reduced the number of megacenters to seven—an achievement considered noteworthy by Agency officials considering DOD and the entire information technology industry were focused on preparations for the Y2K millennium change. Officials expect the final mainframe workload migration to be completed by the end of this fiscal year, once Y2K testing has been completed. Further, the staffing reductions that were to accompany the megacenter reductions were ahead of schedule. Agency plans call for total reductions of 893 personnel between fiscal year 1997 and the end of fiscal year 2000. As of March 2000, 1,104 civilian positions had been eliminated, over 200 more than planned. As a result of its efforts, the Agency estimates that it has realized savings of \$71 million for fiscal years 1998 and 1999 and will realize another \$120 million of savings in fiscal year 2000.

According to Agency officials, the continuing nationwide shortage of skilled information technology professionals has made it difficult to hire qualified civilian personnel at megacenter sites gaining new workload. This hiring shortfall has been covered on a temporary basis by using contractor support.

Demolition and Disposal of Excess Facilities

The DRI calls for the military services to demolish and dispose of 80 million square feet of obsolete and excess facilities by fiscal year 2003. This initiative is intended to save operations and maintenance dollars and improve safety through the removal of excess facilities. According to program officials at Wright Patterson Air Force Base, the DRI has made the funding of demolitions a priority. Prior to the DRI, these officials were required to develop and maintain a list of buildings they wanted to demolish, but funding intended for demolitions went to higher priorities, such as critical repairs and maintenance of occupied buildings and

facilities. Now, a portion of these funds is dedicated for the sole purpose of demolitions.

Through the end of fiscal year 1999, DOD had already reached about 40 percent of its building demolition goal by demolishing 30.6 million square feet of space. Officials estimate the Department has avoided spending \$32 million in fiscal year 1999 due to fiscal year 1998 demolitions and will avoid approximately \$61 million in fiscal year 2000 and each year thereafter due to demolitions in both fiscal years 1998 and 1999. These figures do not represent savings per se. Rather they are costs DOD will avoid spending on these buildings that can be used for other priorities.

Energy Management

The energy management initiative is designed to help the Department better manage its energy costs, primarily by privatizing utility systems and identifying new ways to procure energy.²² As part of this initiative, the Department plans to use private sector capital and expertise to maintain and upgrade about 1,700 electric, water, wastewater and gas systems supporting DOD's installations by September 30, 2003.²³ The DRI also expanded the Defense Logistics Agency's Defense Energy Support Center's responsibilities to include finding ways to maximize energy savings through a series of demonstration projects.

DOD has experienced mixed success with its energy management initiatives. While the Defense Energy Support Center has been successful in its attempts to conduct several demonstration projects that identified money saving techniques for purchasing energy, the military services are unlikely to meet the 2003 time frame for privatizing its utility systems. Since the DRI was announced, the military services have privatized only 13 utility systems since the DRI, of which the Army privatized 11 and the Navy 2.

²² In the March 1999 update to the DRI, DOD consolidated two initiatives from the original DRI Report—utility system privatization and regional energy demonstrations—and now refers to these as the energy management initiative.

²³ As of December 31, 1999, DOD estimated that it was using a total of 2,742 electric, water, waste water, and gas utility systems. However, in determining the number of systems it could consider for privatization, it found 122 of these were privatized prior to the DRI and another 886 are not owned by DOD.

According to DOD officials, privatization efforts are very complex, time consuming, and costly. For example, privatization includes describing the current condition of about 1,700 utility systems, analyzing myriad state and local laws governing utilities, and determining the best value offer received from interested utility companies. In December 1998, DOD issued a program budget decision directing the services to set aside \$243.6 million to complete privatizations between fiscal years 1999 and 2004. The program budget decision estimated that utility system privatization might begin to provide about \$327 million in annual savings after privatizations are completed in 2003. However, these early budget estimates of the costs and savings are now viewed as unrealistic. In addition to paying for privatization studies, military service officials are also concerned that utility bills will increase without a corresponding increase in operations and maintenance funds.²⁴ Compounding the complexity of this effort is the fact that utility system privatization is occurring simultaneously with other, closely-related energy management initiatives. Despite the interrelationship of these initiatives, however, the services have not as yet developed an overall energy management strategy, which would integrate the efforts.

Military Housing Privatization

According to the 2000 Annual Defense Report to the President and the Congress, two-thirds of the Department's 282,000 existing housing units are in need of extensive repair. The Deputy Under Secretary of Defense for Installation Support said the average age of on-base housing units is more than 35 years, and these units are approaching the end of their useful life. Efforts to privatize military family housing are aimed at using private capital to upgrade housing faster than DOD could on its own. At the Department's request, the Congress enacted legislation in fiscal year 1996 containing a series of authorities, termed the Military Housing Privatization Initiative, that was to test over a 5-year period the use of various incentives and arrangements to encourage private sector investment in military housing. Housing privatization was subsequently made part of the DRI, with a current goal to privatize 1,000 units by fiscal year 1998; 13,000 units by fiscal year 1999; and 30,000 units by fiscal year 2000.

