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December 2002

DEFENSE MANAGEMENT

New Management Reform Program Still Evolving

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New Management Reform Program Still Evolving

Why GAO Did This Study

The Secretary of Defense announced a new business transformation program in 2001 with the intent of improving the effectiveness and efficiency of Department of Defense business operations. Concerned that the previous administration's Defense Reform Initiatives (DRI) could not be successful without many years of sustained effort, the Senate Committee on Armed Services issued a September 2001 report directing GAO to assess which DRI initiatives have been carried forward. In completing this assessment, GAO also examined the management structure and types of initiatives contained in the new business transformation program. Also at the request of the Committee, more detailed information on the status of the logistics reform and electronic business/electronic commerce initiatives is provided in the GAO report.

GAO interviewed officials involved with the former DRI initiatives, as well as officials operating at all levels of the new business transformation program. In commenting on a draft of this report, DOD concurred with GAO's findings.

What GAO Found

Most former DRI initiatives are continuing, although not always under the direct oversight of the new business transformation structure. According to DOD, 5 initiatives have been completed and 35 are still ongoing in some form. In general, the ongoing initiatives are being managed under the applicable functional area of responsibility, without specific oversight and tracking by a central management reform office. Nonetheless, the new management structure—led by the Senior Executive Council and the Business Initiative Council—does oversee some former DRI initiatives, such as financial management reform and public-private competitions under the Office of Management and Budget's Circular A-76.

While similar in some respects, DOD officials have stressed that the new business transformation management structure is not considered to be a replacement for the previous DRI management structure. Important differences exist between the management approaches of the former and current reform programs. For example, the new management structure has higher senior-level management involvement and focus on decision making, but less emphasis on specific savings targets.

To date, most new reform program initiatives have been intentionally small in scope in order to produce benefits in fiscal year 2003. The new program has begun to consider some larger efforts, such as alternatives to A-76. GAO believes the new business transformation program has the potential to be an effective mechanism for reform given the high-level management membership and emphasis on interservice participation. However, DOD's efforts are still evolving, and it is too soon to tell how effective the new reforms will be. Moreover, like the DRI, the new management program does not yet have an overarching plan tying key reform efforts together in an integrated fashion.

Status of Former Defense Reform Initiatives under the New Management Reform Program According to DOD Definitions Used to Categorize the Initiatives

	Completed[a]	Ongoing (as is)[b]	Ongoing with revision[c]	Subsumed[d]
Number of Defense Reform Initiatives	5	8	20	7

[a]The initiative is considered to have met the goal(s) established.

[b]The initiative remains active, without change, and there are efforts to meet the established goal(s) or objective(s).

[c]The initiative remains active, although the target goal(s) or objective(s) has been changed.

[d]The initiative has been made the part of another management initiative but remains viable.

Source: DOD's February 28, 2002, report.

Contents

Tables

Abbreviations

AT&L	Acquisition, Technology and Logistics
BIC	Business Initiative Council
DMC	Defense Management Council
DOD	Department of Defense
DRI	Defense Reform Initiative
IT	information technology
OSD	Office of the Secretary of Defense
PKI	public key infrastructure
QDR	Quadrennial Defense Review
SEC	Senior Executive Council

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United States General Accounting Office
Washington, DC 20548

December 12, 2002

The Honorable Carl Levin
Chairman
The Honorable John W. Warner
Ranking Minority Member
Committee on Armed Services
United States Senate

The Defense Reform Initiative, announced by the Secretary of Defense in November 1997, represented an important set of actions aimed at improving the effectiveness and efficiency of Department of Defense (DOD) business operations. The current Secretary of Defense announced his own management reform program in 2001, referred to as the DOD Business Transformation program, also with the intent of improving the effectiveness and efficiency of the department's business operations.

The Senate Committee on Armed Services's September 12, 2001, report accompanying the legislation to authorize the department's fiscal year 2002 appropriations expressed the view that reform of the department's business practices will not be successful without many years of sustained effort continuing through several administrations. The report cited the desire to ensure that valuable initiatives had not been dropped in the transition from one administration to the next, and it sought to determine to what extent those initiatives were being continued under the new management reform program. Accordingly, the report tasked the department with making a determination concerning which of the previous Defense Reform Initiatives should be continued and incorporated into the new management reform program. The department provided us with its February 28, 2002, status report of its determination on the status of the former Defense Reform Initiatives.

