United States General Accounting Office

# GAO

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

April 1999

# DEFENSE REFORM INITIATIVE

## Organization, Status, and Challenges

GAO/NSIAD-99-87

GAO

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

**National Security and**
**International Affairs Division**

B-280522

April 21, 1999

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

Dear Mr. Chairman:

In November 1997, the Secretary of Defense issued his Defense Reform Initiative (DRI) Report outlining a plan for reforming the Department's business affairs. To implement the report's initiatives, the Secretary established a Defense Management Council and chartered it with responsibility for overseeing the effort and serving as his internal board of directors for management. As you requested, this report discusses (1) actions taken through the DRI management structure to facilitate achieving the program's objectives and (2) progress made in implementing individual reform initiatives.

We are sending copies of this report to the Honorable William S. Cohen, Secretary of Defense; the Honorable F.W. Peters, Acting 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; Mr. Gary Amlin, Director of the Defense Finance and Accounting Service; 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.

If you or your staff have any questions concerning this report, please contact me on (202) 512-8412. Major contributors to this report are listed in appendix IV.

Sincerely yours,

David R. Warren, Director
Defense Management Issues

# Executive Summary

## Purpose

For the past several years, the Department of Defense (DOD) has been working to reduce its infrastructure and support costs. The Defense Reform Initiative (DRI), announced in November 1997, is DOD's latest effort to further this goal. DOD is looking to the DRI to make its current organization and business practices more agile and responsive. DOD also hopes that this initiative will provide a major source of savings that can be used to help fund DOD's planned $20 billion annual increase in weapon systems modernization.

The Chairman, Subcommittee on Military Readiness, Committee on Armed Services, House of Representatives, requested that GAO evaluate DOD's efforts to implement the DRI by assessing (1) actions taken through the DRI management structure to facilitate achieving the program's objectives and (2) progress DOD has made in implementing individual reform initiatives.

## Background

The genesis of the DRI was the Quadrennial Defense Review (QDR), which was completed in May 1997. Among other things, the QDR called for DOD to reduce its support infrastructure and streamline its business practices. The DRI, as a follow-on effort to the QDR, is built around four major reform efforts, or pillars:

- reengineering defense business and support functions, primarily by adopting and applying the private sector's best practices;
- reorganizing and reducing the size of DOD headquarters elements and Defense agencies, including the Office of the Secretary of Defense;
- expanding the use of competitive sourcing to open DOD's commercial activities to competition from the private sector; and
- conducting two additional base realignment and closure (BRAC) rounds and eliminating other facilities that are no longer needed and/or drain resources.

While DOD expected each of these efforts to reduce infrastructure costs, most savings were to come from two initiatives. The first involved subjecting thousands of government positions that provide commercial-type functions and activities to public/private competitions to find the most cost-effective source for the work. The second involved conducting two additional BRAC rounds in fiscal years 2001 and 2005. DOD estimated that competitive sourcing would save about $6 billion through fiscal year 2003 and over $2 billion each year thereafter. The two additional BRAC rounds were estimated to produce about $2.8 billion in net annual recurring savings once implementation costs had been offset. DOD did not estimate savings expected from the other initiatives.

GAO previously reported that implementing reforms such as the DRI is not an easy task.[1] To be successful, DOD must address obstacles that have previously kept it from effectively implementing management reforms across the Department. These include (1) cultural barriers and parochialism among the military services and Defense agencies, (2) lack of incentives among DOD managers to seek and implement change, (3) deficient management data that prevents DOD from costing its business operations, (4) lack of clear results-oriented goals and performance measurements needed to gauge success, and (5) inconsistent management accountability and follow-through.

## Results in Brief

By adopting proven management change concepts in implementing the DRI program, DOD has addressed some of the obstacles that have limited the success of past reform efforts. The Secretary and Deputy Secretary of Defense have shown strong support for the program and established an organizational framework to give additional structure and guidance to the effort. This framework consists of a Defense Management Council (DMC), a Coordinating Group to support the Council, and a DRI Office to track implementation and identify issues that need management attention. Further, using special directives, performance contracts, and other planning guidance, DOD has sought to institutionalize and provide a sustained emphasis on the DRI. This framework, taken in total, has helped create a Defense-wide focus on infrastructure reduction and provides a forum where problems caused by cultural barriers and parochial interests can be addressed.

Because the DRI framework has been in place for just over a year, it is too soon for GAO to assess how effective it will be in the long term. GAO did, however, identify several areas where DOD could build on its initial efforts and give even greater impetus to its goal of achieving a “revolution in business affairs.” These include (1) incorporating other major ongoing reform efforts in the DRI so it can develop a more comprehensive, integrated strategy for reforming Defense business and support activities;

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

(2) more clearly delineating the funding requirements needed to achieve major reforms; and (3) enhancing the Department's ability to measure DRI results, particularly through financial management and related reforms.

Each of the four DRI pillars include a variety of reform or reengineering initiatives, many of which were already ongoing before they were brought under the DRI umbrella. To varying degrees, DRI has given each of these initiatives increased visibility and top-level support within the Department and, in many instances, imposed new goals and milestones for accomplishing their objectives. Each initiative varies in its progress toward meeting its objectives and milestones. Many still face a variety of issues that could affect their ultimate success and will likely take longer to complete than the milestones established by the DRI. Consequently, the success of the DRI will depend largely on DOD's ability to maintain a high degree of emphasis on the initiatives over the long term. Past reform efforts started out well but tended to lose momentum as the Department's leadership and priorities changed.

GAO is recommending that DOD include other major reform efforts in the DRI program, develop an integrated strategy and action plan for managing the DRI effort, and identify funding requirements and targets for the program.

## Principal Findings

### Implementation Strategy May Help DOD Avoid Problems of Prior Reform Efforts

DOD's senior leadership has created Department-wide awareness of DRI goals. In addition, DOD has used special directives, known as Defense Reform Initiative Directives (DRID), to provide specific direction, including milestones, to DOD components responsible for implementing individual initiatives. In general, service and Defense agency officials have viewed these DRIDs as effective tools in communicating expectations and providing some basis for tracking required actions. The DMC is also developing performance contracts for eight Defense agencies/activities to improve the Department's oversight of them and outline goals for cost reductions and service improvements. Further, the Department has sought to incorporate a DRI emphasis in its implementation of the Government Performance and Results Act and its requirements for strategic goals and performance plans. The Department's fiscal year 2000 performance plan includes the DRI-related goals of streamlining infrastructure and pursuing business practice reforms. It specifies a variety of performance indicators that will be used to assess overall progress. The Department has also used its annual budget guidance to components to emphasize the importance of the DRI. At the same time, the services are expected to absorb most costs of implementing the initiatives using their existing operating budgets.

## Opportunities to Build on Current Reform Efforts

While the DRI organization has provided important focus and direction to its initiatives, there are several areas where it could build on its initial efforts to achieve the dramatic improvements it seeks in its business processes. First, DOD did not include in the DRI all of the major ongoing business process reform efforts in the Department. Both DOD and the Congress have called for significant reform efforts beyond those in the DRI, including improving and streamlining DOD's financial management systems, logistics functions, and acquisition workforce. The DRI included only a few initiatives related to the broader goal of logistics reengineering and did not include the major efforts planned to reform financial management systems. Including more of the major reform initiatives under DRI could lead to the development of a more complete picture of needed and planned major reform efforts and, to the extent that they are interrelated, could provide the basis for developing a more comprehensive, integrated strategy for achieving the reforms.

Second, DOD is requiring its components to fund most up-front investment costs out of their existing budgets. This means that DRI initiatives have to compete annually for investment funds with higher departmental priorities such as readiness, sustainability, and modernization. At the same time, investment costs have not been fully identified for some of the major reform initiatives. The process of making tradeoffs among competing priorities would be more effective if DOD had a clearer picture of overall investment requirements and established, as part of the annual budgeting process, Department-wide funding targets for the DRI program. This would more clearly establish funding expectations for the services and Defense agencies and inform the Congress on how much of the Defense budget is needed for key reform efforts.

Third, one of the key aspects of a reform effort is the ability to establish baseline costs and measure the impact of change. Because of the poor condition of DOD’s financial management systems, obtaining this type of information is difficult. As a result, DOD tends to rely on performance indicators that track progress or status rather than measure results. With respect to DRI, DOD officials stated that their primary indicators of success will be reductions in support funding requirements in their operating accounts. This approach will make it difficult to identify the precise impact the DRI is having on budget requirements. However, it is well known that DOD's financial management systems are currently unable to generate the type of information needed to establish baseline costs or track the impact of changes. Therefore, whenever DOD officials estimate the potential or actual impact of an initiative or reform effort, the estimate is often based on either anecdotal information or data that may have important limitations. DOD has been attempting to improve its financial management systems and processes for many years and recently issued, at the direction of the Congress, a biennial strategic plan for improving financial management. Until the efforts outlined in this plan are either completed or much further along, DOD's ability to effectively measure program results will remain limited.

## Progress Is Varied Across DRI Initiatives

Each of the four DRI pillars includes a variety of reform or reengineering initiatives, many of which were already ongoing before they were brought under the DRI umbrella. Each initiative varies in its progress toward meeting its objectives and milestones, and many still face a variety of obstacles that could affect their ultimate success.

The first pillar, adopting best business practices, includes the broadest range of initiatives, from paperless contracting and the increased use of electronic commerce to reengineering the movement of household goods. Among them, the greatest progress is occurring in the initiatives related to increasing the use of purchase cards for small purchases and reengineering DOD's travel system. Progress is being made in other areas such as moving toward paperless contracting and reforming DOD's system for transporting military members' household goods, but completion of these and other efforts is likely to take several years and in certain instances will not meet the milestones established under the DRI program.

The second pillar, organizational realignments, has progressed well, and, with limited exceptions, DOD has accomplished many of the organizational changes called for by the DRI Report. At the same time, other reductions called for by the Congress, such as headquarters reductions, may be more difficult to implement. Specifically, DOD is still developing plans to meet congressional direction to reduce management headquarters and headquarters support activities by 25 percent.

The third pillar, streamlining through competition, builds on efforts launched prior to publication of the DRI Report to competitively examine thousands of government positions involved in commercial-type activities over a 5-year period for potential conversion to the private sector. Currently, DOD plans to examine about 229,000 positions during that time frame. This effort is one of two initiatives from which DOD is projecting specific savings that are being incorporated into future-year budget plans. GAO's prior work indicates potential for significant savings from such competitions, regardless of whether they are won by the public or private sectors. However, for a variety of reasons, GAO continues to urge caution when estimating such savings, particularly since DOD has not fully determined the up-front investment costs required to implement this initiative and the impact of investment costs on savings in the short term. Additionally, DOD components have fallen behind in launching and completing many of the initial studies. Various Defense officials have raised concerns about the number of government positions related to commercial activities, the number of positions that can reasonably be studied during the prescribed time frame, and the likelihood that the projected savings can be realized.

The fourth pillar focuses on reducing infrastructure through a variety of methods. One key effort calls for two additional BRAC rounds. This is the second initiative from which specific savings projections have been made. However, because of issues related to concerns about costs and savings from prior rounds as well as about the way some closure decisions were handled by the executive branch during the 1995 round, the Congress has not been willing, to date, to authorize additional BRAC rounds. Other major infrastructure reduction initiatives under this pillar include Defense agency consolidations, demolition of excess facilities, and privatization of utilities. Progress is being made toward the goal of demolishing 8,000 excess structures by 2003, and DOD has directed the services to set aside funding to accomplish this goal.

Less progress has been made toward privatizing utility systems, and DOD has recently extended the DRI milestone for completing this initiative from January 2000 to September 2003. The services have expressed concern about the time-consuming process and significant up-front investment costs required to implement this initiative. DOD, in a December 1998 program budget decision, required the services to set aside over $240 million in funding over the next several years to cover the costs of these privatizations but acknowledged that the true cost could not be accurately estimated until further analysis is completed. It directed the services to complete further analyses of cost requirements for the upcoming 2001 budget cycle. DOD estimates that once the privatizations are completed, it may save $327 million. GAO has not completed sufficient analyses to determine the reasonableness of projected costs or savings.

DOD's efforts to privatize military family housing are aimed at using private capital to upgrade housing faster than DOD could on its own and improve the quality of life for service personnel. DOD is significantly behind in its efforts in this area. The DRI called for privatizing 3,500 units by fiscal year 1998, 15,000 units by fiscal year 1999, and 30,000 units by fiscal year 2000. The DRI also established a broader goal of privatization to help eliminate all inadequate housing by fiscal year 2010. By early 1999, only a few sites involving about 1,000 housing units had been privatized. Service officials attributed the slow progress to the many legal, financial, contractual, and budgetary issues they have had to tackle. GAO is continuing to monitor this issue.

## Recommendations

To strengthen and help sustain the reform effort, GAO recommends (1) bringing all major reform initiatives under the purview of the DRI program and using the Results Act principles as a framework to establish a more comprehensive, integrated strategy and action plan for reforming the Department's major business and support activities and (2) identifying investment funding requirements for major reform initiatives and Department-wide funding targets for the DRI program and communicating them to the Congress during the annual budget process.

## Agency Comments and GAO's Evaluation

In commenting on a draft of this report, DOD limited its response to the report's recommendations (DOD's comments are in app. III). Concerning GAO's recommendation that the Secretary of Defense bring other major Defense reform initiatives, including logistics and financial management, under the DRI program, DOD responded that the Secretary had unified the DRI and acquisition reform activities as a means of coordinating reform efforts within the Department. DOD stated that the recommended application of Results Act principles as a framework for a strategy is fully possible only in some circumstances. However, it also stated that integrated process teams had been organized to coordinate all DOD reform activities, including the Results Act, to foster reform and information sharing.

The Department's March 1999 update of the DRI, provided on CD-ROM and available on the Defense Reform internet web site, included logistics, financial management, acquisition reform, homeland defense, and other reform activities under the scope of the DRI. The Department also announced on March 23, 1999, that organizational responsibility for the DRI program had been moved to the office overseeing acquisition reform. While these changes more closely link the original DRI programs with other related reform initiatives, such as logistics and financial management reforms, and could increase information sharing, the Department's comments did not address steps it might take to develop a more comprehensive integrated strategy and action plan for achieving the DRI goals. GAO continues to believe such a plan is needed to facilitate management oversight and maximize the program's potential for meeting its goals. This plan could also help DOD maintain its focus on the original DRI goals—reengineering business operations and eliminating unneeded infrastructure—considering that it has broadened the DRI to include such efforts as homeland defense, cyberspace security, and quality-of-life initiatives. GAO's intent in recommending the use of Results Act principles was to emphasize the importance of including the elements of accountability, goals, and performance measures in formulating this integrated plan. GAO's review of DOD's current Results Act Performance Plan indicates that some of these elements are being addressed; but, GAO also believes that more can be done to apply these principles to the DRI initiatives.

Concerning GAO's recommendation that DOD more fully identify investment funding requirements for the DRI program and communicate them to the Congress, DOD responded that it was reviewing funding and expanding efforts to consult with the Congress. However, DOD did not specify its planned actions. GAO continues to believe it is important for DOD to identify its funding requirements for major initiatives as well as its overall funding targets for the DRI program. Such information could provide the Congress with improved information regarding funding requirements and provide DOD with an improved basis for decision-making, including for making tradeoffs among competing priorities.

# Contents

# Tables



**Abbreviations**

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| BRAC | base realignment and closure |
| CIM | Corporate Information Management |
| DESC | Defense Energy Support Center |
| DFAS | Defense Finance and Accounting Service |
| DISA | Defense Information Systems Agency |
| DLA | Defense Logistics Agency |
| DMC | Defense Management Council |
| DMR | Defense Management Report |
| DOD | Department of Defense |
| DRI | Defense Reform Initiative |
| DRID | Defense Reform Initiative Directive |
| FYDP | Future Years Defense Program |
| MRM | Management Reform Memoranda |
| POM | Program Objective Memorandum |
| OSD | Office of the Secretary of Defense |
| QDR | Quadrennial Defense Review |
| TAV | Total Asset Visibility |

# Introduction

The Department of Defense (DOD) has been working to reduce its infrastructure and support costs. A number of internal studies have reinforced the need to do this. The Defense Reform Initiative (DRI), announced in November 1997, is DOD's latest effort to reform its business activities and reduce infrastructure costs. DOD hopes the DRI will make its current organization and business practices (which were developed over the course of many years during the Cold War) more agile and responsive. DOD also hopes that this initiative will provide a major source of savings that can be used to help fund DOD's planned $20 billion annual increase in weapon systems modernization. The Secretary of Defense has established a special management structure to provide oversight and direction to the DRI effort. However, congressional concerns about prior reform efforts and their mixed results have led to caution about the likely outcomes of current initiatives. Over the years, we and others have identified various factors that can either hinder or promote the success of reform efforts.