The Department has not met the DRI goals. As of January 1, 2000, it has awarded only two contracts to build or renovate 3,083 military family

²⁴ We have a separate review underway examining the service's privatization efforts that should be completed later this year.

housing units.²⁵ Two other Navy projects, involving 589 units, were approved under a prior legislative authority.²⁶

Defense officials attributed the slow progress to the many legal, financial, contractual, and budgetary issues involved. We recently reported, for example, the services had to decide how to structure privatization deals and how the various federal laws and regulations applied to the proposed deals.²⁷ Also, congressional concerns about the execution of the program resulted in the Department curtailing its housing privatization plans. A July 1998 Conference Report on Appropriations for Military Construction cites that privatization was not intended to become a substitute for the traditional housing construction program. In 1999, the services scaled back their privatization plans from 87,000 units at 49 installations to 22 projects to build or renovate 30,994 units.

Until experience is gained in the actual operation of several projects, key questions about the cost effectiveness of privatization will remain unanswered. These questions include whether developers will operate and maintain privatized housing in accordance with the contracts and whether the military will need the housing over the long terms of most projects (typically 50 years). For example, the Department's January 2000 announcement of a new \$3 billion initiative to significantly increase housing allowances over the next 5 years raises questions about housing privatization and how DOD balances its housing options. The intent of the new initiative is to eliminate the out-of-pocket expenses military members normally pay to live off base. Higher housing allowances could mean that more military members would be able to live off base, decreasing the need for on-base housing, including privatized housing.

Leasing

The DRI calls for the Department to propose legislation allowing the military services to enter into lengthier leasing deals that would make leasing of real property to the private sector more attractive, and clarify the types of in-kind consideration the services could receive in exchange for

²⁵ Housing privatization has occurred at Lackland Air Force Base, Texas; and Fort Carson, Colorado.

²⁶ Section 2803 of the National Defense Authorization Act for Fiscal Year 1995 (P.L. 103-337).

²⁷ *Military Housing: Continued Concerns in Implementing the Privatization Initiative* (GAO/NSIAD-00-71, Mar. 30, 2000).

the use of space at military bases. For the past 5 years, DOD has used authority granted by the Congress to lease some of its non-excess, but not fully utilized property. In return for permitting nonfederal entities to temporarily put Defense property to productive use, the Department has received in-kind services such as maintenance, repair, and environmental restoration of facilities. However, Defense officials believe current leasing laws limit the kind of compensation the Department can receive from leasing and how it can spend the money. For example, the Department would like in-kind consideration to be applied at any military installation for things such as the construction of new facilities and base operating support services.

DOD submitted its proposed new legislation to the Congress with its fiscal year 2001 budget submission. However, there are many uncertainties that make its successful implementation questionable. For example, a program official is uncertain if the Congress will enact the proposed legislation giving the Department more latitude in conveying land at military installations to private developers for up to 35 years. In addition, DOD does not have a lot of experience with this type of leasing and may have to hire consultants to help structure these deals.

Although the Department is still awaiting congressional passage of its leasing proposal, the Congress has approved separate legislation that would enable the Navy and the Air Force to pursue enhanced leasing initiatives in partnership with the private sector and local communities. The legislation would allow the Navy to manage the development of a planned community consisting of housing, operational facilities, and recreational opportunities on Ford Island, a part of the Pearl Harbor Naval Complex on the island of Oahu, Hawaii. The Air Force legislation provides a number of specific leasing authorities that allow the Air Force to test and demonstrate new ways to manage installations at Brooks Air Force Base, Texas.

Element 6: A Vision for the 21st Century Acquisition System and Workforce

To build a military capable of meeting 21st century missions, DOD has acknowledged it must equip its forces with the latest technologies and tools. This, in turn, requires an acquisition system that provides the highest quality goods in the most affordable and efficient fashion possible. Over the last several years, DOD has undertaken numerous initiatives to improve its acquisition processes. This DRI element, which was added in March 1999, highlights some of the many on-going efforts, including (1) streamlining DOD's research, development, test, and evaluation infrastructure;

(2) improving the acquisition process through reducing total ownership costs and barriers to accessing commercial technology and products; and (3) training and managing its acquisition workforce better. As shown in table 6, progress varies among the three initiatives.