The Senate report also directed us to review the department's determinations and report on our findings. Accordingly, this report discusses (1) what Defense Reform Initiative efforts have been carried forward and how their progress is being tracked, (2) how the management structure of the DOD Business Transformation program compares with that of the Defense Reform Initiative, and (3) what types of initiatives are contained in the DOD Business Transformation program. Additionally, at the request of your offices, we provide more detailed information on the status of the logistics reform and electronic business/electronic commerce initiatives in appendixes I and II.

GAO-03-58 Defense Management

Results in Brief

The Department of Defense indicates that most Defense Reform Initiatives are being incorporated into the new management reform program. In its February 2002 status report, the department indicated that 5 initiatives had been completed and that 35 were still ongoing in some form (see apps. III and IV). In general, the ongoing initiatives are being managed under the applicable functional area of responsibility, without specific oversight and tracking by a central management reform office as was previously done. For example, logistics reform efforts that were included in the Defense Reform Initiative program have been subsumed into related initiatives under the Deputy Under Secretary of Defense for Logistics and Materiel Readiness. DOD's Business Transformation program's management structure is not specifically tracking these initiatives. However, the new management structure is overseeing some former Defense Reform Initiatives, such as financial management reform and public-private competitions under the Office of Management and Budget's Circular A-76.

Both the Defense Reform Initiative and DOD's Business Transformation programs were created to improve the effectiveness and efficiency of the department's business operations. In this regard, both programs established management structures to implement and support their reform efforts. While similar in some respects, department officials have stressed that the new management structure is not considered to be a replacement for the previous Defense Reform Initiative management structure, including its Defense Management Council and the Defense Reform Initiative program office. Important differences exist between the management approaches of the former and current management reform programs, such as the level of decision-making authority and emphasis on savings. For example, the new program's Business Initiative Council has the authority to approve Department of Defense-wide initiatives to improve the department's business operations compared to the former Defense Management Council, which acted primarily as an oversight body. Also, the focus of the new business transformation program is on effectiveness of actions, with the belief that efficiencies and savings will ultimately result, whereas the former Defense Reform Initiative sometimes established specific financial savings targets.

Additionally, thus far, most of the DOD Business Transformation program's initiatives have been smaller in scope than those included under Defense Reform Initiative efforts. (See app. V for a listing of initiatives approved by the Business Initiative Council.) According to department officials, many of the initial efforts were intentionally small and selected to produce benefits in fiscal year 2003. However, the new business transformation program has begun to consider some larger efforts, such as alternatives to Circular A-76. Given the high-level membership and

significant amount of interservice participation, we believe the new management program has the potential to be an effective mechanism for reform. However, because the department's efforts are still evolving, it is too soon to tell how effective this approach will be in transforming the business operations of the department. Moreover, like the Defense Reform Initiative, DOD's Business Transformation program has not yet developed an overarching plan tying key reform efforts together in an integrated fashion. This could become more important as the department initiates broader, interrelated efforts.

The department concurred with our findings in its written comments on a draft of this report.

Background

In November 1997, the then Secretary of Defense issued his Defense Reform Initiative (DRI) report outlining a plan for reforming the department's business operations. The report included a variety of initiatives to reengineer business practices, consolidate organization, eliminate unneeded infrastructure through additional base closures, and conduct public-private competitive sourcing studies for commercial activities. These initiatives were expected to help achieve infrastructure reductions and business process improvements. After the DRI was announced, the Department of Defense expanded the scope of the DRI effort to include several additional initiatives such as acquisition, financial management, and logistics reform.

DOD established a management oversight structure to help sustain the direction and emphasis of the DRI effort. This structure included (1) a Defense Management Council—chaired by the Deputy Secretary and consisting of key civilian and military leaders—to oversee the DRI efforts and advise the Secretary on new reform efforts, (2) a Coordinating Group to provide assistance and advice to the Management Council, and (3) a Defense Reform Office to track implementation of the initiatives and identify areas where management's attention was needed. The services and Defense agencies, which are ultimately responsible for implementing the initiatives, also established small offices or points of contact to receive and collect information about DRI. However, the department did not develop an integrated reform strategy and action plan to guide the program's implementation, a limitation we have found in prior reform efforts.

The current Secretary of Defense, in 2001, announced his management reform program, referred to as the DOD Business Transformation program. This resulted in the creation of two top-level committees, the

Senior Executive Council and the Business Initiative Council, to help improve business practices and transform the military and to oversee the implementation of the new reform program. The Secretary also created an advisory group of outside experts known as the Defense Business Practice Implementation Board.