## DOD Is Seeking to Reduce Infrastructure Costs

In the early 1990s, DOD conducted two major defense reviews—the 1991 Base Force Review and the 1993 Bottom-Up Review—to assess military force structure requirements in the post-Cold War era. Following these reviews, the Congress mandated the Commission on Roles and Missions of the Armed Forces to determine the appropriateness of current allocations of roles, missions, and functions among the armed forces and make recommendations for changes.[1] Each of these reviews noted that DOD had excessive infrastructure, which was limiting its ability to fund readiness and modernization requirements. The Commission, for example, pointed out that infrastructure accounted for more than half of DOD's budget. It recommended that DOD reduce infrastructure costs by relying on the private sector for services that do not have to be performed by the government and reengineering DOD's support organizations and functions. The Commission also called for DOD to conduct a comprehensive strategy and force review at the start of each administration, or every 4 years, to examine and select the best force mix, budget level, missions, and support structures. This review has been referred to as a Quadrennial Defense Review (QDR).

The first QDR was completed in May 1997. It reviewed all aspects of the U.S. defense strategy and program, including force structure,

[1]National Defense Authorization Act for Fiscal Year 1994, P.L. 103-160, section 951, 107 stat. 1738 (1993).

infrastructure, readiness, intelligence, modernization, and people. With respect to infrastructure, the QDR's conclusions closely matched those of the Commission on Roles and Missions of the Armed Forces. With the expectation that the Defense budget would stabilize at about $250 billion annually (in constant 1997 dollars), the QDR concluded that DOD could not achieve its modernization and readiness goals without a concerted effort to reduce infrastructure costs. To do this, it proposed:

- continued reductions in civilian and military personnel associated with infrastructure,[2]
- two additional rounds of base realignments and closures (BRAC),
- major initiatives to reengineer and reinvent DOD support functions, and
- an increased emphasis on using the private sector to perform nonwar-fighting support functions.

The savings from these initiatives were expected to help DOD increase procurement funding from about $42 billion in fiscal year 1998 to $60 billion in fiscal year 2001.

## DRI Addresses Infrastructure Component of the QDR

In response to the QDR infrastructure proposals, the Secretary of Defense established a Defense Reform Task Force to review departmental activities and look for ways to consolidate functions, eliminate duplication of effort, and improve efficiency. The DRI Report, which the Task Force issued in November 1997, identified a framework for accomplishing the QDR objectives and for initiating a "revolution in business affairs," as described by the Secretary of Defense in his preface to the report. This framework is built around the following major reform efforts, or "pillars":

- <u>Adopting best business practices</u>—Reengineering Defense business and support operations primarily by adopting and applying revolutionary new business and management practices learned from the private sector. Key initiatives include making many of DOD's contracting and financial operations paperless, relying more on the private sector (through prime vendor contracts) to store and distribute inventory to DOD customers, and reengineering DOD's official business travel system.

[2]Our report on the 1999-2003 Future Years Defense Program noted that the services planned to reduce civilian and military personnel by 175,000 by 2003. See <u>Future Years Defense Program: Substantial Risks Remain in DOD's 1999-2003 Plan</u> (GAO/NSIAD-98-204, July 31, 1998).

- Changing the organization—Reorganizing and reducing the size of DOD headquarters elements so they focus on corporate-level tasks (e.g., providing policy guidance, developing long-range plans, monitoring and evaluating performance, and allocating resources). Key initiatives include reducing headquarters staff assigned to the Office of the Secretary of Defense (OSD), Defense agencies, Defense field and support activities, and the Joint Chiefs of Staff. Headquarters offices would also be reorganized and consolidated to eliminate redundancies and provide better support to the Secretary of Defense.
- Streamlining through competition—Expanding the use of competition between the public and private sector to improve performance and reduce the cost of DOD business and support activities. DOD believed such competitions could reduce annual operating costs by about 20-30 percent for each activity studied, regardless of whether the competition was won by the public or the private sector. The DRI report suggested competing about 200,000 positions using the Office of Management and Budget Circular A-76 process.
- Eliminating unneeded infrastructure—Eliminating facilities that are no longer needed and/or that drain resources. The key component of this effort was to seek congressional approval for two additional BRAC rounds in 2001 and 2005. Other initiatives include the consolidation of support activities—research and development laboratories, test and evaluation facilities, and the Defense Finance and Accounting Service (DFAS)—demolition of excess buildings, privatization of military family housing construction, and privatization of military-owned utility systems.

Quantifiable DRI savings were to come primarily from two initiatives: public/private competitions and BRACs. The DRI Report projected $6 billion in cumulative savings from competitive sourcing by 2003 and over $2 billion each year thereafter.[3] It projected that two future BRAC rounds together would produce $2.8 billion in annual savings after the BRAC decisions had been implemented.[4] DOD believed that savings from these two initiatives were imperative in order to increase weapons modernization funding to $60 billion. While the other initiatives might also result in savings, DOD did not attempt to measure their potential impact

[3]More recently, DOD has projected $11 billion in cumulative savings from competitive sourcing by 2005 and over $3 billion in annual recurring savings thereafter.

[4]More recently, DOD has projected $3.4 billion in annual recurring savings after completion of two additional BRAC rounds.

and was not counting on them to help achieve the modernization goal. Nevertheless, DOD believes the other initiatives are important contributors to the "revolution in business affairs" and will help improve the quality of service provided to DOD customers. To encourage the military services and Defense agencies to undertake the DRI initiatives, DOD officials told service officials they could expect to retain savings achieved and apply them to other needs.

## DRI Management Structure

DOD has established a management oversight structure with the goal of bringing sustained direction and emphasis to the DRI effort. This structure includes the Defense Management Council (DMC) to oversee the DRI efforts and advise the Secretary of Defense on new reform efforts, a subordinate Coordinating Group to support the DMC, and a DRI 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, have also established small offices or points of contact to receive and collect information about the DRI.

### Defense Management Council

The DMC, as described by the Secretary of Defense, is expected to serve as an internal board of directors that will, among other things:

- advise the Secretary on matters of Defense reform,
- identify ways to improve business practices,
- identify opportunities to consolidate management activities,
- identify opportunities to improve operations by opening them to competition with the private sector, and
- negotiate performance goals and measures for Defense agencies.

The DMC is chaired by the Deputy Secretary of Defense and includes the Under Secretary of Defense (Comptroller), the Vice Chairman of the Joint Chiefs of Staff; the three other Under Secretaries of Defense, the three military service Under Secretaries, the four military service Vice Chiefs, the General Counsel, and the Director of the DRI Office. The DMC membership is comparable to two other senior level groups used by the Secretary to provide senior leadership and direction to important DOD-wide issues—the Defense Resources Board, which addresses DOD-wide budget allocation issues, and the Joint Requirements Oversight Council, which reviews all major procurement issues and decisions. The DMC has met about 15 times since its establishment in November 1997.

## Coordinating Group

A part-time Coordinating Group, subordinate to the DMC but comprised of senior level representatives from the military services and OSD, was established by the DMC at its first meeting. The Executive Director for the group is the Director for Program Analysis and Evaluation in the Office of the Secretary. Besides providing leadership, the Executive Director is the group's primary interface with the DMC. Among other things, the Executive Director helps decide which issues to bring to the DMC and regularly attends its meetings. Other members of the Coordinating Group include the Deputy Director for Army Program Analysis and Evaluation and the Marine Corps Assistant Deputy Chief of Staff for Requirements and Planning. The Coordinating Group normally meets every week to deal with ongoing DRI activities and resolve problems that arise. It provides advice and assistance to the DMC, drafts policy statements for the DMC's review and approval, provides a forum for the military services and Defense agencies to discuss concerns with policy statements, and help teams prepare presentations for DMC meetings.

## DRI Office

Several months after the DRI was announced, the Secretary established a DRI Office to help track the implementation of the initiatives and advise him when reform efforts were not progressing as expected. According to the Office's Director, the Office was intentionally kept small—up to eight people—because he believed a large office would not be in keeping with the DRI's cost-cutting theme. According to the Director, this led to his employing a less formal operating style and method of collecting information. The Director said, for example, that he and his staff receive periodic briefings from those responsible for implementing the initiatives in the services and Defense agencies. The DRI Office also maintains informal contacts with these people to stay abreast of emerging developments. They obtain information on progress, which they accumulate into status reports, and indications of problems that might need management attention. While these problems could be and sometimes are brought to the Coordinating Group or DMC for discussion and resolution, the Director said that most are dealt with informally, primarily by making sure key management officials are aware of them.

Another important aspect of the job, according to the Director, is to look beyond the DRI and identify other reform opportunities. He specifically mentioned the need to reform DOD's Working Capital Fund—which funds internal DOD business operations totaling about $80 billion annually in sales—but said there are many other opportunities for reform. He believes his Office is uniquely positioned to identify these opportunities and marshal support for them. Besides being a member of and attending DMC meetings (where decisions on new initiatives are made), he has direct access to the Secretary of Defense.

### Military Service and Defense Agency Focal Points

As the organizations that must implement the DRI, the military services and Defense agencies have either established small offices or points of contact to receive and collect information about the initiatives. As officials in these offices described them to us, the offices and contacts do not manage any part of the DRI effort yet they have a role in expediting action and seeing that specific initiatives are addressed in their organizations. For example, they are typically the persons or offices that receives policy directives from the DMC and forwards them to the appropriate official for action. In some cases, they also track the status of implementation efforts and summarize them for their chain of command and for the DRI Office. As with the other organizations discussed above, the services and agencies have kept these oversight efforts small. This meets the DRI goal of not creating a large implementing infrastructure and, according to DOD, sends the message that reforms must be made through normal management structures.

## Prior Reform Efforts Have Produced Mixed Results

Over the past 10 years, DOD has undertaken a number of legislative and administrative initiatives to downsize the organization and improve the efficiency of its business operations. The most notable results have come from four BRAC rounds that the Congress authorized between 1988 and 1995. The BRAC rounds resulted in decisions to close nearly 100 of what DOD characterized as major domestic bases and many smaller facilities. The decisions, which are still being implemented, are expected to produce a smaller and less costly infrastructure, but not to the extent DOD leaders would have liked.[5] Also, net savings have taken longer to begin to accrue than initially expected. Expected revenues from land sales did not materialize, and BRAC actions required up-front investment costs that had to be offset before net savings could be realized. Special legislation authorizing the most recent BRAC rounds expired at the end of 1995, and because of controversies surrounding BRACs, particularly in the 1995 round, the Congress has been reluctant to authorize additional rounds.

[5]See Military Bases: Status of Prior Base Realignments and Closure Rounds (GAO/NSIAD-99-36, Dec. 11, 1998) and Military Bases: Review of DOD's 1998 Report on Base Realignment and Closure (GAO/NSIAD-99-17, Nov. 13, 1998).

Other Department-wide efforts to improve operations and reduce infrastructure costs include the President's Blue Ribbon Commission of Defense Management (also known as the Packard Commission) and the Corporate Information Management (CIM) initiative. The Packard Commission, comprised of a group of business leaders, was established in 1988 to identify ways to streamline and restructure DOD business operations. The Commission issued the Defense Management Report (DMR) in July 1989. It contained 250 wide-ranging decisions to consolidate business functions, improve information systems, enhance management, and employ better business practices. The decisions consolidated business functions into several new organizations, including DFAS, the Defense Contract Management Command, and the Defense Commissary Agency. Other decisions established the Defense Business Operating Fund (now called the Defense Working Capital Fund), transferred supply management operations to the Defense Logistics Agency (DLA), recommended increased competition and interservicing for depot maintenance work, and proposed consolidation of Defense research and test facilities. CIM was an outgrowth of the DMR. It too was a Department-wide effort to improve administrative operations and reduce costs by streamlining business processes and consolidating, standardizing, and integrating information systems. The DMR was expected to provide savings of up to $70 billion over 5 years. CIM was expected to save about $36 billion, over half of the projected DMR total.

The DMR effort produced savings but not to the degree initially estimated by DOD. In addition, our past work found that, because of limited documentation and the absence of standard accounting and information systems, it was difficult to determine if the savings resulted from DMR initiatives or from other factors such as force-level reductions, reduced workloads, or Defense downsizing.[6] Our recent analysis of DOD's Future Years Defense Programs (FYDP) showed that the infrastructure portion of DOD's budget had not decreased as DOD planned.[7] Consequently, planned funding increases for modern weapon systems were repeatedly shifted further into the future with each succeeding FYDP. Moreover, our analysis showed that this trend is expected to continue through fiscal year 2003.

[6]See our report to the Chairman, Subcommittee on Readiness, House Committee on Armed Services (GAO/NSIAD-94-17R, Oct. 7, 1993) and Defense Management: Challenges Facing DOD in Implementing Defense Reform Initiatives (GAO/T-NSIAD/AIMD-98-122, Mar. 13, 1998).

[7]Future Years Defense Program (GAO/NSIAD-98-204, July 31, 1998).

## Factors That Can Affect the Success of Reform Efforts

Over the years, we and others have reported on the systemic management problems that have kept DOD from successfully implementing reform efforts. We have also identified various factors that must be present in any organization that attempts to implement major reforms.

### Factors That Can Impede Success

The key factors that have kept DOD from successfully implementing past management reform initiatives include:[8]

- Cultural barriers and parochialism—Each of the military services has its own way of doing business, its own budget and programming authority, and its own parochial interest in maintaining the status quo. As a result, it has been difficult for DOD to implement Department-wide reform, particularly when the corrective actions require the development and use of common systems and processes across military services and organizational boundaries. Even when there is common agreement among the leadership of the Department, management reform initiatives that involve up-front investments, the closure of installations, and the elimination of military and civilian jobs sometimes are not fully implemented unless they have widespread support throughout the military services and Defense agencies.
- Lack of incentives to seek and implement change—DOD managers have had few incentives to improve DOD's financial, acquisition, and infrastructure management approaches. In DOD's culture, the success of a manager's career depends more often on moving programs and operations through the DOD process rather than on improving the process itself.
- Deficient management data—DOD cannot accumulate reliable cost information on its business activities or critical operations. As a result, DOD decisionmakers lack the comprehensive and reliable data they need to establish baseline costs, track program implementation, and make well-informed decisions.
- Lack of clear results-oriented goals and performance measures—DOD's strategic goals and objectives have not been linked to those of the military services and Defense agencies, and DOD's guidance has tended to lack specificity. Without clear, hierarchically-linked goals and

[8]See Defense Management (GAO/T-NSIAD/AIMD-98-122, Mar. 13, 1998) and DOD High Risk Areas: Eliminating Underlying Causes Will Avoid Billions of Dollars in Waste (GAO/T-NSIAD/AIMD-97-143, May 1, 1997).

performance measures, DOD managers have not been able to show how their work contributes to the attainment of DOD's strategic goals.

- Inconsistent management accountability and follow-through —DOD has not routinely linked organizational goals and performance measures to specific organizational units or individuals that have sufficient flexibility, discretion, and authority to accomplish the desired results. These linkages are important because DOD's top managers are normally in their positions for only short periods of time. In 1994, for example, the median tenure of top political appointees in OSD was 1.7 years. This turnover has hindered the long-term planning and follow-through needed to carry out significant management reforms.[9]

## Factors That Can Enhance the Chances of Success

While the above problems have inhibited the success of past DOD reform efforts, there are a number of factors that can help eliminate these problems and enhance the potential for success. For example, successful public and private sector organizations have overcome these types of problems by:[10]

- displaying top management commitment and sustained support for the reform effort;
- establishing a clear management framework for guiding and supporting change;
- communicating to and educating the organization about the need for and expected results of change;
- providing the resources needed to implement the reforms;
- developing strategic and tactical plans that cascade throughout the organization and provide a roadmap to guide reform and track progress;
- delegating the authority to carry out individual initiatives to cross-functional teams made up of those who are affected by the reform and own the process being changed; and

[9] Political Appointees: Turnover Rates in Executive Schedule Positions Requiring Senate Confirmation (GAO/GGD-94-115FS, Apr. 12, 1994).