Table 6: Acquisition System and Workforce Initiatives

| Initiative | Goal/milestone | Status | Issues |
|--|--|---|--|
| Streamlining research, development, test and evaluation infrastructure | No goals or deadlines given. | DOD completed a plan to restructure its laboratories and test centers in accordance with congressional direction. Competitive sourcing is one of the tools DOD plans to use to reduce infrastructure costs. | No large-scale infrastructure reductions are likely to take place outside of base-closure rounds. |
| Improving the acquisition process | Maximize use of commercial items, replace government-unique processes with commercial equivalents, and reduce total costs of acquiring, operating, maintaining, and disposing of weapon systems. | Progress is being made, but DOD is years away from full implementation. Business and manufacturing operations at over 325 facilities have been converted to commercial standards. Pilot programs have been started to test cost-reduction techniques. | The Department believes acquisition costs are still too high. Opportunities exist for DOD to adopt techniques used by private industry to reduce costs such as keeping technology development separate from product development. |
| Enhancing the acquisition workforce, education and training | (1) Deliver 25 percent of acquisition courses through technologies, such as the Internet, by the end of fiscal year 1999 and for all courses by 2003; (2) provide 40 hours of continuing education classes to 80,000 personnel in 1999 and all acquisition professionals by the year 2000; and (3) implement a demonstration project to allow greater managerial control over personnel processes—such as the implementation of a new payment and reward system. | DOD is making progress, but is still years away from meeting its goals. (1) About 10 percent of its acquisition courses (8 of 81 courses) are now available on the Internet. (2) The DOD components are developing programs for employees to obtain 40 hours of continuing education, but do not have systems in place to track progress towards achieving the goal. (3) Finally, DOD started a 5-year demonstration project in 1999 to change certain personnel processes. | We previously reported on several problems with DOD's acquisition workforce training, including that training either did not reach the right people when it was needed or did not reach them at all. |

Source: Our analysis based on information in the DRI reports and Department officials.

Streamlining Research, Development, Test, and Evaluation Infrastructure

Over the last 10 years, the Department has spent an average of \$36 billion a year on Research, Development, Test and Evaluation programs covering a wide range of activities, from basic research in science and engineering to

the full-scale development of specific weapon systems, such as the F-22 fighter aircraft and the Comanche helicopter. Reducing the number of laboratories and centers has been an on-going effort, and despite closing 62 sites as part of previous base realignment and closure rounds, the Department and the Congress believe DOD continues to have excess capacity. Although the DRI did not set specific goals or deadlines for this initiative, the Department has developed a new plan for streamlining the laboratories and test centers in accordance with the Strom Thurmond National Defense Authorization Act for Fiscal Year 1999.

Most of the streamlining for laboratories and test centers occurred prior to the DRI through the base realignment and closure process. For example, the Defense Manpower Data Center reports that staffing levels in the laboratories and centers have declined about 29 percent (from 131,000 in fiscal year 1990 to 93,000 in fiscal year 1997) after four closure rounds. The Department estimates these reductions have resulted in annual manpower savings of about \$2.4 billion and a \$3.9 billion reduction in operating costs since 1990. Since the Congress has approved no additional closure rounds, the Department plans to use other methods, including competitive sourcing, to maintain its technical superiority while further reducing its infrastructure costs. No large-scale consolidations, however, are likely to take place outside of the base closure process.

Improving the Acquisition Process

In March 1999, DOD highlighted three initiatives that will help the Department access commercial technology and adopt business practices characteristic of world class suppliers, while also reducing the total cost of acquiring and operating weapon systems purchased. The three initiatives are

- maximizing the use of commercial items, operations, and practices (referred to as civil military integration);
- assisting contractors in replacing government-unique business and manufacturing processes with commercial equivalents, modifying existing contracts to comply with reform initiative goals, and reducing or eliminating many of the barriers that inhibit government and industry collaborative business efforts (referred to as the single process initiative); and
- reducing total ownership costs of weapon systems (i.e., development, production, operations, support, and disposal), to help ensure DOD is making the most cost-effective procurement decisions now and in the

future. A key component of this is to make performance and schedule a function of available resources.

DOD is making progress in each of these areas but is years away from full implementation. For example, as of February 10, 2000, the Department reported that it had achieved some success by converting the business and manufacturing operations of over 325 facilities from military to commercial standards in areas of quality control, calibration, soldering, and parts management practices. The Department has targeted 11 activities for review during fiscal year 2000, including product support, delivery, pricing, and payment and financial management. In addition, the Department reports it has saved \$30.6 million in negotiated changes to existing contracts and estimates cost avoidance savings of \$523.8 million on future contracts as a result of replacing government unique processes with commercial equivalents. Finally, the services are in the process of implementing a series of pilot programs that focus on reducing total ownership costs for major acquisition programs. For example, the Navy has set a goal of using commercial computers and application software on the Aegis Cruiser thereby eliminating the need for military specifications and standards. The Navy is reporting a savings of about \$4.0 million per ship. Because many of the pilot programs are still being implemented, we did not attempt to determine the overall status.

Despite these attempts to streamline acquisition processes and reduce costs, in January 1999, the Defense Systems Affordability Council acknowledged that total ownership costs of weapon systems are too high and can be reduced significantly if DOD would better emulate and apply best practices of the public and private sectors. The Council set targets for reducing logistics costs for fielded weapons systems by 7 percent in fiscal year 2000, 10 percent by fiscal year 2001, and 20 percent by fiscal year 2005. In March 1999, we testified that the best practices of leading commercial firms could be used to improve the development of technology and weapon systems in the Department.²⁸ In particular, knowledge standards²⁹ that are

²⁸ *Defense Acquisition: Best Commercial Practices Can Improve Program Outcome* (GAO/T-NSIAD-99-116, Mar. 17, 1999).