The Senior Executive Council was established to help guide efforts across the department to improve business practices. It is chaired by the Secretary of Defense and is comprised of the Deputy Secretary of Defense, the service secretaries, and the Under Secretary of Defense for Acquisition, Technology and Logistics. The Senior Executive Council was established to function as a board of directors for the department.

The Business Initiative Council, headed by the Under Secretary of Defense for Acquisition, Technology and Logistics, includes among its membership the service secretaries and the Vice Chairman of the Joint Chiefs of Staff. Recently, membership was expanded to include the Under Secretary of Defense (Comptroller) and the Under Secretary of Defense for Personnel and Readiness. The Business Initiative Council was established to encourage the military services to explore new money-saving business practices to help offset funding requirements for transformation and other high priority efforts.

The Defense Business Practice Implementation Board consists of business leaders from the private sector to help advise the department on its efforts to improve business practices. A list of these business leaders is provided in appendix VI.[1]

Scope and Methodology

To determine the status of the DRI initiatives, we reviewed and analyzed DOD's February 2002 status report, using it as our basis for determining the current status of the former DRI initiatives. While we did not conduct an in-depth review of each initiative, we did confirm the accuracy of a number of the initiatives contained in DOD's report. We also met with representatives from the Offices of Logistics and Materiel Readiness and the Chief Information Officer to discuss the logistics and electronic business/electronic commerce reform efforts.

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[1] The Comptroller General of the United States, David M. Walker, serves as an observer on this panel.

To compare the new business transformation program management structure with the DRI management structure, we relied heavily on our prior work in this area (see Related GAO Products at the end of this report). We also met with officials responsible for the new business transformation program to discuss the management structure and obtain relevant documentation. We reviewed documents applicable to the intent, purpose, and structure of the DOD Business Transformation program.

During our work, we interviewed officials who had been heavily involved in the former DRI, as well as officials operating at all levels of the new business transformation program. These included the former director of the DRI Office, the points of contact for several former DRI initiatives, the Executive Secretary of the Senior Executive Council, the current and past leaders of the Business Initiative Council Executive Steering Committee, leaders for several of the Process/Functional Boards, and champions for a few of the current business transformation initiatives.

We conducted our review from February 2002 through September 2002 in accordance with generally accepted government standards.

Agency Comments

The Director of the Office of the Under Secretary of Defense's Defense Procurement and Acquisition Policy provided written comments on a draft of this report, which are reprinted in their entirety in appendix VII. In its comments, DOD concurred with our findings in the draft report.
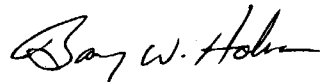
We are providing copies of this report to the Chairmen and Ranking Minority Members of the Committee on Armed Services, House of Representatives; Subcommittee on Defense, Committee on Appropriations, U.S. Senate; Subcommittee on Defense, Committee on Appropriations, House of Representatives; Subcommittee on Oversight of Government Management, Restructuring, and the District of Columbia, Committee on Governmental Affairs, U.S. Senate; and Subcommittee on National Security, Veterans' Affairs and International Relations, Committee on Government Reform, House of Representatives. We are also sending copies of this report to the Secretary of Defense; the Secretaries of the Army, Navy, and Air Force; the Commandant of the Marine Corps; and the Director, Office of Management and Budget.

We will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staff have questions regarding this report, please contact me on (202) 512-8412 or holmanb@gao.gov. Other major contributors to this report are listed in appendix VIII.

Barry W. Holman
Director, Defense Capabilities
 and Management

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Most DRI Efforts Are Continuing

- Most Defense Reform Initiatives are being carried forward.
- However, they are continuing under the applicable functional area's responsibility rather than under the umbrella of a central management reform program/office. Accordingly, the progress of most ongoing initiatives formerly under DRI is not being tracked by the new management reform program's top-level committees.
- While most initiatives are continuing, the degree of change varies.
  - Logistics efforts have changed considerably.
  - Electronic business/electronic commerce remains relatively unchanged.