[10] See Weapons Acquisition: A Rare Opportunity for Lasting Change (GAO/NSIAD-93-15, Dec. 1992), Organizational Culture: Techniques Companies Use to Perpetuate or Change Beliefs and Values (GAO/NSIAD-92-105, Feb. 27, 1992), Best Practices: Elements Critical to Reducing Successfully Unneeded RDT&E Infrastructure (GAO/NSIAD/RCED 98-23, Jan. 8, 1998), and Best Practices: Successful Application to Weapon Acquisitions Requires Changes in DOD's Environment (GAO/NSIAD-98-56, Feb. 24, 1998).

- establishing objective, outcome-oriented performance measures that link to strategic and tactical plans, establish accountability, and provide information for making mid-course corrections.

We have highlighted these factors here to provide a backdrop for our review of DOD's management of the DRI effort.

## Objectives, Scope, and Methodology

Because of problems associated with prior Defense reform, the Chairman, Subcommittee on Military Readiness, House Committee on Armed Services, asked us to review DOD's progress in implementing the DRI program. To respond to the Chairman's request, we assessed (1) actions taken through the DRI management structure to facilitate achieving the program's objectives and (2) progress made in implementing individual reform initiatives.

To assess the work of the DRI management structure, we relied primarily on testimonial evidence provided by senior-level managers in various organizations throughout DOD. 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 the managers about DOD's implementation strategy and whether it addressed the underlying causes of problems that limited the success of past reform efforts. These questions dealt with the leadership provided by the Secretary, Deputy Secretary, and other senior DOD managers; the management framework for guiding and supporting the DRI's implementation; the techniques used to communicate DRI goals and objectives throughout the organization; and the adequacy of resources to implement the DRI. We followed up on their answers to these questions and, where appropriate, obtained documentation that supported their statements and assertions.

Because we were particularly interested in the work of the DMC, we requested minutes of its meetings. This, we believed, would give us indications of the issues the DMC addressed and the decisions it made about the DRI's implementation. We were told, however, that no minutes were taken. Consequently, we obtained the available agendas of its meetings and interviewed 5 of its 15 members. We provided the members questions in advance of the meetings. Besides describing the types of issues that were addressed at DMC meetings, these members provided their impressions of the DMC's effectiveness during its first year. We also met with members of the DRI Coordinating Group and discussed the roles and responsibilities of the Group, how issues are deliberated, how decisions are made, and the likely success of the DRI.

To evaluate service and agency efforts to develop DRI implementation plans, we met with senior management officials from the military services and selected Defense agencies to discuss and obtain documentation on their strategy for implementing the DRI. We reviewed their strategic business plans to determine the extent they addressed DRI goals and objectives. If a service or agency had developed strategic or performance plans required by the Government Performance and Results Act, we also reviewed them to determine whether they were linked to DOD's strategic goals and measures and provided a roadmap to track progress and gauge the overall success of the DRI. We also reviewed the Defense Planning Guidance for Fiscal Years 2000-2005 to determine how DRI goals and objectives are supposed to be addressed and prioritized in future military service and Defense agency budgets.

To determine DOD's progress in implementing individual initiatives, we obtained and reviewed tracking information assimilated by DOD. We also met with military service and Defense agency representatives responsible for overseeing and implementing specific initiatives to obtain information on the progress and problems they were encountering. While we did not conduct an in-depth review of each initiative, we obtained and reviewed documentation related to their status and discussed the likelihood that they will meet implementation schedules called for in the DRI Report. Because DOD does not have good financial data, we were not able to obtain reliable information on the savings the initiatives did or are expected to achieve. Nevertheless, we discussed the status and likelihood of achieving savings with the responsible officials.

During our work, we interviewed officials in the Office of the Secretary of Defense, including the Under Secretary of Defense (Acquisition and Technology), the Under Secretary of Defense (Comptroller), and the Director of the DRI Office. We also met with two DOD-wide cross functional teams (the Task Force for Reengineering Initiatives and the Paperless Contracting Working Level Team) and conducted work at Army Headquarters, Air Force Headquarters, Navy Headquarters, and Marine Corps Headquarters in Washington, D.C.; Defense Finance and Accounting Service Headquarters and Defense Information Systems Agency Headquarters, Arlington, Virginia; Defense Logistics Agency Headquarters, Fort Belvoir, Virginia; Air Force Materiel Command Headquarters, Wright-Patterson Air Force Base, Ohio; Army Materiel Command

Headquarters, Naval Facilities Engineering Command, and Naval Sea Systems Command, Arlington, Virginia; Naval Supply Systems Command, Mechanicsburg, Pennsylvania; and the Army Installation Service Activity, Rock Island, Illinois. We performed our work from June 1998 through February 1999 in accordance with generally accepted government auditing standards.

DOD provided written comments on a draft of this report. We incorporated its comments where appropriate. The comments are reprinted in appendix III.

# Actions to Facilitate Execution of the DRI

To give emphasis and direction to the DRI program, DOD's senior leadership has used the special organizational framework it established. Using special directives, performance contracts and plans, and budget guidance, DOD has sought to institutionalize and provide a sustained emphasis on the DRI. This represents a good start toward providing the type of management attention and oversight typically associated with successful reform efforts in the private sector. However, given the limited time that the framework has been in place, it is too soon for us to assess how effective it is likely to be in facilitating completion of the program (the current status of individual initiatives is summarized in ch. 3). At the same time, there are several areas where DOD could build on its initial efforts to help achieve the "revolution in business affairs" it is seeking. These include (1) bringing under the DRI other major ongoing reform efforts and developing a comprehensive, integrated strategy for reforming Defense business processes and support activities; (2) more clearly delineating the funding requirements needed to achieve the major reforms; and (3) improving Department-wide visibility of DOD's financial management reform efforts.

## Program Approach Represents a Good Start

To successfully manage a reform effort, top management must effectively communicate the reason for the change and be actively engaged in activities such as setting the overall scope and agenda and establishing policy. In this respect, the Secretary of Defense, Deputy Secretary, and other parts of the DRI organization have given visible, continuous support to the purpose and objectives of the DRI. The Deputy Secretary, as Chairman of the DMC, is recognized within DOD as a leading advocate of Defense reform. He has kept the pressure on the military services and Defense agencies to meet the DRI goals. DOD officials said that the DMC and the DRI Coordinating Group have also increased the Department's overall awareness of the DRI and have provided an important forum for addressing and resolving DRI-related problems. Additionally, the Secretary, the Deputy Secretary, and other top executives have used a variety of tools to communicate the goals and objectives of the DRI program and provide program emphasis and direction. These include (1) developing DRI directives to communicate specific goals and objectives, milestones, and decisions for selected initiatives; (2) creating performance contracts to hold Defense agencies accountable for cost-cutting and service improvement goals; (3) directing that service and Defense agency plans address DRI objectives; and (4) using budget guidance to ensure services and Defense agencies address the initiatives.

These have helped create an institutionwide focus on the initial set of initiatives and provided a forum for addressing implementation problems.

## DRI Directives Communicate Specific Direction and Milestones

One of the most direct communication tools DOD has used to implement the DRI program is Defense Reform Initiative Directives (DRID). DRIDs are documents reviewed by the DMC and issued by the Deputy Secretary of Defense[1] for individual initiatives. They describe the initiatives, provide specific direction, and set milestones for the DOD components responsible for carrying them out. They are a continuation of what DOD previously called Management Reform Memoranda (MRM). As of February 1999, DOD had issued 17 MRMs and 49 DRIDs (see apps. I and II for a summary of individual MRMs and DRIDs).

In general, service and Defense agency officials we interviewed said that the DRIDs are effective communication tools in that they are concise yet understandable and give targets to shoot for and a basis to measure progress. Many officials also liked having the opportunity to comment on DRIDs before they were issued.[2] They pointed out instances where their comments had affected the scope of the DRIDs. One example was DRID 45, "Prime Vendor[3] Contracting Program for Facility Maintenance Supplies." Both Air Force and Army officials thought the draft language in this DRID would force the services to use prime vendor contracts when an alternative contracting method might be more advantageous. They wanted the DRID to encourage the use of prime vendors when this was the most economical way of purchasing supplies. The final DRID reflected this concern and did not mandate the use of prime vendor contracts.

According to officials in the DRI Office, the DMC does not plan to issue DRIDs for every initiative. Instead, it will limit new DRIDs to crosscutting

[1]While the DMC reviews the DRIDs, the DRI Coordinating Group drafts them and coordinates input from the affected military services and Defense agencies. The Group limits the DMC's involvement to only the unresolved or more important issues and concerns.

[2]All MRMs and about two-thirds of the DRIDs reflected top-down decisions made following the QDR process and prior to release of the DRI Report. As such, OSD did not seek input from the affected Defense organizations. The Executive Director of the Coordinating Group said that the Group had and would seek input on all subsequent DRIDs. Comments from officials we interviewed were based on DRIDs that reflected decisions made after the DRI was announced.

[3]Prime vendors are contractors that buy inventory items from a variety of suppliers, store them in commercial warehouses, and ship them to customers as needed.

issues that require coordination or action from multiple DOD organizations or that need special attention or direction.

## Performance Contracts Provide Senior Management Oversight of Defense Agencies

The DRI Report called for the development of performance contracts for Defense agencies. These agencies provide numerous products and services (finance and accounting, telecommunications, computers, supplies and parts, etc.) to the military services and other Defense agencies. DOD officials said the performance contracts were intended to improve DOD's oversight of these agencies. Specifically, the contracts are formal agreements between the Defense agencies, their principal staff assistants in OSD, and the Deputy Secretary. They are to include improvement goals for each of the agencies 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.

To implement this initiative, DOD established a task force to work with the agencies and develop draft performance contracts, which were subsequently reviewed and approved by the DMC. To pilot the project, the task force worked with three agencies and one Defense activity to develop contracts for fiscal year 1999.[4] Four additional agencies are scheduled to complete contracts for fiscal year 2000.[5]

## DOD Is Beginning to Link QDR and DRI Goals Throughout the Organization

In March 1998, we testified before the Subcommittee on Military Readiness, House Committee on National Security, on the challenges facing DOD as it attempts to implement the DRI.[6] In that testimony, we pointed out that DOD's past reform efforts were hampered because its strategic goals and objectives were not linked to those of the military services and Defense agencies. Without clear, hierarchically-linked goals and performance measures, DOD managers lack straightforward road maps showing how

[4]These organizations are DFAS, DLA, the Defense Contract Audit Agency, and the Defense Health Program.

[5]These organizations are the Defense Education Agency, Defense Information Systems Agency, Defense Security Cooperation Agency, and Defense Security Service.

[6]Defense Management: Challenges Facing DOD in Implementing Defense Reform Initiatives (GAO/T-NSIAD/AIMD-98-11, Mar. 13, 1998).

their work contributes to the attainment of DOD's strategic goals. This also increases the risk that these managers will operate autonomously rather than collectively. We believe this issue is important in the DRI environment because each of the services and Defense agencies must assume part of the responsibility for meeting DOD's infrastructure and personnel reduction targets.

As a first step toward addressing this issue, DOD has developed Department-wide strategic and performance plans as required by the Results Act.[7] The strategic plan, the QDR, sets DOD's general direction over a 4-year period. The annual performance plan, now appendix J of DOD's Annual Report to the President and the Congress, is supposed to connect the QDR's long-term goals to the day-to-day activities of DOD's managers and staff.[8] A key performance goal included in DOD's recently issued performance plan for fiscal year 2000, which we are currently assessing, is to streamline DOD's infrastructure by redesigning the Department's support structure and pursuing business practice reforms. The plan cited a variety of performance indicators that it would track, including the percentage of DOD's budget spent on infrastructure, the number of public/private sector competitions, and improvements in logistics response time.

As a second step, the Secretary in January 1998 directed organizations at all levels of the Department to review their strategic plans and mission objectives to ensure that they are linked to the goals and objectives of the QDR and the DRI. Organizations within DOD are beginning to comply with the Secretary's direction, but some are further along than others. DLA, for example, followed the Results Act framework to develop strategic and performance plans that included a number of references to DRI initiatives. The Navy, however, is just beginning the strategic and performance planning process. Nevertheless, Navy officials said they were aware of the requirement to develop linkages to DRI goals and objectives and intended to do so as they developed their plans.

[7]The Results Act requires federal agencies to set strategic goals, measure performance, and report on the degree to which goals are met. Its intent is to focus agencies more on results, service delivery, and program outcomes. It is expected to provide the Congress and other decisionmakers with objective information on the relative effectiveness and efficiency of federal programs.

[8]See DOD's Draft Strategic Plan (GAO/NSIAD-97-21R, Aug. 5, 1997) and Observations on DOD's Annual Performance Plan (GAO/NSIAD-98-188R, June 5, 1998).

## DOD's Budget Guidance Directed the Funding of DRI Initiatives

While incorporating DRI requirements into DOD plans is an important first step, implementing the requirements is more difficult. Each year, for example, the military services and Defense agencies have more budget priorities than they can typically fund. Consequently, they must make choices among competing priorities. In the past, management reforms, particularly those that involved large up-front investments, have not fared well during this selection process. DOD officials told us that they hope to overcome this funding problem by incorporating DRI requirements into the normal budgeting process. They stressed that the planning, programming, and budgeting system, as the budgeting process is called, determines how funding decisions are made in DOD. If the DRI can be linked to it, they said, there is a good chance that the overall program could eventually meet its goals.

In this respect, the Defense Budget Planning Guidance[9] issued to prepare the fiscal year 1999 Defense budget directed the services and Defense agencies to construct budgets and programs consistent with the corporate-level goals in the QDR. The guidance included DOD's mission statement and strategic goals, including the goal to "fundamentally reengineer the Department and achieve a 21st Century infrastructure." The planning guidance for the fiscal years 2000-2005 Defense program expressed agreement with the aims and principles of the DRI and directed the services and Defense agencies to support QDR and DRI goals throughout the Future Years Defense Programs (FYDP). It also referenced specific MRMs, DRIDs, and other initiatives and provided guidance in developing program budgets.

## Opportunities to Build on Current Efforts

DOD's senior leadership has succeeded in creating Department-wide awareness of DRI goals and objectives. Nevertheless, because the DRI framework has been in place for just over a year, it is too soon for us to assess how effective the program will be in the long term. This will depend largely on DOD's ability to maintain its emphasis on the DRI program. Past reform efforts, like the DMR, also started out well but lost momentum when the savings did not occur as expected and the Department's leadership and priorities changed.

[9] Defense Budget Planning Guidance is issued annually by DOD at the beginning of the budget development process. It links the goals in DOD's strategic plan to the programming and budgeting process and provides funding priorities for DOD components.

During our work, however, we identified three areas where DOD has an opportunity to build on its current efforts to further improve and sustain the DRI program. First, the DRI program does not currently include all major DOD business process reform efforts, and several that were included represented small elements of larger reform efforts not under the DRI. If it used the framework of the Results Act to include major reform efforts, DOD might be in a better position to develop a comprehensive, integrated strategy for reforming the business and support activities of the Department. Second, DOD is requiring its components to fund most up-front investment costs out of their existing budgets. This means that initiatives will have to compete with higher departmental priorities (e.g., readiness and sustainability, modernization, and force structure) for investment funds. The decisionmaking process might be enhanced by considering funding requirements and priorities among all major initiatives collectively. This could lead to a more complete picture of overall reform investment requirements that could be communicated to Defense components and the Congress and could provide a clearer basis for tradeoffs among competing objectives. Third, DOD lacks good financial and cost data to establish baseline costs and determine the effectiveness of its reforms. DOD has been attempting to improve its data for many years and in November 1998 issued, at the direction of the Congress, a Biennial Financial Management Improvement Plan. The plan provided a first-ever vision of DOD's future financial management environment and identified an array of improvement initiatives.[10] On the other hand, it failed to address several important areas, including the data integrity of DOD's feeder systems.