²⁹ This means that decisionmakers must have virtual certainty about critical facets of the product under development when needed. This knowledge can be broken down into three junctures: when a match is made between the customer's requirements and the available technology, when the product's design is determined to be capable of meeting performance requirements, and when the product is determined to be producible within cost, schedule, and quality targets.

rigorously applied, coupled with the practice of keeping technology development separate from product development, could put managers in the best position to succeed in developing better products in less time and producing them within estimated costs. We also believe that lasting improvements in program outcomes will not be realized until the Department changes the incentives that drive program managers to underestimate costs; rely on immature technologies; and underestimate the risk of cost, schedule, and performance problems.

Enhancing the Acquisition Workforce, Education and Training

For the last decade, the importance of an educated professional acquisition workforce has been a major focus of the Department. For example, the Congress passed the Defense Acquisition Workforce Improvement Act in 1990 directing DOD to establish education, training, and experience requirements for its acquisition workforce to enhance the defense acquisition process. In 1992, the Department established the Defense Acquisition University, a consortium of 13 schools, to develop and provide training for the acquisition workforce. Since its inception, the University has trained about 35,000 acquisition personnel per year using an extensive curriculum of 81 courses, including courses on the Department's acquisition reform initiatives. The March 1999 DRI update included the following five broad training and education initiatives;

- enhancing basic skills training;
- institutionalizing continuous learning;
- teaching the concepts of the commercial business environment;
- recruiting, developing, and retaining technology leaders; and
- managing the acquisition workforce.

Specific goals are to (1) deliver 25 percent of acquisition courses through distributed learning technologies, like the Internet, by the end of fiscal year 1999 and for all courses by 2003; (2) provide 40 hours of continuing education classes to 80,000 personnel in 1999 and all acquisition professionals (about 163,000) by the year 2000; and (3) implement a demonstration project to evaluate, among other things, new systems of payment and reward.

DOD is making progress toward achieving its goals, but it is several years away from full implementation. At the time of our review, the University offered 8 of its 81 courses, about 10 percent, on the Internet. According to the program manager, all University classes are being evaluated to determine which classes or portions of classes can be offered on-line.

Some courses, particularly those involving senior-level managers, will continue to require in-class training. DOD also believes it is progressing in its efforts to provide 40 hours of continuing education hours to its employees, but officials said they will not know the exact number of employees completing training until tracking systems are put in place by the military services and Defense agencies. According to DOD officials, about 26,500 personnel participated in University courses and an estimated 78,000 personnel participated in distance learning classes such as videoconferences in fiscal year 1999. Finally, DOD launched a 5-year Civilian Acquisition Workforce Demonstration Project in 1999 to determine if DOD's acquisition effectiveness can be enhanced by allowing greater managerial control over personnel processes and functions such as hiring and equitably compensating personnel. In addition, the Project expands the opportunities available to employees through a more responsive and flexible personnel system. As envisioned, the project will cover approximately 8,000 to 18,000 civilian acquisition employees and related support personnel at some 60-200 sites throughout DOD.

Despite the Department's efforts, enhancements can still be made to its approach for acquisition training. For example, a June 1999 Department study recommended that training organizations become change agents and be modeled after their corporate counterparts. In addition, in August 1999 we found that standard training offered by the Defense Acquisition University did not make a major contribution to the leading program offices' ability to implement best practices.³⁰ Training either did not reach the right people when it was needed or did not reach them at all. Further, best practice training did not contain the depth or practical insights program officials need to implement these practices.

Element 7: Transforming Logistics for the 21st Century

This element of the DRI, which was added as part of the March 1999 update, focuses on the steps DOD is taking to improve the efficiency and effectiveness of its logistics business practices and processes. DOD's overall vision is to achieve a highly efficient and integrated logistics system for buying, storing, and distributing supplies as well as maintaining and repairing weapon systems by 2006. To achieve this vision, the DRI lays out the following broad initiatives:

³⁰ *Best Practices: DOD Training Can Do More to Help Weapon System Programs Implement Best Practices* (GAO/NSIAD-99-206, Aug. 16, 1999).

- educe wholesale supply order-receipt time;
- achieve total asset visibility and accessibility for 90 percent of DOD inventory by fiscal year 2000; and
- reengineer and streamline logistics processes.

DOD is making some progress in implementing its logistics initiatives. The Department reports that it has met the goals for reducing the time it takes for wholesalers to deliver supplies and achieving total asset visibility. However, it is just starting other initiatives to reengineer and streamline logistics processes. For example, the services plan to conduct 30 pilot projects to reengineer product support activities by 2002 and implement new techniques by 2005. In addition, as stated earlier in our prime vendor discussion in element 1, the Department is attempting to expand its use of prime vendor contracts to hardware items.