The Department of Defense (DOD) indicates that most Defense Reform
Initiative (DRI) efforts are being carried forward—that is, incorporated
into the new management reform program. According to a DOD official in
the Office of the Under Secretary of Defense for Acquisition, Technology
and Logistics, those initiatives not included in the department's February
2002 report were generally no longer ongoing or no longer being tracked
by the former DRI Office at the time of the transition to the new
administration. Of the 40 initiatives identified in its February report,
5 were categorized as completed and 35 were categorized as ongoing
in some form. (See app. III for a summary table of Defense Reform
Initiatives. App. IV contains DOD's February 2002 status report in
its entirety.)

Our analysis shows that most of the ongoing initiatives are not managed
with specific oversight and tracking under the umbrella of a central
management reform program/office. Rather, they continue to be managed
under the applicable functional area of responsibility. For example, some
of the logistics reform efforts included in the DRI program have been
subsumed into related initiatives under the Deputy Under Secretary of
Defense for Logistics and Materiel Readiness, but their progress is not
being specifically tracked by the new business transformation program.
However, there are some initiatives that are being monitored under the
new management structure. Two key examples are financial management
reform and public-private competitions under the Office of Management
and Budget Circular A-76. Responsibility and accountability for financial
management reform are vested with the DOD Comptroller, but the effort is
being overseen by the Senior Executive Council (SEC) and, as such, is
receiving high-level visibility under the DOD Business Transformation
program. The department's A-76 program has been subsumed into a larger
effort, which is seeking to identify a range of alternatives to A-76 centered
on noncore functions that DOD and the services do not necessarily need
to perform in-house. Both SEC and the Business Initiative Council (BIC)
are involved in this effort to identify noncore functions.

Our analysis also shows that the DRI initiatives are continuing to exhibit
varying degrees of change under the new business transformation
program. For example, while the objectives of the DRI logistics initiatives
generally continue under the new business transformation program, the
framework for achieving these objectives has changed completely.
Conversely, the framework that was put in place under DRI to achieve the
goals of the electronic business/electronic commerce program remains
relatively unchanged.

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Most DRI Efforts Are Continuing

- DRI identified three separate initiatives regarding logistics.
- Current logistics improvement efforts have been refocused under the Future Logistics Enterprise.
- Many DRI logistics objectives are continuing, but some have been discontinued.
  - Department of Defense-wide strategic plan is no longer directed, although several planning objectives continue under the U.S. Transportation Command and Office of the Secretary of Defense.
  - Component transformation plans are no longer being prepared.
  - Value to the warfighter objectives and metrics have been collapsed into one measure—customer wait time.

DRI identified three broad logistics initiatives aimed at improving the effectiveness and efficiency of business operations, reducing overall logistics costs, and improving customer service. These initiatives directed the department to develop a logistics strategic plan, implement the logistics strategic plan using component transformation plans, and improve the logistics value to the warfighter.

The department developed several versions of a logistics plan, and each of the service and agency components produced implementation plans. While we identified weaknesses in these efforts, we recognized they were a positive and necessary step toward achieving the goals set by the DRI program.

In September 2001, the current DOD leadership announced a new logistics initiative program, designated the Future Logistics Enterprise, which refocused top-level logistics reform on six issues. They are (1) pursue depot maintenance public-private partnership, (2) use condition based maintenance, (3) adopt total life-cycle system management, (4) pursue end-to-end distribution, (5) establish new executive agents, and (6) enhance enterprise integration.

Many of the objectives identified in the DRI program are continued in varying degrees under the current Future Logistics Enterprise, though not specifically under the auspices of SEC or BIC. A key difference under the new business transformation program is the departure from previous efforts to develop a comprehensive, integrated logistics strategic plan, with the military components developing complementary implementation plans. Nonetheless, several of the objectives of the strategic planning initiative, such as minimizing logistics costs and modernizing logistics processes, do continue, even though the approach may have changed. DOD has carried forward the DRI goal of implementing customer wait time as a departmentwide logistics metric, and it now uses customer wait time as the sole measure of logistics performance. However, the capability to capture and report customer wait time is still under development. The DOD definition of customer wait time—the elapsed time from order to receipt when a customer orders an item—is broader than what the department is currently able to measure.

See appendix I for more detail on the logistics reform efforts.

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Most DRI Efforts Are Continuing

- DRI identified several initiatives regarding electronic business/electronic commerce.
- Electronic business is currently receiving much attention.
  - Architecture is under development.
  - Strategic plan update is due in fiscal year 2003.
  - No implementation plan is anticipated, but oversight is being provided by the DOD Electronic Business Board of Directors.
  - Recent BIC initiative supports an information technology marketplace.
  - President's Management Agenda directs work on a public key infrastructure.