## DOD Could Benefit From a Comprehensive, Integrated Reform Strategy

In undertaking a comprehensive reform effort like the DRI, it is important, in our view, that the DRI include all major ongoing initiatives. Doing so would put the Department's leadership, including the DMC and other organizations DOD established to oversee the DRI, in a better position to develop a comprehensive, integrated strategy for reforming DOD's major business and support activities. Such a strategy would help DOD oversee and manage key reform efforts, decide between competing priorities, and eliminate potential overlapping or conflicting efforts.

[10] Financial Management: Analysis of DOD's First Biennial Financial Management Improvement Plan (GAO/AIMD-99-44, Jan. 29, 1999).

In establishing the DRI, however, DOD did not include all the major reform efforts that were ongoing in the Department. 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. According to the representative, the Task Force never intended for the DRI to be all-inclusive, and it anticipated that other initiatives would come under the DRI umbrella as time passed.

Some of the reform efforts not included in the DRI, however, are significant and have impacts on many functional areas. For example, the Under Secretary of Defense (Acquisition and Technology), a member of the DMC, has announced plans to (1) totally reengineer DOD's logistics processes; (2) dramatically reduce the amount of logistical supplies required in combat situations by, in part, improving confidence in supply and transportation systems; (3) reduce the number of logistics personnel, facilities, and inventories; and (4) implement a modern, secure, and reliable integrated logistics information system. To achieve these goals, the Under Secretary said that DOD will use integrated supply chains for specific types of inventory, expand the use of prime vendor agreements, and implement two-level maintenance for all new systems.

Only certain components of the comprehensive logistics reform effort were identified in the initial DRI Report. For example, the DRI includes an effort to expand the use of prime vendor agreements. As discussed previously, however, after a DRID mandating this idea was circulated for comment, the DMC changed the requirement so that military services and others would have more flexibility to select other cost-effective alternatives. Depending on how integral the prime vendor program is to the Under Secretary's reengineering effort, this may or may not have been the best course of action to take. If the comprehensive reengineering effort had also been a DRI initiative, the DMC could have been in a better position to make an informed decision, based on the importance of the prime vendor program, on the larger goal of reforming DOD's entire logistics process.

In addition, it is unclear how the Under Secretary's overall reengineering plans will be affected by reform initiatives in the individual services. For example, the Army has been developing plans to rely on a sole-source contractor for wholesale logistics support of the Apache and Apache Longbow weapon systems. The objectives of the program include reducing overall support costs, improving parts availability, maintaining aircraft readiness, and leveraging private-sector resources for modernization. However, much controversy and uncertainty surrounds this initiative in terms of its cost-effectiveness and impact on other organizations and entities such as DLA and the Army Working Capital Fund.[11] Unresolved are issues such as (1) how parts inventory currently maintained by DLA would be drawn down, (2) how reduced Army participation would affect overhead costs of other DLA customers and the Army Working Capital Fund, and (3) how this proposal fits into an overall plan for logistics reform. We are currently reviewing this proposal but are not yet in a position to say whether it would be cost-effective for the Army as well as for DOD as a whole.[12]

Another major reform not currently under the DRI umbrella involves DOD's effort to comprehensively improve its financial management systems. This effort is particularly large in scope in that it touches every organizational component in DOD and is linked to the success of other reforms in areas such as logistics and acquisition. For example, a key component in reengineering DOD's logistics process is the development of modern, reliable logistics information systems. These systems will also be important feeder systems for DOD's financial management systems. Moreover, for the financial management reform effort to be successful, it must be integrated with logistics and acquisition reform efforts. Yet, financial management reform was not mentioned in the initial DRI Report, and neither the DMC nor other management structures DOD put into place to oversee and bring direction to the DRI program are addressing it.

To ensure that DOD places sufficient emphasis on this improvement effort, the National Defense Authorization Act for Fiscal Year 1998 directed DOD to create a biennial strategic plan for improving financial management. The plan, now referred to as the Biennial Financial Management Improvement Plan, is to be submitted to the Congress no later than September 30 of each even-numbered year and is to address all aspects of financial management within DOD, including the finance systems,

[11]The Working Capital Fund (formerly called the Defense Business Operations Fund) was established in October 1991 by consolidating nine existing industrial and stock funds and five other organizations operated by DOD. It is essentially a group of internal DOD business operations that sell goods and services to DOD customers on a break-even basis. The Fund's estimated fiscal year 1998 revenue of about $80 billion makes it equivalent to one of the world's largest corporations.

[12]This review was requested by the Subcommittee on Readiness, Committee on National Security, House of Representatives (now named the Committee on Armed Services, House of Representatives).

accounting systems, and data feeder systems that support financial operations. DOD submitted its first plan to the Congress on October 26, 1998. In our assessment of this plan, we found that it represents a great deal of effort and provides a first-ever vision of DOD's future financial management environment.[13] In addition, the plan includes an array of initiatives intended to move DOD from its current state to its envisioned financial management environment. However, we also found that the plan, while providing an ambitious statement of DOD's planned improvement efforts, had two important limitations. First, it did not provide links between the envisioned future operations and the over 200 planned improvement initiatives to determine whether the proposed transition will create the target financial management environment. Second, it did not address actions to ensure feeder systems' data integrity—an acknowledged major deficiency in the current environment. Without identifying specific actions to ensure such integrity, it is unclear whether the Department will be able to effectively carry out not only its financial reporting but also its other financial management responsibilities.

These examples illustrate the types of issues that could benefit from increased visibility and discussions in senior leadership forums such as that provided by the DMC. They also show that DOD's reform efforts, while significant, have not been brought together to provide a comprehensive, integrated plan for Defense reform. Providing such a plan could provide a more complete picture of major reform efforts that are needed and, to the extent that these efforts are interrelated, provide the basis for developing a more comprehensive, integrated strategy for achieving DOD's goals.

## DOD Could Benefit From a Clearer Picture of Overall Funding Requirements

Research in the private sector has shown that senior leadership demonstrates its support for reform not only by communicating goals and objectives but also by providing the necessary resources to carry them out. While this does not guarantee success, it lessens the potential that other programs may be negatively affected by having their budgets cut to pay for the reform. For the most part, DOD is requiring the military services and Defense agencies to fund DRI implementation costs out of their existing budgetary resources. With an expectation that the Defense budget would stabilize at about $250 billion over the next several years (in constant 1997 dollars), DOD's Comptroller said that the only other option was to withhold funds from the services and agencies and reapportion the funds back to

[13] Financial Management (GAO/AIMD-99-44, Jan. 29, 1999).

them in a different manner. However, the services and agencies objected to this plan, preferring to make their own priority and funding decisions.

This lack of direct funding is important because many of the initiatives require significant up-front investments and, as discussed in chapter 3, the extent of funding requirements for some of the major initiatives has not been fully developed. Service and agency officials told us that coming up with existing funding needs has not been easy. For example, DOD will need a large amount of resources to complete the large number of public/private competitions annually (using the Office of Management and Budget A-76 process) as called for in the DRI Report. DOD has underestimated the cost of performing the A-76 studies and implementing their results.[14] Also, should the Congress authorize additional BRAC rounds, they too will require significant up-front investments that will take some time to offset before DOD begins to realize a return on the investment. The same is true for a variety of other reform initiatives, both in and out of the DRI program.

One of these other initiatives is an effort to privatize DOD's 1,700 utility systems (water, sewage, electrical, waste water, etc.). Service officials said that it may cost hundreds of millions of dollars to complete feasibility studies, environmental assessments, and other required actions for this initiative. These officials also did not know if private utility companies would be willing to assume ownership of the systems, considering their current condition and cost to repair. OSD announced plans in December 1998 to provide funding for selected utility privatization projects but acknowledged that it would not know the true cost of the initiative until additional analysis was completed.

DOD is doing several things it believes will encourage the services and agencies to fund the DRI out of their existing budgets. First, it is allowing them to keep the estimated savings from the initiatives and reapply them to their readiness and modernization needs.[15] In this respect, anticipated savings from competitive sourcing studies are already being reallocated from the services' operating budgets to other needs within those services. This is different from past reform efforts like the DMR, where estimated

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

[15] As savings occur or are anticipated, DOD expects the military services and Defense agencies to apply them to other internal needs during the annual budgeting process and incorporate them into the FYDP.

savings were taken from the services' and agencies' budgets up front and reapplied to other organizations within the Department. Second, as discussed previously, DOD issued Defense planning guidance for the fiscal years 2000-2005 Defense program that included specific guidance to fund DRI-related initiatives. At the same time, however, this planning guidance assigned infrastructure funding the lowest priority relative to programs that support readiness and sustainability, modernization, and force structure. While this is an understandable ordering of priorities—DOD must first accomplish its key missions—it reinforces the uncertainty associated with funding infrastructure reduction investments.

Finally, if these efforts fail, DMC members said they have the option of directing the funding of initiatives. They pointed out an instance in which one service did not comply with a DRI funding priority in DOD's fiscal year 2000 budget guidance. This priority related to the demolition of excess buildings, which DOD believes will avoid the future costs of maintaining buildings that are no longer needed for current operations. According to DOD's Comptroller, a member of the DMC, the service was directed to find money in its budget to fully fund the initiative, or the OSD would make the necessary adjustments to the service's budget. The Comptroller said that the service's subsequent budget submission included full funding for the initiative. He did not say which, if any, other service priorities were not funded as a result of this action.

With funding for the DRI coming primarily from DOD components' existing operating funds, tradeoffs will be required. Tradeoffs could become more difficult as the magnitude of investment costs for the DRI initiatives becomes more fully known. The process of making these tradeoffs might be made more effective if DOD and the services had a clearer picture of overall investment requirements and established, as part of the annual budgeting process, Department-wide funding targets for the DRI. This could lead to DOD more clearly establishing funding expectations for the services and Defense agencies and letting the Congress know how much of the Defense budget is needed for key reform efforts.

## DOD's Ability to Measure DRI Results Is Limited

One of the key aspects of a reform effort is the ability to establish baseline costs and measure the impact of change. Because of the poor condition of DOD's financial management systems, obtaining this type of information is difficult and, in some cases, impossible. As a result, DOD tends to rely on performance indicators that track progress or status rather than measure results. While some measures of progress are necessary to understand what is left to be done, not having information on results or outcomes—including the costs associated with such results or outcomes—makes it difficult for DOD or anyone to determine to what extent overall goals and objectives are being met and what dollar savings are being achieved. This condition could also limit DOD's ability to implement the Results Act.

With respect to the DRI, DOD officials said that their primary measure of success is the top line of the Defense budget. If the operations and maintenance budget is reduced sufficiently to allow the weapons modernization budget to increase to $60 billion by fiscal year 2001, they will consider the DRI effort a success. Using top-line budget figures are, at best, gross indicators. This approach does not identify the precise impact the DRI has had on the overall budget. In addition, information on the impacts of specific initiatives is not readily available within the planning, programming, and budgeting system. This lack of information was a major drawback that limited DOD's ability to measure the impact of reforms, particularly the DMR directives undertaken in the early 1990s. [16]

To gauge the progress of individual initiatives, the DRI Office periodically collects information—primarily on initiatives with established performance targets in an MRM or DRID—and provides feedback to the Secretary of Defense, the DMC, and the Coordinating Group. The DRI Office maintains a matrix or log showing the status, plans, and the accountable office. This matrix, however, contains few details on actual results, costs incurred, or issues needing resolution and is not kept current for all initiatives. The DRI Office, according to its Director, relies primarily on information provided by DRI focal points in the military services and Defense agencies and, sometimes, the teams responsible for implementing the initiatives. Because most of the tracking information does not come directly from DOD systems, it must be compiled off-line, causing the information to be somewhat dated by the time it is received by the DRI Office. The Director said that his staff are attempting to improve and expand on the information collected and hope to develop better performance measures for reporting DRI progress and results.

It is well known, however, that DOD's financial management systems are currently unable to generate the type of information needed to establish the baseline costs necessary to track savings associated with any changes.

[16] Defense Outsourcing: Challenges Facing DOD as It Attempts to Save Billions in Infrastructure Costs (GAO/T-NSIAD-97-110, Mar. 12, 1997).

Therefore, whenever DOD officials estimate the potential or actual impact of an initiative or reform effort, the estimate is often based on either anecdotal information or data with limitations. DOD has been attempting to improve its financial management systems and processes for many years. It has many well-intentioned planned and ongoing financial management improvement efforts. However, fixing its serious, long-standing financial management problems across its large complex organizational structure remains a major challenge. Until this effort is successfully completed, DOD's ability to effectively measure program results will continue to be limited.

## Conclusions

DOD has made a good start by establishing a management framework for the DRI that adopts many proven management change concepts. Special directives, performance contracts and plans, and budget guidance are additional tools that could help DOD institutionalize and sustain emphasis on the DRI. While it is too early to assess program results, we identified several areas where DOD could further enhance its management approach. First, DOD has other major reforms underway that are not part of the DRI program. While all reforms cannot and probably should not be included, greater emphasis on including the critical few—particularly those involving major business processes and support activities—would provide the Department's leadership with a more comprehensive overview of the Defense reform effort. This, along with following the results-oriented management framework provided by the Results Act, would also put DOD in a position to develop a comprehensive, integrated strategy for reforming its major business processes and support activities.

Second, DOD is requiring its components to fund many up-front investment costs for the DRI out of their existing budgets. The initiatives thus have to compete with higher departmental priorities for annual investment funds. This process could be more effective, in our view, if DOD had a clearer picture of projected long-term costs for all major reform initiatives and a clearer picture of overall investment requirements for the reform effort. As part of the annual budgeting process, this picture would help establish funding expectations for the military services and Defense agencies and let the Congress know how much of the total Defense budget would be spent on Defense reform issues. It would also facilitate prioritizing actions most critically needed among competing priorities in an integrated fashion.

Third, DOD lacks good financial management data from which it can baseline costs and determine the effectiveness of its reforms. DOD has been attempting to improve this condition for many years and has just developed, at the direction of the Congress, a Biennial Financial Management Improvement Plan. Our recent assessment of this plan found that it provides a first-ever vision of DOD's future financial management environment and includes an array of initiatives intended to move DOD forward. On the other hand, the plan has limitations that make it unclear whether DOD would be able to effectively carry out its financial management responsibilities. Because we have already provided numerous recommendations on this topic in the past, we are not making any additional recommendations in this report.

## Recommendations

To strengthen the Defense reform effort, we recommend that the Secretary of Defense take the necessary actions to:

- bring all major business process and infrastructure reform initiatives, including logistics and financial management reform, under the DRI program and 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 and
- more fully identify investment funding requirements for the major reform initiatives and Department-wide funding targets for the DRI program and communicate them to the Congress during the annual budget process.

## Agency Comments and Our Evaluation

In commenting on a draft of this report, DOD limited its response to the report's recommendations. Concerning our recommendation that the Secretary of Defense bring other major reform efforts, such as logistics and financial management, under the DRI program, DOD responded that the Secretary had unified the DRI and acquisition reform activities as a means of coordinating reform efforts within the Department. DOD stated that the recommended application of Results Act principles as a framework for a strategy is fully possible only in some circumstances where they can be quantified. However, it also stated that integrated process teams had been organized as a means of fostering reform and information sharing.

We noted separately that the Department's March 1999 update of the DRI, provided on CD-ROM and available on the Defense reform internet web site, included logistics, financial management, acquisition reform, homeland defense, cyberspace security, quality of life, and other reform activities under the scope of the DRI. The Department also announced on March 23, 1999, that organizational responsibility for the DRI program had been moved to the office overseeing acquisition reform, the Deputy Under Secretary of Defense for Acquisition Reform. That official will also serve as Director of the DRI Office and, in that capacity, report directly to the Secretary of Defense.

While the Department has now more closely linked the original DRI programs with other related reform initiatives, such as logistics and financial management reforms, and plans to increase information sharing, the Department's comments did not address additional steps it might take to develop a more comprehensive integrated strategy and action plan for achieving the DRI goals. We believe such a plan is needed to facilitate management oversight and maximize the potential that the reform program will meet its goals. Such a plan could also help DOD maintain its focus on the original DRI goals—reengineering business operations and eliminating unneeded infrastructure—considering that it has broadened the DRI to include such efforts as homeland defense, cyberspace security, and quality-of-life initiatives. Our intent in recommending the use of Results Act principles in developing a more comprehensive, integrated strategy was to emphasize the importance of including Results Act elements of accountability, goals, and performance measures in formulating an integrated plan. Our review of DOD's current Results Act Performance Plan indicates that some of these elements are being addressed; but we also believe that more can be done to apply these principles to the DRI initiatives and link the goals of the initiatives to the Department-wide performance plan.