Transforming DOD's logistics processes is a very complex undertaking. For example, although the Department reports that it has met its total asset visibility goal, we and the DOD Inspector General found significant problems with the timeliness and accuracy of data used in the total asset visibility system. We recently reported that user groups had concerns about the quality of data in the system, and these problems do not appear to be resolved.³¹ In addition, the military services and the Defense Logistics Agency have over 400 major actions underway to streamline logistics processes. While these major actions may support DOD's overall vision, Defense officials acknowledged that the Department has had an incomplete roadmap or investment strategy to manage and coordinate its wide range of initiatives in achieving the desired logistics transformation. DOD has recognized the need to develop transition plans and a defense reform initiative directive was recently signed by the Deputy Secretary of Defense directing the military services, Defense Logistics Agency, and Transportation Command to submit transition plans for review by the Defense Management Council by July 1, 2000. Specifically, the plans are to include four intermediate objectives:

- developing performance measures for customer wait time in fiscal year 2001;
- adopting a simplified delivery priority system driven by war-fighter requirements by fiscal year 2002;

³¹ *Defense Inventory: DOD Could Improve Total Asset Visibility Initiative With Results Act Framework* (GAO/NSIAD-99-40, April 12, 1999).

- achieving accurate total asset visibility and accessibility by fiscal year 2004; and
- fielding a web-based logistics information system that provides early deploying forces real-time information by fiscal year 2004 and to the remainder of the force by fiscal year 2006.

To assist in establishing and reviewing the plans, the Under Secretary of Defense (Acquisition, Technology, and Logistics) is to conduct an annual review of the plans. However, the directive does not stipulate how these individual plans will be used to formulate an integrated strategy. Beginning in calendar year 2001, annual plans and the related strategic plan performance measurement data will be submitted with the Program Objective Memorandum to facilitate DOD's program and budget reviews.

Element 8: Cyberspace

This element of the DRI, which was added as part of the DRI's March 1999 update, focuses primarily on the security issues surrounding DOD's business and warfighting operations. DOD believes such a shift toward electronically based operations will help reduce costs and improve performance, but it also recognizes that such a shift carries significant security risks. DOD already relies heavily on computers, and its systems and networks are becoming increasingly interconnected. As a result, it is at increased risk of having data stolen or of being hobbled by attack or natural disaster.

The Department has undertaken dozens of initiatives and activities to improve security over its systems and networks. These initiatives and activities, which are grouped under the general heading of "Information Assurance," range from large, centrally managed programs to more narrowly focused technical changes to specific systems. These efforts include

- establishing a program to improve DOD-wide planning, coordination, and oversight of information assurance activities;
- ensuring through training and other vehicles that DOD personnel understand the possible threats to DOD systems and how to mitigate those threats;
- building up the Department's technological tools for safeguarding its systems (e.g., intrusion detection devices and user authentication tools);
- improving DOD's ability to identify and correct vulnerabilities (e.g., using procedures for disseminating information on weaknesses and ensuring that those weaknesses are addressed);

- establishing a new organization for detecting attacks and intrusions and marshalling the forces to repel them; and
- developing tactics for reacting to and defending against attacks.

DOD information assurance officials readily acknowledge that DOD systems and networks continue to be more vulnerable than the Department would like, despite progress in improving security. One official noted that there is a “huge population” of unclassified networks in need of additional safeguards. Moreover, DOD officials did not dispute the findings of an August 1999 GAO report, which said serious weaknesses in DOD information security continue to provide hackers as well as hundreds of thousands of authorized users the opportunity to modify, steal, inappropriately disclose, and destroy sensitive DOD data.³²

The DRI points out that no single approach will take care of security concerns, as evidenced by the variety of initiatives now underway. Information assurance officials also said, however, that the public key infrastructure now being developed will go a long way toward providing important safeguards. This infrastructure revolves around the use of algorithms, or mathematical “keys,” that DOD personnel can use to digitally sign and encrypt documents and data. These capabilities are expected to help DOD ensure that (1) the data in its systems has not been tampered with; (2) system users can confirm who is on the other end of an electronic transaction; (3) the parties involved in a transaction cannot later deny they participated in the transaction; and (4) data cannot be accessed without proper authorization. These safeguards are considered so important that the Deputy Secretary of Defense said in a May 1999 memo that DOD “must take an aggressive approach” in developing its ability to achieve them. Given all that is involved in the effort, however, DOD timetables indicate it may take 2 years or more for the Department to fully achieve its goals.

Element 9: Homeland Defense in the Next Century

This element of the DRI focuses on the challenges facing DOD to counter the proliferation of weapons of mass destruction (nuclear, biological, and chemical and their means of delivery) and the increased threat of domestic terrorism. DOD believes countering these threats will become DOD’s most important and complex challenge over the next 10 to 20 years. Table 7 provides an overview of the three initiatives included in this element.