The department identified and began implementing a number of specific electronic business/electronic commerce initiatives that it believed would help modernize selected business practices. These include an architecture, a strategic plan, an implementation plan, an electronic mall to provide personnel with one-stop shopping via the Internet, and methods for safeguarding electronic data.

However, in July 2000, we reported that DOD had made little progress in the area of electronic commerce.[1] Specifically, we found that although a strategic plan was in place, other key implementation issues had not been addressed. Efforts to develop a departmentwide implementation plan had ceased, and work on an electronic commerce systems architecture was lagging. While the electronic mall was available to DOD shoppers, it was incomplete with several pieces under development. Although DOD launched many initiatives to improve security over its information, the public key infrastructure program was seen as crucial to providing the necessary safeguards and was not expected to be implemented for several years.[2]

Currently, these electronic business efforts are not formal initiatives under the new management structure, but they are receiving high-level attention within the department under the direction of the Chief Information Officer. The electronic business architecture is under development, but the future direction is uncertain pending development of a financial management enterprise architecture. The strategic plan is being updated, and a new version is expected sometime in fiscal year 2003. There is currently no effort underway for a departmentwide implementation plan, but the services continue to operate their separate programs with oversight provided by the DOD Electronic Business Board of Directors. Additionally, in February 2002, the BIC approved an effort to implement a virtual information technology marketplace for hardware, software, and selected services, which complements the DRI electronic mall initiative. Moreover, the electronic business area is receiving attention as one of the five governmentwide initiatives in the President's Management Agenda for fiscal year 2002. The initiative, referred to as Expanded Electronic Government, specifically includes a public key infrastructure element as part of an effort to safeguard data.

See appendix II for more detail on the electronic business/electronic commerce reform efforts.

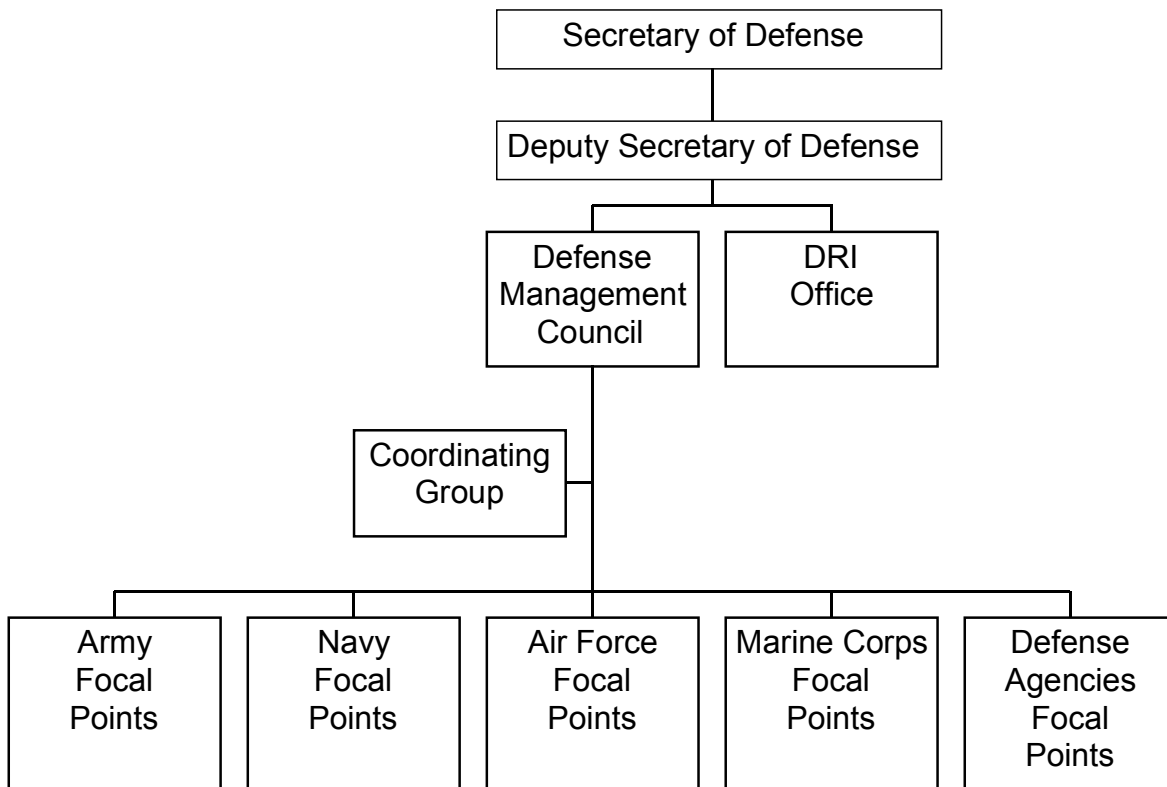[1] U.S. General Accounting Office, *Defense Management: Electronic Commerce Implementation Strategy Can Be Improved*, GAO/NSIAD-00-108 (Washington, D.C.: July 18, 2000).