Concerning our recommendation that DOD more fully identify investment funding requirements for the DRI program and communicate them to the Congress, DOD responded that it was reviewing funding and expanding efforts to consult with the Congress. DOD noted that this was a high program priority, but it was not specific about which actions it planned to take in connection with this review. We continue to believe it is important for DOD to identify its funding requirements for major initiatives as well as its overall funding targets for the DRI program. Such data could provide the Congress with improved information regarding funding requirements and provide DOD with an improved basis for decisionmaking, including for making tradeoffs among competing priorities.

# Individual Reform Initiatives Vary in Progress

Each of the four DRI pillars includes a variety of reform or reengineering initiatives, many of which were already ongoing before they were brought under the DRI umbrella. However, DRI gave each of these initiatives increased visibility and top-level support within the Department and, in many instances, imposed new goals and milestones for accomplishing their objectives. Each 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. DOD has identified formal savings goals for only two initiatives: competitive sourcing in pillar three and BRAC rounds in pillar four. What follows is an overview of the progress on key initiatives within each pillar.

## Adopting Best Business Practices: Efforts Are Under Way, but Progress Varies Among Initiatives

Of the four pillars, adopting best business practices includes the broadest range of initiatives, from the increased use of electronic commerce to reengineering the movement of household goods. While DOD has not established specific savings goals for any of these initiatives, it believes they will not only improve efficiency and save money but also better position DOD to respond to war-fighters' requirements in today's and tomorrow's dynamic defense environment. Progress varies among the individual initiatives, and the outcome of some is uncertain. Table 3.1 provides an overview of the primary initiatives included in this pillar, their associated goals and milestones, their status, and related implementation issues.

**Table 3.1: Best Business Practices Initiatives**

| Initiative | Goal/milestone | Status | Issues |
| --- | --- | --- | --- |
| Paperless contracting | Make all aspects of the major weapon systems contracting process paperless by January 1, 2000, through increased application of computer technology. | Integrated process team established to plan and coordinate work in the services and Defense agencies. DOD will not meet deadline of January 1, 2000. DOD estimates meeting the goal during 2003. | Establishing a standard process, interfacing automated data processing systems, and coordinating complementary efforts among many offices involved are difficult, time-consuming tasks. |
| Purchase cards | By fiscal year 2000, buy 90 percent of goods and services costing $2,500 or less using the purchase card. | Services and agencies have steadily increased the use of the purchase card. In fiscal year 1998, DOD doubled the number of potential transactions for which card use is directed. | Increasing card usage will require some reengineering for certain types of transactions; 90-percent goal may not be difficult to meet. DOD is exploring benefits and risks of increasing dollar limit to $10,000 or $25,000. |
| Electronic malls | Expand use of electronic malls. Allow for on-line payment with purchase cards by July 1998. Use purchase cards for all purchases by January 1, 2000. | DLA and the services have started several electronic malls that allow on-line purchase from suppliers. Others planned. On-line payment capability in place. | DOD is working to integrate existing sites into a single, DOD-wide mall in accordance with congressional direction in the fiscal year 1999 National Defense Authorization Act. |
| Prime vendors | Increase use of prime vendors for DLA-managed items. Have prime vendor contracts for facility maintenance supplies available for all installations in the United States by January 1, 1999. | Limited progress expected in expanding use of prime vendors for all classes of consumable items. Contracts for facility maintenance supplies are in place for potential use by military services. | Services have not embraced the concept to extent desired. DLA has not yet expanded contracts to cover many of the items it manages. |
| Total asset visibility (TAV) | A key part of achieving “just in time” logistics. DOD committed to providing TAV. In-theater TAV to be fully operational in year 2000. | DOD continues long-standing efforts to achieve TAV capability but unlikely to meet year 2000 goal for in-theater TAV. DOD’s logistics strategic plan states that TAV will be totally implemented by February 2004. | Initiative is highly complex, heavily dependent on systems in development, and has been an objective for DOD for over 25 years. |
| Travel system reengineering | Implement new system for official DOD travel by October 2000. | Significant progress made. However, full implementation throughout DOD is not expected until 2001. | Initial contract serving 1 of 18 regions in U.S. awarded in spring 1998. Results of previous pilots promising. |
| Household goods transportation | Reengineer processes for moving military personnel and their families. | Limited pilot projects under way or about to be started that will test improved approaches to moving household goods of servicemembers. | Optimum approach yet to be determined. Plans for evaluating success of each option still evolving. Impact on small businesses remains a contentious issue. |

As the table shows, paper-free contracting, prime vendors, and total asset visibility are the three initiatives that may have the most trouble meeting DRI objectives. The other initiatives, while making progress, also face various hurdles.

## DOD Not Expected to Meet Its Goal for Paperless Contracting Until 2003

DOD has established a goal of attaining paperless contracting for major weapon systems by 2000. Currently, each of the services and Defense agencies uses different computer systems, data formats, and operating procedures, resulting in a contracting process that is largely manual, paper intensive, and characterized by redundant, time-consuming actions. Reengineering through automation, placing contracting documents on-line for review and action, and using electronic commerce technologies are all expected to speed contract management and administrative processes, substantially reduce paperwork, and cut costs.

Although the DRI called for achieving a paperless environment by 2000, this initiative received a lot of attention even before the DRI Report was issued, and it continues to receive significant support from the Deputy Secretary of Defense and the DMC. A May 1997 MRM first enunciated the 2000 goal. To implement the MRM, DOD established an integrated process team that has been working to baseline current procedures, determine interfaces among participating organizations, identify opportunities for automating tasks, and recommend system solutions. The Deputy Secretary has also received periodic briefings on progress and has taken a personal role in moving this effort forward. In addition, the Deputy Secretary has issued several DRIDs to address discrete parts of the contracting process (contract close-out and material inspection and receiving), establish an overarching team to review status and resolve conflicts among the offices involved, and direct action in related areas of electronic commerce and in the design of the future procurement process.

Although progress has been made—for example, the integrated process team has recommended changes to regulations and the development of computer applications to the contract close-out process—it may be several years past the 2000 deadline before this initiative is fully implemented. Officials said that making the contracting process paperless is a complicated undertaking involving numerous organizations, information systems, and business processes. Key technological issues such as developing electronic signatures to prevent unauthorized access and use are yet to be resolved. Also, the project depends on the completion of several automated systems now under development, including systems to standardize the procurement process and pay bills electronically. Not all of these systems, however, will be completed in time to meet the deadline. According to official estimates, the bill paying system will not be implemented until December 2003.

Additionally, even after the initiative is completed, the process will not be entirely paperless because not all aspects of the contracting process are part of this initiative. For example, the steps of defining the initial requirement for the weapon system and formally advertising for bids are not included in this effort. Moreover, actions to date have mainly focused on automating current business processes. According to a representative of the integrated process team and service contracting officials, more substantial savings might be achieved if inefficient and redundant processes were first reengineered and unnecessary tasks were eliminated before system solutions were applied.

## Purchase Card Use Is Increasing

Purchase cards are similar to commercial credit cards and are issued to authorized DOD military and civilian users to acquire and pay for low-cost supplies and services. Purchase cards have been used throughout the government for several years and, generally, have been used by DOD for purchases within the “micro-purchase” limit, which is $2,500 or less. DOD implemented the card to help streamline the acquisition process by decentralizing purchasing authority for low-cost supplies and services. Use of the cards avoids the traditional paper- and labor-intensive process of centralized buying by a DOD contracting office. By using the card as a reengineering tool, savings accrue from efficiencies in the contracting, logistics, and financial processes. During fiscal year 1998, DOD made approximately 7.5 million purchases for a total value of over $3 billion with the cards.

The DRI Report called for DOD to use purchase cards for 90 percent of all micro-purchases by fiscal year 2000. In March 1998, the Deputy Secretary of Defense established a DOD Purchase Card Program Office. This office brought more focus to the individual efforts going on among the military services and Defense agencies. At the end of the second quarter of fiscal year 1998, the Program Office reported that DOD was using the cards for over 85 percent of all micro-purchases and was on track to meet the 90-percent goal before fiscal year 2000. Soon after the Program Office was established, however, DOD realized that the cards were not being used to pay for certain types of micro-purchases. For example, the Purchase Card Program Manager told us that DOD has historically paid about 200,000 commercial invoices for training and about 1 million Military Interdepartmental Purchase Requests that were valued at or below the micro-purchase threshold of $2,500. The Program Manager said that recently, purchase cards have been identified as the method of payment for the training invoices but using the cards to pay Military Interdepartmental Purchase Requests was still under review. Adding these additional transactions to the universe of items that can be paid with purchase cards could affect DOD's ability to meet its 90-percent goal before fiscal year 2000. According to the Director, it will take time to reengineer the payment processes for these two types of transactions so the purchase card can be used.

DOD officials view purchase cards as complementary to their efforts to facilitate paperless contracting because more than half of all contracting actions are within the micro-purchase threshold. Thus, DOD officials are pushing the services and Defense agencies to use the cards to the fullest extent possible. Additionally, they are exploring the benefits and risks associated with raising the micro-purchase threshold to $10,000 or $25,000. Officials estimate that raising the limit could eliminate as much as 60 percent of all DOD base-level contracting actions, thereby further streamlining DOD procurement processes and bringing additional savings.

## DOD Developing Electronic Shopping Malls

Electronic shopping malls are virtual one-stop shops in which DOD customers can buy parts and supplies over the Internet. Currently, DOD customers can purchase supplies from electronic malls established by the DLA, the individual services, the Defense Information Systems Agency (DISA), the General Services Administration, and other organizations. The malls provide access to electronic catalogs as well as government contracts. The DRI Report established a general goal of expanding the use of electronic tools like electronic malls to put buying decisions in the hands of people needing the products and enable them to shop for the best buy. More specifically, however, the report called for all DOD malls to permit on-line payment with government purchase cards by July 1, 1998. It further directed that the cards be used for all mall purchases by January 1, 2000. No DRID was issued on this initiative.

According to the electronic mall program office, the malls now have the capability to accept purchase cards as called for in the DRI. Further, customers also have the option of using other electronic methods of billing and payment such as electronic data interchange or electronic funds transfer for large volume purchases where the use of a purchase card would be impractical.

DOD is working to meet a requirement recently established by the Fiscal Year 1999 Strom Thurmond National Defense Authorization Act, which directed DOD to integrate all the separate malls into a single, DOD-wide mall to provide a single point of access, format, and ordering capability. A DOD official said this effort is under way. The services and Defense agencies have been asked to provide data on their malls to help DOD determine how many malls now exist and develop a migration plan for bringing these malls together under one integrated site. This plan is to be reported to the Congress by the end of April 1999.

## Use and Expansion of Prime Vendor Contracts Has Been Limited

Prime vendors are contractors that buy inventory from a variety of suppliers, store it in commercial warehouses, and ship it to customers when ordered. DOD wants to increase the use of prime vendors to manage parts, reduce government inventories, and improve delivery times. DLA began a prime vendor program for medical supplies in 1993 [1] and has since expanded it to include many other categories of consumable items such as food and clothing.[2] DLA has found that this program reduces delivery times and decreases the need for and costs of maintaining government inventories.

DOD recognized that the program could be expanded further, particularly to include hardware items. Hardware items represent 97 percent of the 4 million items managed by DLA but accounted for only 1 percent of prime vendor sales in fiscal year 1997. To help expand the program, DOD in June 1997 issued an MRM that directed DLA to develop regional contracts that the military services could use to procure a portion of hardware items—maintenance, repair and operations supplies. The DRI Report then reiterated this emphasis by highlighting hardware items as well, although it also called for increasing the use of prime vendors for all categories of items. A subsequent DRID further focused on hardware items by directing the military services to expand their use of regional contracts and

[1] DOD Medical Inventory: Reductions Can Be Made Through the Use of Commercial Practices (GAO/NSIAD-92-58, Dec., 1991).

[2] Inventory Management: Greater Use of Best Practices Could Reduce DOD's Logistics Costs (GAO/T-NSIAD-97-214, July 24, 1997).

instructing them to work with DLA to identify sites for implementation and opportunities for expansion.

According to documents provided by DLA, prime-vendor sales for all categories of items accounted for about 18 percent of all sales in fiscal year 1997 and about 21 percent in fiscal year 1998. Personnel items such as medical supplies, food, and clothing are expected to account for most of the sales. For hardware items, DLA has established regional contracts for maintenance, repair, and operations supplies as called for in the MRM and is working with the military services to identify sites to pilot test the contracts. However, use of the contract is not mandatory, so it is unclear to what extent these contracts will be used. Military service officials raised concerns while the DRID was being drafted about making the use of prime vendors mandatory. They pointed to instances where the use of prime vendors resulted in higher costs and slower service. Because of these concerns, the DRID that was issued gave the military services the flexibility to use contracts when they are the most cost-effective way of purchasing an item.

Besides the prime vendor program, DLA is pursuing other best commercial practices. The National Defense Authorization Act for Fiscal Year 1998 directed DLA to develop and submit to the Congress a schedule for implementing the best commercial inventory practices for nine categories of supplies. The schedule DLA submitted includes numerous best-practice initiatives such as the use of corporate contracts, direct-vendor-delivery arrangements, and electronic commerce as well as the prime-vendor concept. The act further directed that the schedule “shall provide for the implementation of such practices to be completed not later than three years after the date of the enactment of the Act.” We are currently reviewing the extent to which DLA has implemented these initiatives and will be reporting to the Congress at a later date.

## Achieving Total Asset Visibility Continues to be a Difficult, Long-term Undertaking

The DRI Report cited Defense logistics as a functional area where reengineering could reap great benefits and specifically targeted Total Asset Visibility (TAV). Although an issue since at least 1972, TAV has received heightened visibility since the Gulf War, when logistics pipelines were clogged by thousands of duplicate requisitions and the contents of more than half of the 40,000 large containers of equipment shipped to the war theater could not be readily identified. Since then, DOD has continued efforts to implement a TAV program to better identify and track equipment, supplies, spare parts, and requisitions. However, full implementation is still several years away.

The DRI Report stated that TAV, for forward-deployed in-theater forces, will be fully operational by 2000. The DOD 1998 Logistics Strategic Plan states that full TAV implementation will be achieved by February 2004. Achieving TAV involves the successful implementation of several large and complex information-technology initiatives across organizational lines. In other words, individual TAV and related logistics information systems operated by each of the military services must be able to provide complete, timely, and accurate data about assets and access to those assets. This effort has proved difficult, and the Department continues to face critical challenges, including the absence of a Department-wide management framework for providing information to precisely measure progress in reaching TAV program goals. We have ongoing work in this area and plan to publish an in-depth report in April of this year.

## DOD Starting to Implement a Reengineered Travel Management System

DOD began reengineering the travel management system 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. To reengineer the travel system, DOD officials benchmarked best practices in the private sector, compared them with DOD's current processes and requirements, and identified improved administrative procedures and management systems. DOD then conducted 25 pilot projects to test proposed redesigns and reported major improvements in cost, cycle time, and customer satisfaction. In May 1998, it awarded an initial contract for automated travel services in 1 of 18 regions in the United States. DOD expects to phase in contracts in other regions over the next 3 years, completing full implementation sometime in 2001.

Most of the travel reengineering efforts preceded the DRI. However, DRID 39 did address an element of travel reengineering: it directed that functions of the Washington, D.C., area travel office be transitioned to the private sector by October 1, 1998. This action was completed in October 1998.

## Pilot Efforts Are Under Way to Improve Transportation of Household Goods

DOD has long been concerned about the quality of its program to transport, store, and manage household goods. According to the DRI Report, DOD paid about $2.8 billion in fiscal year 1997 to move almost 800,000 military families. The DRI Report noted that DOD moves more households than any U.S. corporation, yet its system gives its personnel some of the worst service in the nation. The report stated that 25 percent of all DOD moves end with damage claims, compared to 10 percent in the private sector. Also, best-in-class movers have customer satisfaction rates of 75 percent, while DOD's have rates of only 23 percent.