³² *DOD Information Security: Serious Weaknesses Continue to Place Defense Operations at Risk* (GAO/AIMD-99-107, Aug. 26, 1999).

**Appendix II
Assessment of DRI Elements**

Table 7: Homeland Defense Initiatives

| Initiative | Goal/milestone | Status | Issues |
|---------------------------------|---|---|---|
| National Missile Defense | Build and deploy a system to protect the U.S. from long range, ballistic missile attacks by 2005. | DOD has designated this to be a high-risk development program. System deployment is now expected to be completed in 2007. | Deployment will require modification of the 1972 Anti-Ballistic Missile Treaty. |
| Improving domestic response | Improve domestic response to weapons of mass destruction incidents by (1) fielding 10 regional-based teams comprised of National Guard personnel and (2) responding to incidents within 4-hours of being notified. | Ten teams are expected to be fully operational during the first half of this year. DOD plans to establish 17 additional teams between March and July 2000. | The Congress has raised concerns about the need for these teams in light of numerous local, state, and federal organizations that provide similar functions. In addition, local, state, and federal officials believe a shorter response time of 1 to 2 hours is critical for the teams to perform their mission effectively. |
| Defense Threat Reduction Agency | Create a single DOD organization to carry out programs designed to address proliferation of and counter threats posed by weapons of mass destruction by (1) establishing a headquarters office at Herndon, Virginia, by October 1, 1998, and (2) housing all activities at or near Herndon, Virginia, by December 31, 2000. | The new agency became operational in October 1998. During fiscal year 2000, headquarters staff will be housed primarily at Ft. Belvoir, Virginia instead of Herndon, Virginia. Most of the other activities will be housed at Ft. Belvoir during fiscal year 2004, upon the completion of a new building. | The Congress must approve military construction funding for the new building. |

Source: Our analysis based on information in the DRI reports and Department officials.

National Missile Defense

The National Missile Defense program is a major defense acquisition program being managed by the Ballistic Missile Defense Organization at an estimated life-cycle cost of \$36.2 billion. Its primary mission is to defend the United States against limited ballistic missile attacks. DOD believes, once the national missile defense system is operational, it will provide a reliable defense against ballistic missile attacks targeted at America's homeland.

In October 1996, the Department began system development with the intent to support a deployment readiness review in fiscal year 2000. Since then, the program has encountered numerous developmental problems, cost overruns, and schedule delays. In December 1997, GAO reported that

DOD faces significant challenges in the program because of high schedule and technical risks.³³ To minimize program risks, the Department has subsequently restructured the program and is now following a phased development approach. While it still plans to hold a deployment readiness review in July 2000, it does not expect to begin system deployment until 2005, nearly 2 years later than originally planned. Deployment is to be completed in 2007.

The Department reports that deploying the system will require the United States to modify the 1972 Anti-Ballistic Missile Treaty, which many consider the bedrock of arms control. The current administration is working on this issue and does not expect to make a decision until later this year.

Improving Domestic Response

This DRI effort calls for using specially trained National Guard civil support teams that can quickly deploy and help civilian authorities to respond to terrorist attacks involving weapons of mass destruction. Specifically, the plan was for teams to be fully staffed, trained, certified, and validated fully mission capable by January 5, 2000, and to deploy to an accident site within 4 hours of notice.

As of February 2000, only three teams were fully staffed. The Department's original plan suggested that there eventually should be a team in each state, territory, and the District of Columbia for a total of 54 teams. DOD subsequently funded only 10 regionally based teams,³⁴ which officials expected to be fully mission-capable by April 1, 2000. According to the DRI Office, the teams are state assets controlled by their respective governors, but they are trained and equipped by DOD. Each team is to be staffed with 22 full-time Army or Air National Guard members organized into six functions: command, operations, administration and logistics, communication, medical, and survey.

The Congress has questioned the need for civil support teams given local, state, and other federal initiatives. To clarify how the Department plans to

³³ *National Missile Defense: Schedule and Technical Risks Represent Significant Development Challenges* (GAO/NSIAD-98-28, Dec.12, 1997).

³⁴ The teams are located in California, Colorado, Georgia, Illinois, Massachusetts, Missouri, New York, Pennsylvania, Texas, and Washington. They were selected based on state demographics, proximity to Air National Guard units that could provide airlift, presence of other federal/military assets, transportation networks, and other criteria.

use these teams, the Congress directed the Secretary of Defense (per section 1036, National Defense Authorization Act for Fiscal Year 2000) to provide a status report on Civil Support teams by January 2000. This report was to include, among other things, information on how the teams' capabilities compared with other first responders, their plans for conducting realistic exercises, how the teams will be used across state borders, and measures for recruiting and retaining proficient team members. The report was issued on February 24, 2000. Meanwhile, on January 13, 2000, the Secretary of Defense announced plans to add 17 additional teams at an estimated cost of \$107 million in fiscal year 2000, bringing the total nationwide to 27. The Department expected these teams would be established between March and July 2000. According to the DRI Office, DOD has no plans to add any more teams beyond the current 27.