[2] A public key infrastructure is a system of hardware, software, policies, and people that, when fully and properly implemented, can provide a suite of information security assurances that are important in protecting sensitive communications and transactions.

Briefing Section II: Management Structures

Former Defense Reform Initiative
Management Structure

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                    Secretary of Defense
                            |
                Deputy Secretary of Defense
                    |               |
          Defense              DRI
          Management           Office
          Council
              |
    Coordinating
    Group
        |
  Army        Navy      Air Force   Marine Corps   Defense
  Focal       Focal     Focal       Focal          Agencies
  Points      Points    Points      Points         Focal
                                                   Points
```

Source: GAO analysis of DOD documents.

The DRI program was established with an organizational framework to give structure and guidance to the reform effort. The framework consisted of the Defense Management Council (DMC), a coordinating group to support DMC, and a DRI Office to track implementation and identify issues that needed management attention. Points of contact called focal points were established in the services and Defense agencies.

DMC was expected to act as an internal board of directors. Membership included the Deputy Secretary of Defense (chair), the four Under Secretaries of Defense, the Vice Chairman of the Joint Chiefs of Staff, three military service Under Secretaries, four military service Vice Chiefs, the General Counsel, and the Director of the DRI Office.

A coordinating group, comprised of senior level representatives from the military services and the Office of the Secretary of Defense, was established to support DMC. The Director for Program Analysis and Evaluation, located in the Office of the Secretary of Defense, acted as executive director and served as the primary interface with DMC, helping to decide which issues to bring to it. The coordinating group met weekly to provide advice and assistance to DMC, draft policy statements, and provide a forum for the services and Defense agencies to discuss concerns, deal with ongoing DRI activities, and resolve problems.

The DRI Office was created to monitor progress and identify areas where management attention was needed. Intentionally kept small—up to eight people—it was tasked to track implementation of initiatives, obtain information on progress and potential problems, develop status reports, and look beyond DRI to identify other reform opportunities and marshal support.

Focal points were either small offices or points of contact established by the services and Defense agencies to receive and collect information about the DRI initiatives. The focal points did not manage initiatives, but they had a role in expediting actions and seeing that specific initiatives were addressed in their organizations.

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Former Defense Reform Initiative
Management Structure

- DRI provided a centralized focus for major initiatives.
  - Created a centralized DRI Office to facilitate reform and track results.
  - Used Defense Reform Initiative Directives to describe an initiative and provide direction.
  - Developed performance contracts for Defense agencies to improve oversight of the agencies.
  - Linked Quadrennial Defense Review (QDR) and DRI goals throughout the organization.
  - Issued budget guidance directing the services and Defense agencies to support QDR and DRI goals.

The high-level management attention and oversight structure established by the department, particularly during the early stages of the program, had a positive effect on the implementation of DRI. Strong support and leadership from the then Secretary and Deputy Secretary of Defense, for example, gave the DRI a high priority within the department. Through its organizational framework, DOD tried to institutionalize and provide a centralized, sustained emphasis on the former DRI. The Defense Management Council and the DRI Office were established to provide the type of management attention and oversight necessary for successful reform by effectively communicating the reason for the change, setting the overall scope and agenda, and establishing policy. One of the direct communication tools DOD developed was the Defense Reform Initiative Directive. These directives, reviewed by DMC and issued by the Deputy Secretary of Defense, communicated specific goals and objectives, milestones, and decisions for selected initiatives. A total of 54 Defense Reform Initiative Directives were issued between November 1997 and March 2000.[1]