Because of these and other problems, DOD proposed several years ago to reengineer its personal property program, primarily as a quality-of-life initiative. Its primary goals were to substantially improve the quality that military personnel and their families received from DOD's contracted movers; simplify the entire process, from arranging moves to settling claims; and base the program on business processes characteristic of world-class customers and suppliers. Prior to the DRI Report, MRM 6 (dated June 4, 1997) called for DOD to streamline and simplify policies and procedures used by military personnel to arrange their own moves.

The DRI Report gave attention to DOD efforts to adopt simplified procedures, to increase reimbursements for "do it yourself" moves, and to offer personnel at selected Navy locations the opportunity to choose the carrier they want to use from a list of participating carriers. Also, a larger pilot test began in early 1999 under the sponsorship of the Military Traffic Management Command. This pilot will test, among other things, the merits of selecting "best-value" carriers for moving household goods. We reported in November 1996 on this pilot proposal.[3] As these pilot projects are just underway, we have not had the opportunity to evaluate the results.

One pilot effort that has been underway for over a year within the Army involves moves originating at Hunter Army Airfield, Georgia. This pilot is designed to test whether commercial practices can provide relocation services for servicemembers moving from Hunter Army Airfield. In March of this year we testified on the results of this and the status of the other pilot projects before the Subcommittee on Military Readiness, Committee on Armed Services, House of Representatives.[4] In that testimony, we supported the use of pilots as a means to test new concepts. With respect to the Hunter Army Airfield pilot, however, we were unable to validate the Army's evaluation of the pilot primarily because of problems with the

[3] Defense Transportation: Reengineering the DOD Personal Property Program (GAO/NSIAD-97-49, Nov. 27, 1996).

[4] Defense Transportation: Efforts to Improve DOD's Personal Property Program (GAO/T-NSIAD-99-106, Mar. 18, 1999).

Army's study methodology and the reliability of data. As a result, questions remain about the level of satisfaction among pilot participants and how the pilot costs compare to the baseline costs of the current program.

In summary, we noted that improving DOD's personal property program has been a slow, complex process. Before any type of conclusion about these efforts can be reached, however, DOD must have accurate and credible data to determine the type and extent of changes that should be made. To facilitate a timely completion of the evaluation process, we concluded, among other things, that DOD should develop a comprehensive strategy for testing the pilots and assure that it has a methodologically sound evaluation plan to assess each pilot's attributes in a comparable manner.

## Changing the Organization: Realignments and Reductions Are Being Carried Out, With Some Exceptions

Under this pillar, the DRI called for a series of reductions, reorganizations, and other organizational adjustments within OSD, Defense agencies, and other headquarters organizations. With limited exceptions, DOD has acted to implement the changes called for by the DRI. At the same time, other reductions called for by the Congress may be more difficult to implement.

The DRI Report called for flatter, more streamlined headquarters throughout DOD that would (1) ensure that the OSD focuses on core, corporate-level tasks rather than get involved in program management and day-to-day management of subordinate activities; (2) strengthen OSD's focus on long-term strategic, program, and financial planning; and (3) weed out unnecessary overlap, complexity, and redundancy. The DMC formalized the organizational decisions by issuing 34 DRIDs, the majority of which were developed within 2 months after the DRI Report was released. However, full implementing action was spread out over a longer period of time.

According to a Coordinating Group member, many of the initiatives for this pillar reflect decisions that were made during the QDR process and brought under the DRI for oversight purposes. The DRI Report called for specific staff reductions in various organizations throughout DOD, generally over a period of several years. These included reducing OSD personnel by 33 percent—about 1,000—and Defense agency personnel by 21 percent—about 27,000. The report also called for a number of organizational transfers, such as the shifting of oversight for the Defense Technical Information Center from the Under Secretary of Defense for Acquisition and Technology to DISA.

DOD organizations are making progress toward meeting DRI-directed staff reduction goals. OSD, for example, has already met 80 percent of its goal, primarily by transferring 506 personnel to other DOD organizations and eliminating 284 positions—a total reduction of 790 personnel. Many of these transfers resulted from specific DRIDs. In addition, Defense agencies are also reducing their staff. Top management officials at DFAS, DISA, and DLA—three of the largest Defense agencies—showed us plans for reducing personnel and told us they do not foresee a problem reaching the 21-percent goal by fiscal year 2003. However, instead of transferring people, they expect to meet the goal by reengineering activities, outsourcing functions, and using other methods such as consolidations. Similarly, DOD budget documents show the DRI-mandated cuts are being programmed for the Joint Staff and the unified commands through fiscal year 2003, the deadline established by the DRI for these two organizations.

However, not all the changes have been carried out as originally planned. For example, the DRI called for dissolving the Office of the Assistant Secretary of Defense for Command, Control, Communications, and Intelligence; transferring its intelligence functions to the newly created Office of the Assistant Secretary of Defense for Intelligence; and spinning off its other functions to other areas. DOD, however, decided not to disband the office after the Deputy Secretary decided that it made more sense to keep it in place. In other cases, a number of the changes were completed or will be completed several months later than originally planned. These slips in the schedule, however, do not appear significant.

In addition to DRI-directed reductions, DOD has also faced implementing reductions in headquarters personnel directed by the Congress. For example, the National Defense Authorization Act for Fiscal Year 1998 required DOD to reduce the number of management headquarters and headquarters support activities by 25 percent (from fiscal year 1997 levels) by September 30, 2002. Although DOD intends to meet a portion of these reductions through the DRI-related cuts, our work on this issue found that DOD did not develop plans consistent with this legislation because the Secretary of Defense had sought relief from the requirement.[5] When the Congress rejected the appeal, however, DOD assembled a task force to develop alternatives for meeting the 25-percent mandate. The task force is to complete its work in June 1999.

[5] Defense Headquarters: Status of Efforts to Reduce Headquarters Personnel (GAO/NSIAD-99-45, Feb. 17, 1999).

## Streamling Through Competition: Questions About Goals, Pace, and Amount of Savings

The DRI Report recommended studying about 200,000 government positions over a 5-year period for potential conversion to the private sector. It projected that this effort would produce $6 billion in savings during that period and more than $2 billion in annual recurring savings each year thereafter.[6] This effort is one of two DRI initiatives from which DOD is projecting specific savings that are being incorporated into future year budget programs. Defense officials told us that the issue of competitive sourcing has consumed the greatest amount of attention at DMC meetings. Various Defense officials have raised questions about the number of government positions related to commercial activities, the number of positions that can reasonably be studied during the prescribed time frame, and the likelihood that the amount of savings the DRI has projected will be realized.

The DRI Report echoed concerns expressed in the QDR report that tens of thousands of military and civilian positions within DOD were being devoted to work involving functions and services that were readily available in the private sector. Both the QDR and DRI reports projected significant savings from outsourcing these functions to the private sector, and the DRI Report recommended that this effort be based on competitive sourcing studies under the Office of Management and Budget's Circular A-76 on commercial activities. Although use of A-76 was limited from the early to mid-1990s, DOD in late 1995 reestablished the competition program in the hopes of realizing significant savings that could be used to fund modernization and other priority needs.

A DRID pertaining to competitive sourcing was issued on January 16, 1998. It called for the military services and Defense agencies to update their previously developed listings of positions involving commercial activities and to differentiate between activities involving functions deemed inherently governmental in nature that should remain in-house and those that could be subject to A-76 competitions. The DRID estimated a January 1999 reporting date to the Congress. The House Committee on Armed Services, in its report on the National Defense Bill for Fiscal Year 1999, also

[6]The number of positions to be subject to competition has varied over time; in October 1998, Defense officials announced that 237,000 positions would be competed between fiscal year 1997 and 2005; however, the President's fiscal year 2000 budget request stipulates that 229,000 positions are to be studied during that time period and projects $11 billion in cumulative savings and over $3 billion in annual recurring savings.

requested this type of analysis and that it be provided by January 1999.[7] As of April 1999, Defense officials were still preparing the report.

The Deputy Secretary of Defense in a December 1998 memo stressed the importance of achieving the projected savings from competitive sourcing. He said DOD had $10 billion in funding for readiness and modernization programs that depended on the successful implementation of the competitive sourcing program. While we believe that competitive sourcing competitions are likely to produce savings, we have urged caution regarding estimates of savings likely to be achieved. We previously noted that prior savings estimates, which provided a basis for current estimates, were based on initial savings estimates from outsourcing competitions but that expected savings can change over time, as the scope of the work or mandated wages changes.[8] More recently, we completed two additional reviews of competitive sourcing issues. One confirmed the benefits of competitive sourcing studies and the potential for savings from these competitions, regardless of whether the government or the private sector wins them.[9] However, the second identified questions about the magnitude of savings likely to be realized in the short term and the ability of DOD components to undertake and complete the number of studies called for between now and 2005.[10] It also pointed out that DOD has not fully calculated the investment costs associated with undertaking these competitions or the personnel separation costs likely to be associated with implementing them. Additionally, delays in launching previously projected studies and greater times to complete them than previously planned will add pressure to complete larger numbers of studies in succeeding years and add to an already heavy resource requirement in this area.

[7]House National Security Committee Report (105-132), dated March 1, 1998, page 296.

[8]Base Operations: Challenges Confronting DOD as It Renews Emphasis on Outsourcing (GAO/NSIAD-97-86, Mar. 11, 1997).

[9]DOD Competitive Sourcing: Results of Recent Competitions (GAO/NSIAD-99-44, Feb. 23, 1999).

[10]DOD Competitive Sourcing (GAO/NSIAD-99-46, Feb. 22, 1999).

## Eliminating Unneeded Infrastructure: Progress Toward Goals Is Mixed

This pillar focuses on reducing infrastructure through a variety of methods, from eliminating unneeded facilities through additional BRAC rounds to privatizing functions that DOD believes could be more appropriately handled by the private sector. BRAC is the second DRI initiative for which DOD has projected significant savings, and DOD has begun to include savings from additional rounds in its future years' budget plans. Table 3.2 provides an overview of the initiatives in this pillar and their associated goals, milestones, status, and implementation issues.

**Table 3.2: Initiatives to Eliminate Infrastructure**

| Initiative | Goal/deadline | Status | Issues |
| --- | --- | --- | --- |
| Base closures | Hold additional rounds in 2001 and 2005. | The Congress has not authorized additional BRAC rounds. | Congressional concerns about prior rounds have produced reluctance to approve additional rounds. |
| DISA consolidations | Reduce number of data centers from 16 to 6. | DISA expects to have revised structure in place by fiscal year 2000. | Effort also involves reengineering activities and establishing 23 regional centers, using existing infrastructure. |
| DFAS eliminations | Reduce number of operating locations by 8. | DFAS estimates excess capacity of 34 percent by fiscal year 2003. Study of operating locations was to be completed by March 15, 1999, but has not been issued. | Section 914 of the Fiscal Year 1999 Strom Thurmond National Defense Authorization Act added new requirements that DFAS must consider when assessing infrastructure and deciding which locations to close. |
| Research and development, test and evaluation facilities | No goals or deadlines given. | DOD developing plan for restructuring in accordance with section 912(c) of the fiscal year 1998 National Defense Authorization Act. | Issue currently linked to potential for future BRAC rounds. |
| Demolitions | Demolish excess structures. Each service has specific goals dictating amount of square footage to be demolished, with completion dates ranging from 2000 to 2003. | All services expect to reach goals by deadlines. | Good progress attributed to management attention given to this issue and especially to the extent of funding being set aside for demolitions. |
| Regional energy demonstrations | Develop plan for demonstrations by June 1, 1998. | Plans submitted. Three demonstrations completed. More expected. | Defense Energy Support Center, which is managing the demonstrations, is also working with services on utility privatization. |
| Utilities privatization | Privatize all utilities by January 1, 2000. | Services will not meet deadline. | Effort is complex, time-consuming, and expensive. Defense Management Council subsequently extended deadline to September 30, 2003. |
| Housing privatization | Privatize 3,500 units by fiscal year 1998, 15,000 units by fiscal year 1999, and 30,000 by fiscal year 2000. Eliminate all inadequate housing by fiscal year 2010. | Services will not meet goals. | Effort is complex and time-consuming. |

Initiatives included in this pillar are the most directly related to the reduction of Defense facilities infrastructure. Of the initiatives, BRAC is the most controversial, although it offers the greatest potential for long-term savings. Several require significant up-front investments that would delay any net savings or cost avoidance.

## Potential for Future BRAC Rounds Is Uncertain

Despite four rounds of domestic BRAC actions between 1988 and 1995, DOD officials believe there continue to be excess facilities that are a burden on DOD's budget in a resource-constrained environment. Both the QDR and DRI reports reflected this view. The DRI Report called for additional BRAC rounds in 2001 and 2005.[11] DOD officials now project that two additional rounds would generate net 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. DOD has reflected the impact of these savings in future years budget plans.[12] Because of concerns about issues such as cost and savings from prior BRAC 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 BRAC rounds.

Our work has shown that past BRAC recommendations will result in substantial savings once implementation costs have been offset and net savings begin to accrue.[13] However, we have also indicated that because of weaknesses in data and records, DOD's savings projections lack the degree of precision that some have desired. Our most recent 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 BRAC decision-making, the processes that evolved over the past four rounds are regarded by many as a good starting point for any future BRAC legislation and decision-making processes. We noted that the processes used between 1988 and 1995 had several checks and balances to keep political influences

[11]A recent legislative proposal introduced in the Senate calls for additional BRAC rounds in 2001 and 2005.

[12]DOD's Future Years Defense Program incorporated some savings from future BRAC rounds but these savings were offset by implementation costs, resulting in net costs of $832 million for fiscal year 2002 and $1.45 billion for fiscal year 2003. See Future Year's Defense Program: How Savings From Reform Initiatives Affect DOD's 1999-2003 Program (GAO/NSIAD-99-66, Feb. 25, 1999).

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

to a minimum. At the same time, we also noted that the success of BRAC processes requires the cooperation of all participants.

## DISA Megacenter Consolidation Under Way

Efforts to consolidate DOD computer operations date back to 1990. At that time, DOD recognized that it needed to better meet its information processing needs while reducing costs. Since then, DISA has been created and many of DOD's computer operations have been consolidated by moving workload and equipment from 194 computer centers to 16 DISA megacenters. Today, DISA provides various computer and telecommunications services and command and control support throughout DOD. Despite the earlier consolidations, DOD believes its information processing infrastructure needs further reduction. Toward that end, the QDR and the DRI called for reducing the number of computer megacenters from 16 to 6.

The DRI did not establish any deadlines for completing the consolidations, and no consolidation-specific DRIDs were issued. Nonetheless, the DRI's emphasis on this initiative is reflected in a DISA performance contract that was developed in direct response to the DRI and a subsequent DRID. The contract incorporates expected cost reductions and performance improvements resulting from consolidation efforts. DISA officials called this contract a very effective management tool because it sets specific goals and is used to hold DISA accountable for meeting these goals.

The consolidation goals that have been incorporated into the contract reflect DISA's plans to have the revised structure in place by the end of fiscal year 2000. Achieving this revised structure involves not only reducing the number of megacenters but also reengineering activities and establishing 23 regional centers. These regional centers will not represent new infrastructure as such. They will be formed from existing organizations and are part of DISA efforts to realign responsibilities for some organizations, eliminate others, and absorb workload now handled by the military services. According to DISA officials, the effort is on schedule. As of February 1999, DISA had reduced the number of megacenters to 12 and had established the regional centers. Further, the staffing reductions that were to accompany the megacenter reductions were under way. DISA's plans call for total reductions of 893 personnel between fiscal years 1997 and the end of fiscal year 2000. As of February 1999, DISA had eliminated 869 positions, 97 percent of its goal.

DISA officials project that, once completed, the new structure will result in a 50-percent reduction in costs and a 34-percent reduction in personnel in its megacenter operations. DISA officials also project that the effort will achieve $1.5 billion in savings over a 10-year period ending in fiscal year 2007. We have not completed sufficient work, however, to assess the projected savings or timetable.