The DRI goal for teams to deploy to an incident site within 4 hours of notice has and continues to be an item of controversy. In May 1999, for example, we reported that local, state, and federal officials we spoke with expressed concerns that this response time is too long.³⁵ They believe the teams need to be at the scene within 1 to 2 hours if those who are first to respond are to benefit from the services they provide. The concerns about arrival times surfaced because the Department had no plans to dedicate ground crews, flight crews, or aircraft for on-call, immediate response to support a Civil Support team deployment. In addition, our discussions with local, state, and federal officials surfaced a number of additional concerns that could impact the teams' capabilities to meet their mission and responsibilities. These concerns centered on recruiting and retention, training, and operational issues.

Defense Threat Reduction Agency

In the original DRI Report, the Secretary of Defense identified the challenges posed by weapons of mass destruction as the greatest and most complex threats facing DOD in the future. To address these challenges, the DRI called for the Department to establish by October 1, 1998, the Defense Threat Reduction Agency by consolidating activities from several organizations, including the On-site Inspection Agency, the Defense Special Weapons Agency, the Defense Technical Security Administration, and the Office of the Assistant to the Secretary of Defense for Nuclear and Chemical and Biological Defense Programs. In addition, all agency

³⁵ *Combating Terrorism: Use of National Guard Response Teams Is Unclear* (GAO/NSIAD-99-110, May 21, 1999).

activities were to be housed at or near Herndon, Virginia, by December 31, 2000. The new agency has been established and it is responsible for a diverse range of activities including on-site inspections, technology security, special weapons technology, nuclear support, chemical-biological defense, cooperative threat reduction, counterforce, and force protection.

The Defense Threat Reduction Agency is making progress in consolidating some of its operations, but it has determined that the existing Herndon, Virginia, facility is too small and the physical layout is inadequate to protect its people from potential terrorist attacks. In May 1999, DOD informed the Congress (as directed by the conference report accompanying the Strom Thurmond National Defense Authorization Act for Fiscal Year 1999) that it no longer plans to continue its consolidation efforts. After considering a range of options to remedy its physical plant and security concerns, DOD has decided to build a new facility at Fort Belvoir, Virginia, and it plans to include this project proposal in its fiscal year 2002 military construction budget submission. DOD believes this project will provide the earliest and most cost-effective option for consolidation.

If approved and properly funded, DOD expects to occupy the new facility in fiscal year 2004. In the meantime, according to a December 1999 Program Budget Decision Memorandum, the revised plan is to house approximately 1,000 employees at Fort Belvoir, Virginia, and the remaining personnel, about 700, at two other locations in Alexandria, Virginia.

Comments From the Department of Defense



DIRECTOR
DEFENSE REFORM

OFFICE OF THE SECRETARY OF DEFENSE

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22 JUN 2000

Mr. David R. Warren
Director, Defense Management Issues
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U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Warren:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "DEFENSE MANAGEMENT: Actions Needed to Sustain Reform Initiatives and Achieve Greater Results," dated May 22, 2000, (GAO Code 709435/OSD Case 2014). The DoD appreciates the report's overarching conclusion that the Department is on the right track and that the Defense Reform Initiative is an important, positive initiative.

While we agree in general with most of the report's conclusions, we also believe the report fails to adequately acknowledge DoD's extensive efforts to put in place long-term change mechanisms. These mechanisms include performance contracts with each of the Defense Agencies, and both short and long-term performance goals and scorecards for almost every element of the Defense Reform Initiative (DRI). These initiatives, which we have shared with GAO, and are publicly available on the DRI Web Site, are significant departures from past practice, and are among the keys to long-term change within the Department. The Director, Defense Reform, is the principal staff assistant to the Secretary of Defense for defense reform and is thus responsible for ensuring that reform actions are implemented across the Department. The Defense Reform Office is currently tracking dozens of reform activities, including those related to GAO's recommendations. We believe real progress is, in fact, being made, but also agree that the pace of reform must increase.

Detailed DoD comments are provided at Enclosure 1. The Department appreciates the opportunity to comment on the draft report.

Sincerely,

Stan Z. Soloway

Enclosure:
As stated



DRAFT REPORT, May 22, 2000
(GAO CODE 709435), OSD CASE 2014

DEFENSE MANAGEMENT:
ACTIONS NEEDED TO SUSTAIN
REFORM INITIATIVES AND
ACHIEVE GREATER RESULTS

DEPARTMENT OF DEFENSE COMMENTS
ON

GAO's Recommendation

RECOMMENDATION: Defense Management Council (DMC).

GAO recommends that the Secretary of Defense (1) focus the Council's attention on the key reform initiatives that if addressed in an integrated fashion, could produce the greatest results; (2) strengthen the Council's decision-making role, authority, and accountability (particularly with respect to the key Department-wide acquisition, financial management, and logistics reforms); and (3) provide the Council with current and accurate information on the status of key reform initiatives so it can better gauge progress and identify and address implementation problems.