DOD also developed performance contracts to improve oversight of Defense agencies that provide numerous products and services to the military services and to other Defense agencies. These performance contracts were formal agreements delineating improvement goals related to cost, productivity, quality, and responsiveness to customers. According to a DOD official, emphasis on performance contracts continues; however, they have evolved into customer support agreements, which means customers will now be more involved in developing the goals and metrics for the Defense agencies.

DOD developed a departmentwide strategic plan, the Quadrennial Defense Review (QDR), which set DOD's general direction for 4 years. Then, in 1998, the Secretary directed organizations at all levels of the department to review their strategic plans and mission objectives to ensure they were linked to the QDR and DRI goals and objectives.

In an effort to overcome typical budget shortfalls for management reform initiatives, DOD directed the services and Defense agencies to construct budgets and programs consistent with the corporate-level goals in the QDR. Budget guidance included DOD's mission statement and strategic goals, including the goal to "fundamentally reengineer the department."

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[1] While Defense Reform Initiative Directives were used to communicate specific goals, objectives, milestones, and decisions associated with the Defense Reform Initiative program, not every directive resulted in a separate initiative.

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Former Defense Reform Initiative
Management Structure

- DRI laid out a formal program construct for reform but essentially absorbed many ongoing efforts.

- Over time, the Defense Management Council became less active and less engaged in the reform process.

- An integrated strategy and action plan would have helped sustain momentum during leadership transition.

The DRI included a variety of reform or reengineering initiatives, many of which were already ongoing before they were brought under the DRI umbrella. These included a series of 17 Management Reform Memoranda, which had been issued in early 1997 by the Deputy Secretary of Defense. To varying degrees, DRI gave each of those initiatives increased visibility and top-level support within the department and, in many instances, imposed new goals and milestones for accomplishing their objectives.

The Defense Management Council played an effective role in getting DRI started. For example, it helped establish goals, objectives, and time frames for completing many of the initiatives; supported the need for reform throughout the department; and helped ensure that staff at all levels understood the significance and purpose of DRI.

As we previously reported, DMC might have been more effective in serving as the Secretary's Board of Directors had the DMC members been able to (1) work in a more collaborative fashion on major departmentwide issues, (2) establish priorities among the numerous reform initiatives, (3) enhance the DMC's decision-making role and authority, and (4) obtain better information on the initiatives' status. In April 1999, we recommended that the Secretary of Defense establish a comprehensive, integrated strategy and action plan for reforming the department's major business operations and support activities.[2] Then again in a July 2000 report, we reiterated that recommendation, stating that an integrated strategy and action plan could help DOD maintain program momentum and continuity during any transition in department leadership.[3]
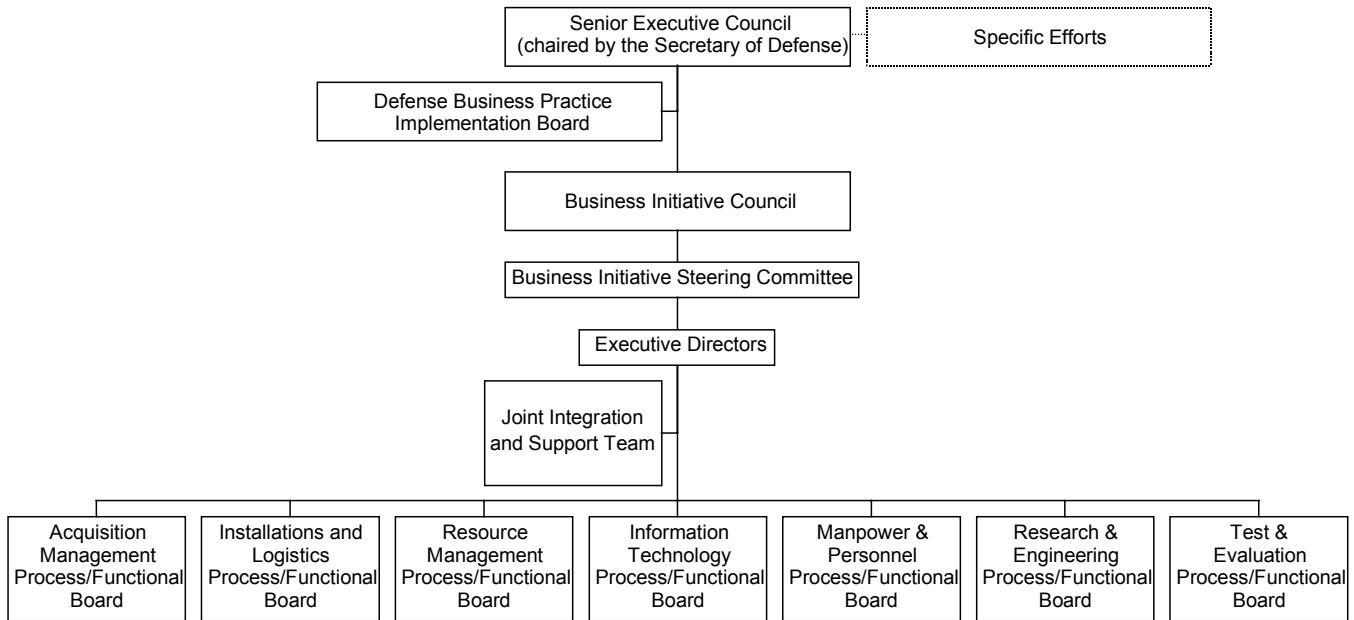
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[2] U.S. General Accounting Office, *Defense Reform Initiative: Organization, Status, and Challenges*, GAO/NSIAD-99-87 (Washington, D.C.: Apr. 21, 1999).

[3] GAO/NSIAD-00-108.

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DOD Business Transformation Program Management Structure