## DFAS Study Shows Excess Capacity: Additional Consolidations Under Study

Like the DISA consolidations, DFAS consolidations are also aimed at reducing the number of locations. DFAS was established in 1991 to consolidate under one umbrella the finance and accounting activities that had previously been splintered among the military services and Defense agencies. Once responsibility for handling these activities was shifted to DFAS, it reduced the number of sites where its finance and accounting activities were handled from more than 330 to 24. The current DFAS structure includes 5 large centers and 19 smaller facilities, called operating locations. Despite previous reductions, DOD and our studies have showed that the infrastructure could be consolidated further.[14] The DRI Report said the number of remaining DFAS operating locations was to be further reduced by eight. The DRI did not set a specific deadline, nor was any follow-up DRID issued to lay out additional requirements.

After the DRI Report was issued, DFAS assessed the excess capacity in its current structure according to its anticipated future workload. The assessment estimated that DFAS would have 34 percent excess capacity by the end of fiscal year 2003. DFAS then identified a set of criteria to evaluate which locations it should close. According to DFAS officials, before the DOD Comptroller had a chance to review these criteria and approve them as the basis for eliminating DFAS facilities, the Congress passed legislation that added some new DFAS requirements. Section 914 of the Fiscal Year 1999 Strom Thurmond National Defense Authorization Act requires the Secretary of Defense to submit to the Senate and House Armed Services Committees a strategic plan for improving the financial management operations at each DFAS operating location. The plan is to include (a) the workload that must be performed at the operating location each fiscal year, (b) the capacity and number of operating locations that are necessary for performing this workload, and (c) a discussion of the costs

[14] See DOD Infrastructure: DOD's Planned Finance and Accounting Infrastructure Is Not Well Justified (GAO/NSIAD-95-127, Sept. 18, 1995), DOD Infrastructure: DOD Is Opening Unneeded Finance and Accounting Offices (GAO/NSIAD-96-113, Apr. 16, 1996), and Defense Infrastructure: Budget Estimates for 1996-2001 Offer Little Savings for Modernization (GAO/NSIAD-96-131, Apr. 4, 1996).

and benefits that could result from reorganizing the operating locations on the basis of the function they perform. The plan is also to include the Secretary's assessment of the feasibility of carrying out such a plan. Section 914 called for the Secretary to submit the plan by January 15, 1999. However, this date was subsequently extended to March 15, 1999. As of April 1999, this plan was being reviewed by DOD's Comptroller and had not been issued.

## Future Plans to Address Excess Capacity in Research, Development, Test, and Evaluation Facilities Are Unclear

This initiative aims at reducing the number of research and development laboratories and test and evaluation centers that are used to develop military technology and test the capabilities of these technologies. Currently, DOD employs about 100,000 people in 67 federally owned facilities across the continental United States. Reducing the number of research and development laboratories and test and evaluation centers has been an ongoing effort in DOD. The Department closed 62 sites as part of previous BRAC rounds. Following these rounds, DOD and the Congress realized that the laboratory infrastructure was still too large, and the Congress directed DOD to develop plans for reducing the number of laboratories even further. Although DOD launched an additional study, it later halted this effort and decided instead to seek further reductions through BRAC rounds because it believed that significant reductions could not be achieved without a BRAC-like authority to direct the efforts. Given this history, the DRI's call to reduce the laboratories and centers is not new. The DRI did not set specific goals or deadlines, nor were any subsequent DRIDs issued on this matter. Our own work in this area shows that efforts to achieve consolidations or reductions in excess capacity have been ongoing for a number of years but continued efforts are needed. [15] Despite current efforts, however, it is uncertain to what extent DOD will achieve significant reductions without authority for additional BRAC rounds.

The issue continues to receive DOD and congressional attention. DOD is now developing new plans for streamlining the laboratories and test centers according to congressional direction in the Fiscal Year 1998 National Defense Authorization Act. Section 912(c) directed the Secretary of Defense to report to the Congress DOD's plans for streamlining the acquisition workforce, as well as the associated organizations and infrastructure. Laboratory personnel are part of the acquisition workforce

[15] Best Practices: Elements Critical to Reducing Successfully Unneeded RDT&E Infrastructure (GAO/NSIAD/RCED-98-23, Jan. 8, 1998).

and the Secretary committed to lead a study on how to streamline them. A follow-up August 1998 memorandum from the Under Secretary of Defense (Acquisition & Technology) got this study under way, directing that it be carried out by a steering group of top-level officials from across DOD. According to the memo, the group is to develop implementation plans with specific time lines and submit its recommendations to the Under Secretary by April 1, 1999. This submission date was subsequently extended to May 1, 1999.

## Demolition Goals Likely to Be Achieved

This initiative focuses on demolishing excess structures. DOD believes this will help cut costs and improve safety. While the services had previously given varying degrees of emphasis to demolition, the current emphasis is rooted in a 1997 MRM that directed them to survey their installations and identify excess structures. The results of this survey provided the basis for the DRI's overall goal, which calls for demolishing more than 8,000 excess structures by 2003. A subsequent DRID further refined this goal, laying out specific square footage targets for each service and specific deadlines for eliminating this square footage. Service officials said the DRI and the DRID clearly made demolitions a priority.

Service officials are confident they will meet the DRI's goals. Officials credited their progress to the attention that management is paying to this initiative and, especially, to the funding that is being set aside. For example, the Navy's funding for demolitions increased from $6 million in fiscal year 1996 to $27 million in fiscal year 1998, with additional funding programmed in future years. Similarly, funding for the Army's program, which involves the largest share of square footage to be demolished, jumped from $20 million in fiscal year 1997 to $104 million in fiscal year 1998, with funding to remain at about $100 million a year through 2003. According to latest projections, the Army will demolish 53.2 million square feet of facility space by 2003, the Navy 9.9 million square feet by 2002, the Air Force 14.9 million square feet by 2003, and the Marine Corps 2.1 million square feet by 2000.

Because demolishing buildings is costly, service officials questioned the magnitude of savings that will result from this initiative and preferred to characterize the long-term benefit as a cost avoidance. Our prior work on this issue indicates that demolitions can result in savings and cost avoidance because they eliminate the need to maintain unneeded structures and avoid future outlays for renovations.[16] We also noted, however, that demolition costs can increase depending on the type of construction and environmental considerations. We noted that it is important to continue to examine the cost-effectiveness of individual projects.

## The Defense Energy Support Center Is Helping the Services Manage Energy

This initiative is designed to help DOD minimize energy costs. According to DOD, the Department spends $2.2 billion annually on energy facilities and believes the magnitude of these expenditures should give it substantial leverage in the market. The DRI Report pointed out, however, that the Department is so busy managing the power infrastructure that it gives energy management inadequate attention. The DRI attempted to remedy this problem. It called for renaming DLA's Defense Fuels Supply Center the Defense Energy Support Center (DESC) and expanding the Center's responsibilities to include finding ways to maximize energy savings. A subsequent DRID further elaborated on this direction and instructed that DESC conduct a series of demonstration projects. The DRID also instructed DESC to help the military services in their efforts to privatize their utilities, another DRI initiative that DOD thinks will further its goal of shifting its focus to energy management. The DRID directed DESC to develop plans to support these objectives by June 1, 1998. It did not give deadlines for completing the demonstration projects.

Although we have not reviewed this effort in depth, we have learned that DESC completed the demonstration projects and that military service managers are working with DESC on various issues. For example, the services asked DESC to expand the scope of the demonstration projects to include more military installations and regions. In addition, Army and Air Force officials have sought DESC's help with utility privatizations. In one instance, DESC provided Air Force Materiel Command with $5 million to complete studies. Recognizing the role that DESC could play in privatizations, the DMC recently issued a new DRID that directed DESC to develop a joint regional utility privatization plan with the military services. A DESC manager said this effort should help the services write the complex bid solicitations required for privatizations.

[16] Defense Infrastructure: Demolition of Unneeded Buildings Can Help Avoid Operating Costs (GAO/NSIAD-97-125), May 13, 1997).

## Utilities Privatization Will Require More Time Than Originally Expected

In recent years, the military services have been examining the potential for privatizing their utilities[17] as a means of using private-sector capital to upgrade deteriorating facilities. At DOD's urging, the Congress included language in the National Defense Authorization Act for Fiscal Year 1998 that gave the military services the authority to convey utility systems to municipalities, the private sector, or other entities, avoiding the need for the services to seek legislative authority for individual actions. The DRI Report established the goal of privatizing all utility systems except those needed for security reasons or those that are uneconomical to privatize by January 1, 2000. Soon after, the DMC issued a DRID directing the military services to develop and pursue privatization plans.

Various service officials said the DRI and the subsequent DRID created an urgency to move out on privatizations throughout DOD. Nonetheless, service officials said they will not meet the 2000 deadline. Since the DRI Report was issued, the services have identified more than 1,700 utility systems as potential privatization candidates, but only a few had been privatized as of February 1999.[18] Service officials attributed the slow progress to the up-front work required, including researching the myriad of state and local laws governing utilities. Officials also said the most time-consuming and expensive work is still to come. For example, each privatization requires extensive feasibility and environmental studies. Further complicating the situation is the fact that the services have not set aside the up-front investment funds required to complete the studies and execute the privatizations, making progress difficult.

Top DOD management, however, has recognized the problems surrounding this initiative. In December 1998, the Deputy Secretary issued a DRID extending the deadline to September 30, 2003. Further, a December 1998 DOD program budget decision directed the services to set aside funding over the next several years—fiscal years 1999 through 2004—to cover the estimated $243.6 million in costs to complete the privatizations. The program budget decision estimated that utility privatization might begin to provide about $327 million in annual savings after privatizations are completed in 2003. It also stated, however, that the true cost of implementing the privatizations and the savings that might be realized could not be accurately estimated until further analysis was completed. It

[17]Utilities systems refer to electric, gas, water and wastewater facilities.

[18]The Army had begun efforts to privatize some utilities prior to the DRI. It privatized about 40 of them, mostly natural gas systems.

directed the services to complete further analysis of cost requirements for the upcoming 2001 budget cycle. In this respect, some service officials expressed caution about the extent of actual budget reductions likely to occur from these privatizations. They told us that any reductions in operating costs could be offset by higher utility rates. In some instances, service officials also expressed concern that private utility companies may not agree to take over some utility systems without the services upgrading them from their deteriorated state.

However, top management has continued to emphasize the need for action on this initiative. The December 1998 DRID required the services to determine by September 30, 2000, whether specific utilities should be privatized. It also required the services to issue all solicitations for bids on those utilities by September 30, 2001.

## Housing Privatization Will Not Meet DRI Goals

DOD's efforts to privatize military family housing are aimed at using private capital to upgrade housing faster than DOD could on its own. DOD began pursuing this effort following passage of the1996 National Defense Authorization Act, which gave DOD broad authority to pursue housing privatizations. Housing privatizations were subsequently folded into the DRI, which called for privatizing 3,500 units by fiscal year 1998, 15,000 units by fiscal year 1999, and 30,000 units by fiscal year 2000. No DRIDs have been issued on this initiative, but several officials acknowledged that since the DRI was issued, DOD's emphasis on this effort has increased significantly.

DOD, however, will not meet the DRI goals. By the time we finished our fieldwork in early 1999, only a few sites, covering about 1,000 housing units, had been privatized. Service officials attributed the slow progress to the many legal, financial, contractual, and budgetary issues they had to work with. For example, the services have had to determine how much service members' housing allowances need to be increased to compensate for the prospect that the government will no longer provide housing in certain areas. Those increases needed to be included in the budget. Other issues include how to structure privatization deals and how various federal laws and regulations are to be applied. Our July 1998 report on housing privatizations said DOD officials have acknowledged that the effort is moving more slowly than originally anticipated.[19] It also said DOD expects the pace of privatization to accelerate as the Department gains experience from the first few projects. We questioned, however, whether that would occur, because each project will be unique and will require individualized planning and negotiation. We are continuing to monitor this issue.

## Conclusions

It is too early to tell to what extent individual initiatives, taken collectively, will transform DOD's business operations into more streamlined, less costly processes. Many initiatives were ongoing at the time they were brought under the DRI umbrella and have received increased attention, focus, and direction. However, progress by individual initiatives under each pillar is still mixed. While some progress is being made, many of the initiatives will require more time to implement than projected by DRI milestones.

DOD has included in its budget plans specific savings from only two initiatives: competitive sourcing studies and BRACs. While we believe competitive sourcing has the potential to produce long-term savings, we have urged caution when estimating the magnitude of these savings, particularly in the short term, because DOD has not fully identified the investment costs needed to implement this initiative. While BRAC reductions are expected to produce savings in operating costs, the magnitude of short-term savings is unclear given uncertainties about the costs required to implement any future BRACs. However, DOD has included BRAC savings in its future budget plans although the Congress has not authorized additional BRAC rounds.

Information provided in this chapter is intended to provide a high-level status and not a detailed assessment of each initiative. To the extent that we have previously issued reports on individual initiatives, numerous recommendations for program improvements were made in those reports as warranted. Accordingly, we are not making additional recommendations pertaining to the individual initiatives in this report.

[19]This figure includes units privatized by the Navy using legislative authority granted specifically to the Navy in 1994. This authority predated the 1996 authority DOD is now using as the vehicle for the privatizations. Our report, Military Housing: Privatization Off to a Slow Start and Continued Management Attention Needed (GAO/NSIAD-98-178, July 17, 1998), examined DOD's progress under the 1996 authority. The legislative authority treated the Navy's privatizations as a separate issue. DOD, however, includes those privatizations in assessing its progress toward meeting the DRI's goals.

# Management Reform Memoranda

MRM 1: Implementation and Expansion of Infrastructure Savings Identified in the Quadrennial Defense Review (QDR), dated May 15, 1997. Established a special task force on Defense reform to streamline the Department of Defense's (DOD) infrastructure as proposed in the QDR. Recommendations for additional infrastructure savings were to be fully viewed and considered in the fall of 1997 during the program and budget review process. The final report of the task force, along with recommendations not acted upon during the program review, was to be completed by November 1, 1997.

MRM 2: Moving to a Paper-free Contracting Process by January 1, 2000, dated May 21, 1997. The Under Secretary of Defense (Acquisition and Technology) was to develop a blueprint of a plan to move to a totally paper-free contract writing, administration, finance, and auditing process by July 1, 1997.

MRM 3: Streamlining Management of the Office of the Secretary of Defense (OSD)-sponsored Higher Education Organizations and Programs, dated May 21, 1997. OSD, Defense agencies, and field activities were to identify those educational and professional development programs and organizations by June 1, 1997.

MRM 4: Eliminating Unneeded Publications in OSD and Organizations Under the Cognizance of OSD, dated May 21, 1997. The Assistant Secretary for Public Affairs was tasked to review publications sponsored by DOD organizations. After the DOD organizations justified continuing publication in paper format, the Assistant Secretary for Public Affairs was to submit a report on publications printed on a recurring or periodical basis by August 1, 1997.

MRM 5: Disposal of Excess Government-owned Property, dated May 21, 1997. The Commander of the Defense Contract Management Command was to develop a plan to eliminate excess government-owned property under the stewardship and control of Defense contractors and submit a coordinated plan by September 1, 1997, with the goal of disposing of all excess property by January 1, 2000.

MRM 6: Streamlining Member-arranged Movement of Household Goods, dated June 4, 1997. The Commander of the U.S. Transportation Command, in coordination with the Assistant Deputy Under Secretary (Transportation Policy) was to develop and implement a plan that would streamline and simplify policies and procedures for the management of member-arranged movement of household goods by service personnel. The plan was to be submitted to the Secretary by July 1, 1997.

MRM 7: Streamlining the Management of Leased Property, dated May 21, 1997. An integrated process team was established to revise existing or develop new policies and ensure consistent and accurate record keeping and management of property leases on a Department-wide basis. The team was to submit an initial report by July 1, with a final blueprint by October 1, 1997.

MRM 8: Disposal of Excess and/or Obsolete Structures, dated May 21, 1997. The Acting Under Secretary of Defense (Acquisition and Technology) was to undertake a survey within 90 days of all installations to develop a disposal list of excess structures. That list was to include all structures that were or would be excess by January 1, 2000, along with a plan for their demolition or disposal by that date.

MRM 9: Evaluation of Non-training Audiovisual Materials, dated May 22, 1997. The Assistant Secretary of Defense for Public Affairs was to undertake a survey within 60 days of policies governing audiovisual materials in DOD.