DoD Response: Concur with comments. The DMC pulls together senior leadership from all the Services and OSD staff to oversee defense reform. Members are USD(Acquisition, Technology & Logistics), USD(Policy), USD(Comptroller), USD(Personnel & Readiness), DoD General Counsel, and the Under Secretaries and Vice Chiefs for each Service. Periodic meetings and briefings review initiatives to ensure they are being carried out within the Department.

The DMC has served a very useful purpose in elevating issues to the very highest levels within DoD. In many cases, these issues would have never made it into their offices. This is very positive and cannot be underestimated in terms of elevating important issues. Indeed, recent DMC meetings have, even when no specific decisions were required, been increasingly lively, open and robust.

GAO's comments that DoD has "institutional resistance" to change in areas like acquisition, financial management, and logistics, should not be a surprise to anyone. All large organizations, over time, tend to form stovepipes or departments, and DoD, as a very large organization, is no exception. Institutional barriers have prevented DoD from moving out as fast as some would like, but the Department is moving forward and the DMC has been a key to that progress and has, on numerous occasions, provided critical senior leadership and support for important initiatives.

DRAFT REPORT, May 22, 2000
(GAO CODE 709435), OSD CASE 2014

DEFENSE MANAGEMENT:
ACTIONS NEEDED TO SUSTAIN
REFORM INITIATIVES AND
ACHIEVE GREATER RESULTS

DEPARTMENT OF DEFENSE COMMENTS
ON

GAO's Matters for Congressional Consideration

MATTERS FOR CONGRESSIONAL CONSIDERATION: DoD has not implemented GAO's past recommendations.

GAO's prior recommendations were to (1) undertake a comprehensive approach in reforming its major business and support activities, and (2) develop an investment plan to better ensure that it is undertaking the most cost effective and important reform. GAO suggests Congress may want to consider requiring the Department to (1) follow the framework provided by the Results Act to establish a more comprehensive, integrated strategy and action plan, and (2) more fully identify investment funding requirements for the major reform initiatives.

DoD's Response: Concur with comments.

Performance measurement has taken hold within DoD. The Secretary of Defense's *Annual Report to the President and the Congress* contains an appendix that outlines the Department's *Government Performance and Results Act (GPRA) Performance Plan*. Defense Agency Performance Contracts have been or are being established between the Directors of designated Defense Agencies and DoD Field Activities, the Principal Staff Assistants responsible for those agencies or activities, and the DMC. In addition, major initiatives such as the Defense Acquisition Reform Initiative include performance measures as part of their management approach.

In August 1999, the GAO released a report entitled *Improved Performance Measures Would Enhance Defense Reform Initiative*. That report indicated that most of the initiatives within DRI that the GAO examined had output measures that focus primarily on implementation progress or status instead of outcome measures that focus on results. The use of process measures such as output measures is understandable when an initiative is being implemented; however, once the initiative is established as a process or policy change, the results of that change should be measured to ensure that the desired outcome of the initiative is being achieved. Desired outcomes generally include process cost or cycle time reductions leading to greater efficiency, increased

staff effectiveness levels through innovation or learning, or increased customer satisfaction.

The GPRA seeks to improve government-wide program effectiveness, government accountability, and, ultimately, public confidence by requiring agencies to identify measurable annual performance goals, against which actual achievements can be compared. The Department's annual performance plan plots a short-term course toward achieving its multiyear strategic plan. Annual performance goals establish a measurable path to incremental achievement of the corporate goals articulated in the strategic plan. Performance goals are supported and evaluated by quantifiable output, which is assessed using performance measures and indicators. Together, performance measures and indicators quantify the output of defense programs for key metrics associated with providing a ready force and preparing for the future.

The Department's FY 2000 performance plan and revised FY 1999 plan, published in the February 1999 *Annual Report to the President and Congress*, establish seven annual performance goals. The FY 1999 and FY 2000 performance targets and metrics addressed in the GPRA come from that document.

Specifically, the GPRA covers five metrics from the DRI:

- 2.3.3 Public-Private Sector Competitions (A-76)
- 2.3.7 Disposal of Excess Property (BRAC)
- 2.3.9 Qualitative Assessment of Defense Transportation Documentation (Transportation/PowerTrack)
- 2.4.4 Purchase Card Use
- 2.4.5 DoD Paperless Transactions

In response to GAO's concern that DoD more fully identify investment funding requirements for the major reform initiatives, the Department has reviewed this with the Services and Defense Agencies. It is inaccurate to say the Department has not identified funding requirements as those requirements are now part of the PPBS. Although the funding requirements are not centralized, each Service and Defense Agency has appropriate lines in the Planning, Programming, and Budgeting System (PPBS) to cover their Defense Initiatives.

GAO Contacts and Staff Acknowledgments

GAO Contacts

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