MRM 10: Redesigning DOD Source Acceptance Policies and Procedures, dated May 29, 1997. This MRM tasked the Under Secretary of Defense (Acquisition & Technology) to conduct a comprehensive reassessment of DOD's source acceptance policies and procedures and review existing stock items designated for source acceptance to ascertain whether or not they merited that designation.

MRM 11: Adoption of Commercial Identifiers in DOD Business Systems by January 1, 2000, dated June 16, 1997. This was a proposal to consider incorporating commercial identification numbers for DOD business entities and contractors to replace the DOD Activity Address Code and Commercial and Government Entity codes. It requested the Under Secretary of Defense (Logistics) to develop by August 1, 1997, a plan to accomplish these changes.

MRM 12: Expanding Use of Prime Vendor Control Instruments, dated June 17, 1997. The Director of the Defense Logistics Agency (DLA), in coordination with each of the military departments, was to develop a regional implementation blueprint for the DLA prime vendor contracting program for facilities maintenance supplies and services. The blueprint was to identify the critical events and site designations for regional implementation within 12 months and nationwide availability by the middle of fiscal year 1999.

MRM 13: Adopting Standard Commercial Products for Registration Files, dated June 20, 1997. A task force was formed to develop a DOD-wide plan to adopt standardized commercial data products for registration and addressing application in business systems. A blueprint of the plan was to be delivered by August 1, 1997.

MRM 14: Reengineering Permanent Change of Station (PCS) and Inactive Reserve Travel, dated June 23, 1997. It extended the temporary duty travel reengineering effort to cover permanent change of station travel and travel of inactive reserves. The Director of the Travel Reengineering Office was to develop a blueprint and deliver it by July 21, 1997.

MRM 15: Reengineering Defense Transportation Documentation and Financial Processes, dated July 7, 1997. It tasked the transportation and financial communities to jointly develop a long-term strategy to completely reengineer the Defense transportation documentation financial process. The strategies were to be implemented by October 1, 1997.

MRM 16: Identifying Requirements for the Design, Development and Implementation of a DOD Public Key Infrastructure, dated August 6, 1997. A position paper identified the baseline for DOD's transition to a paperless environment. A DOD public key infrastructure should provide the data integrity, user identification and authentication, user on-repudiation data confidentiality, encryption, and digital signature services for programs and applications that use DOD networks. The Defense Information Systems Agency (DISA) was to obtain input to be used for a public key infrastructure and Digital Signature Symposium.

MRM 17: Reducing the Number of Committees, dated May 6, 1997. The Director for Administration and Management was tasked to review DOD committees with a view to identify those that may be consolidated or eliminated and submit a report by October 1, 1997.

# Defense Reform Initiative Directives

DRID 1: Personnel Downsizing Plans, dated November 21, 1997. These plans reduce the OSD staff by one-third over the 18-month period beginning in November 1997.

DRID 2: New Defense Security Service, dated November 25, 1997. The DOD Polygraph Institute, the Personnel Security Research Center, and the DOD Security Institute will be merged into the Defense Investigative Service.

DRID 3: Defense Technical Information Center (DTIC), dated November 25, 1997. This transfers DTIC from DLA to Defense Information Systems Agency. In addition, Defense Information Systems Agency (DISA) will study DTIC functions to identify those that could be competed with the private sector.

DRID 4: Defense Privacy Office, dated November 25, 1997. The Defense Privacy Office is to be transferred to the Washington Headquarters Services.

DRID 5: Directorate for Freedom of Information and Security Review, dated November 25, 1997. This directorate is transferred from the Assistant Secretary of Defense (Public Affairs) to the Washington Headquarters Services.

DRID 6: Appointment of the Team to Create the Defense Threat Reduction and Treaty Compliance Agency, dated December 3, 1997. This DRID directs the merger of seven organizations to create the Defense Threat Reduction and Treaty Compliance Agency.

DRID 7: Overseas Military Banking Program, dated December 5, 1997. Responsibility for the day-to-day operations of the DOD Overseas Military Banking Program is transferred from the Office of the Under Secretary of Defense (Comptroller) to the Defense Finance and Accounting Service (DFAS). DFAS will study the feasibility of moving these operations closer to self-sufficiency and outsourcing.

DRID 8: Reducing the Number of Committees, dated December 10, 1997. OSD, the Joint Chiefs of Staff, service secretariats, and service staffs will make a second effort to identify DOD committees for elimination or consolidation.

DRID 9: Privatizing Utility Systems, dated December 10, 1997. The military services will develop a plan for privatizing all their utility systems (electric, water, waste water, and natural gas) by January 1, 2000, except those needed for unique security reasons or when privatization is uneconomical.

DRID 10: Establishment of a Task Force on Implementing Competition and Infrastructure Initiatives, dated December 19, 1997. This task force oversees the implementation of DRI.

DRID 11: Reorganization of DOD Space Management Responsibilities, dated December 19, 1997. A coordinated proposal will be prepared to make recommendations for a new streamlined approach to the management and oversight of Defense and intelligence for space activities.

DRID 12: Transfer Humanitarian Assistance and Demining Programs to the Defense Security Assistance Agency, dated December 22, 1997. This DRID consolidates program management and resources for humanitarian assistance and demining under a single program manager.

DRID 13: Defense Management Council Charter, dated December 22, 1997. The Council serves as the primary vehicle for ensuring that the initiatives of the DRI Report are carried out and for identifying major reforms still needed.

DRID 14: Establishment of the TRICARE Management Support Activity, dated January 5, 1998. This activity is a merger of the TRICARE Support Office, the Defense Medical Programs Activity, and the integration of the health management program functions located in the Office of the Assistant Secretary of Defense for Health Affairs.

DRID 15: Establishment of the Office of the Secretary of Defense Human Resources Transition Program, dated January 5, 1998. This office will help staff avoid involuntary separations resulting from reductions in the DRI. The program will include voluntary separation incentive pay and voluntary early retirement programs as well as a transition assistance center.

DRID 16: Transfer of the Nuclear Command and Control System Function and Support Staff to the U.S. Strategic Command, dated January 5, 1998.

DRID 17: Appointment of the Team to Develop a Blueprint to Merge Command, Control, Communications, and Computing Functions and the Development and Acquisition of Intelligence, Surveillance and

Reconnaissance Systems (C4 and ISR Systems) into the Office of the Under Secretary of Defense for Acquisition and Technology, dated January 5, 1998.

DRID 18: Feasibility of Competing Functions Involved in National Stockpile Sales, dated January 5, 1998. DLA will initiate a review of the functions involved in National Stockpile Sales and report to the Under Secretary of Defense (Acquisitions and Technology) as to the feasibility of competing these functions.

DRID 19: Transfer of the Defense Property Accountability System to DLA, dated January 14, 1998. Responsibility for the oversight, control, and management of the day-to-day operations of the Defense Property Accountability System is transferred from DFAS to DLA.

DRID 20: Review of Inherently Government Functions, dated January 16, 1998. DOD components will identify functions and positions that are inherently governmental in nature and functions that should be subject to competition with the private sector. The DRID includes the following milestones:

- identification of inherently governmental positions and functions, commercial activities exempt from the Office of Management Budget (OMB) Circular A-76 competition, and commercial activities that should be competed by October 31, 1998;
- joint review of the inventories by selected Under Secretaries of Defense with DOD components and appropriate OSD offices by November 30, 1998;
- review by the Defense Management Council by December 1998;
- compilation into the fiscal year 1998 Commercial Activities Inventory by December 1998;
- submittal to the Secretary of Defense by December 1998; and
- submittal to the Congress by January 1999.

DRID 21: Formation of the Defense Energy Support Center, dated January 16, 1998. The Defense Fuel Supply Center is redesignated the Defense Energy Support Center and its duties are expanded to include the consolidation of the Department's regional energy effort.

DRID 22: Transfer Out of Counter-drug Personnel to the DOD Components, dated January 16, 1998. This DRID transfers personnel from the

Counter-drug Central Transfer Account to the appropriate DOD component's operational element.

DRID 23: Defense Agency Performance Contracts, dated January 26, 1998. Annual performance contracts between the Deputy Secretary of Defense and the directors of selected DOD agencies, field activities, and principal support activities are to be established. These contracts will include the quantity of each product or service the agency plans to provide; measures of customer satisfaction; the planned costs of goods and services; improvements in agency productivity; planned steps to correct deficiencies; areas the agency plans to contract; and goals to measure cost, manpower, and overhead efficiencies.

DRID 24: Planning for Defense Reform Initiative Organizational Realignments, dated January 26, 1998. Gaining and losing DOD components are required to coordinate these realignments, and each receiving organization is to plan and conduct the actions necessary to receive the incoming functions and personnel.

DRID 25: DOD Plan for Integration of the National Guard and Reserve Component Into Domestic Weapons of Mass Destruction Terrorism Response, dated January 26, 1998. The Secretary of the Army will be responsible for this program.

DRID 26: Establishment of a Defense Management Council Task Force for Defense Reform Initiative Communications, dated January 26, 1998. The Council will coordinate DOD efforts to communicate information about the DRI and other related issues.

DRID 27: DOD Computer Forensics Laboratory and Training Program, dated February 10, 1998. The lab will be responsible for counterintelligence and for criminal and fraud computer evidence processing, analysis, and diagnostics.

DRID 28: Devolvement of the Chemical Weapons Demilitarization Function, dated February 12, 1998. This function is transferred from the Under Secretary of Defense for Acquisition and Technology to the Secretary of the Army.

DRID 29: Joint Activities Study, dated February 25, 1998. A study will be made to determine whether a number of joint activities can be transferred to the Commanders in Chiefs.

DRID 30: Initial Organizational Activity Regarding the Establishment of the Defense Threat Reduction Agency, dated February 25, 1998. This directive requires the consolidation of the Cooperative Threat Reduction Program and transfers the Arms Control Technology Program Office to the On-Site Inspection Agency.

DRID 31: Realignment of DOD Spectrum Management Responsibilities, dated March 23, 1998. DISA is directed to establish a spectrum analysis and management office responsible for joint spectrum matters. The services are to co-locate their frequency management offices with the DISA office. OSD is to establish a spectrum management focal point.

DRID 32: Paperless Contract Closeout, dated April 13, 1998. In order to make the contract closeout process electronic, a Working Integrated Process Team will review the efforts of an Air Force team related to these activities. Next, the Process Team will document the current process and determine what steps can be eliminated. Finally, it will determine how to perform the remaining activities electronically.

DRID 33: Paperless DD Form 250, Material Inspection and Receiving Report, dated April 13, 1998. This DRID is to establish a DOD-wide team to reengineer the DD Form 250 process. The team is to develop recommendations to streamline this process.

DRID 34: Transfer of Warsaw Initiative (Partnership for Peace) Program Management Functions to the Department of Defense, dated May 5, 1998. The program is transferred from the Defense Threat Reduction Agency to the Defense Security Assistance Agency.

DRID 35: Location of the Defense Threat Reduction Agency Headquarters and Support Offices, dated May 5, 1998. The physical location of the agency is to be centralized in one place.

DRID 36: Disposal/Demolition of Excess Structures, dated May 5, 1998. This DRID provides disposal and demolition targets.

DRID 37: Devolvement of the Day-to-day Oversight of the Defense Commissary Agency to the Services, dated May 5, 1998. Supervision of the Defense Commissary Agency is to be devolved from OSD to the secretaries of the military departments, who will exercise operational oversight as a corporate body.

DRID 37 Revised: Oversight of the Defense Commissary Agency, dated December 23, 1998. Day-to-day management of the Defense Commissary Agency will be devolved to the Commissary Operating Board, composed of representatives of the Secretaries of the military departments.

DRID 38: Funding Requirements for DOD Spectrum Management Responsibilities, dated May 6, 1998. This requires each component affected by DRID 31 to fund its own relocations costs associated with its move to DISA facilities. Components are also to fund additional costs associated with the spectrum initiatives being developed.

DRID 39: Travel Reengineering, dated May 12, 1998. The Director, Administration and Management, will submit a plan that transitions the functions performed by the Washington Headquarters Services' travel office to the private sector.

DRID 40: Redesignation of the Defense Security Agency as the Defense Security Cooperation Agency, dated May 20, 1998.

DRID 41: Development of a Blueprint for the Chancellor for Education and Professional Development, dated May 18, 1998. A Chancellor for Education and Professional Development will coordinate a program of civilian professional education and training throughout the Department.

DRID 42: Transfer of the Space Policy Function From the Under Secretary of Defense for Acquisition and Technology to the Office of the Assistant Secretary for Command, Control, Communication, and Intelligence, dated May 20, 1998. This transfer will align the space policy functions with the space-related oversight functions and ensure that there will be a single focal point for all space-related functions.

DRID 43: Defense-wide Electronic Commerce, dated May 20, 1998. This establishes the Joint Electronic Commerce Program Office. It will be responsible for the strategic implementation of electronic commerce policy within DOD.

DRID 44: Paperfree Program Objectives Memorandum Submission, dated June 2, 1998. The Office of Program Analysis and Evaluation will help the transition to an essentially paper-free Program Objective Memorandum (POM) process during the POM fiscal years 2001-2005 cycle. This effort is to be coordinated with other DOD components.

DRID 45: Prime Vendor Contracting Program for Facility Maintenance Supplies, dated August 24, 1998. The military services are encouraged to use the maintenance, repair, and operations prime vendor contracts established by DLA.

DRID 46: Paperless Contracting, dated December 9, 1998. A Paperless Contracting Overaching Integrated Product Team is established to review the status of service/agency paperless contracting initiatives, resolve conflicts, and make recommendations to DOD.

DRID 47: End-to-end Procurement Process, dated December 9, 1998. This established a DOD Working Integrated Process Team to develop and document the future end-to-end procurement process, including accounting and payment.

DRID 48: Adoption of Commercial EDI Standards for DOD Logistics Business Transactions, dated December 9, 1998. The Joint Electronic Commerce Program Office will form an Integrated Product Team to develop a method for DOD logistics transactions to use commercial Electronic Data Interface standards.

DRID 49: Privatizing Utility Systems, dated December 23, 1998. DOD's plans to award privatization contracts for all utility systems are delayed to no later than September 30, 2003. A study is also to be made of each DOD utility by September 30, 2001, to determine if it can be privatized.

# Comments From the Department of Defense

OFFICE OF THE SECRETARY OF DEFENSE
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WASHINGTON, DC 20301-1000

DIRECTOR,
DEFENSE REFORM

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

12 APR 1999

Dear Mr. Warren:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "DEFENSE REFORM INITIATIVE (DRI): Organization, Status, and Challenges," dated February 26, 1999 (GAO Code 709345/OSD Case 1760)."

The Department of Defense does not have any specific comments regarding this report. Here are some observations regarding recommendations:

(1) **Recommendation:** *Bring all important reform initiatives under the purview of the DRI program and using the Government Performance and Results Act principles as a framework to establish a more comprehensive, integrated strategy and action for reforming the Department's major business and support activities.*

**Response:** The Defense Reform Office facilitates and tracks initiatives that cut through jurisdictional boundaries and are focused on changing cultures. Many of the DRI efforts are management methods which do not lend themselves to quantifiable goals. Therefore, the recommended application of Government Performance and Results Act (GPRA) principles as a framework is fully possible only in some circumstances as reflected in Appendix J of the 1999 Annual Report to Congress. We have formed integrated process teams to coordinate all DoD reform activities, including GPRA, so as to foster reform and ensure information sharing. As a result of these efforts, DRI and acquisition reform were integrated into the Department's FY 1999/2000 GPRA performance plan. These IPTs will continue to review our ongoing reform efforts for inclusion in future performance plans.

The 1999 Update Report of Defense Reform, released on March 2, reflects the Secretary's intentions to expand the breadth of reforms in the Department. In order to make defense reform a part of the day-to-day operations of the Department of Defense, the Secretary moved responsibility for the DRI to the office overseeing acquisition reform on March 23, 1999. The Deputy Under Secretary of Defense for Acquisition Reform will also server as Director, Defense Reform reporting directly to the Secretary in this capacity.

(2) **Recommendation:** *More fully identify initiatives and Department-wide funding targets for the DRI program and communicating them to the Congress during the annual budget process.*

**Response:** We are reviewing the funding and expanding our efforts to consult with the Congress during the budget process. This is a high priority part of our efforts.

Thank you for your cooperation with our staff as you conducted this review. We look forward to final release of the report.

Stan Z. Soloway

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