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            │   Senior Executive Council      │......│     Specific Efforts    │
            │ (chaired by the Secretary of    │      │                         │
            │          Defense)               │      └─────────────────────────┘
            └─────────────────────────────────┘
      ┌──────────────────────────────┐  │
      │  Defense Business Practice   │  │
      │   Implementation Board       │  │
      └──────────────────────────────┘  │
            ┌─────────────────────────────────┐
            │    Business Initiative Council  │
            └─────────────────────────────────┘
            ┌─────────────────────────────────┐
            │ Business Initiative Steering     │
            │         Committee                │
            └─────────────────────────────────┘
            ┌─────────────────────────────────┐
            │      Executive Directors         │
            └─────────────────────────────────┘
      ┌──────────────────────────────┐
      │   Joint Integration          │
      │   and Support Team           │
      └──────────────────────────────┘
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| Acquisition Management Process/Functional Board | Installations and Logistics Process/Functional Board | Resource Management Process/Functional Board | Information Technology Process/Functional Board | Manpower & Personnel Process/Functional Board | Research & Engineering Process/Functional Board | Test & Evaluation Process/Functional Board |

Source: DOD.

DOD Directive 5105.66 created the SEC on July 10, 2001. The SEC mission is to advise the Secretary of Defense in the application of sound business practices in the military departments, Defense agencies, and other DOD components. SEC is intended to be the principal mechanism to evaluate such practices and develop and implement proposals for improvement. Such proposals, or special efforts, may initially be developed under the purview of SEC and then referred to either BIC or the applicable functional area for implementation.

The Defense Business Practice Implementation Board (the Board) reports to SEC. Its mission is to make recommendations to SEC on strategies for implementing best business practices of interest to DOD in matters relating to management, acquisition, production, logistics, personnel leadership, and the defense industrial base. The Board is to consist of 20 members and ad hoc consultants as necessary (see app. VI) and is subject to renewal every 2 years.

The stated mission of BIC is to improve efficiency of DOD business operations by identifying and implementing business reform actions that allow savings to be reallocated to higher priority efforts. Membership is similar to SEC.

The Steering Committee is responsible for developing project guidelines, plans, and direction and ensuring that individual reforms are integrated. It is composed of designated service three-star flag and general officers, selected executives from the Office of the Secretary of Defense, and a Joint Chief of Staff warfighter liaison.

The Joint Integration and Support Team (the Team) provides the necessary analysis, coordination, facilitation, and support needed for a project. The Team is comprised of BIC Executive Directors from the Office of the Secretary of Defense, Joint Staff, the services, and their supporting staff.

Seven multiservice/department process/functional boards conduct the actual reform work efforts within the framework of the guidelines, assessment methodologies, and information requirements of the Steering Committee. Among other things, these boards develop action plans that identify resource requirements, integration efforts with other reforms, policies, directives, and training, where applicable.

The BIC, the Steering Committee, and the functional boards are replicated at the individual service level.

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DOD Business Transformation Program
Management Structure

- SEC focuses on broad policy issues, force transformation, and general management reforms.

- Defense Business Practice Implementation Board expected to meet quarterly to provide advice to SEC.

- SEC directs BIC, military services, and functional areas to address management initiatives.

The SEC assists the Secretary of Defense in determining broad policy and implementing initiatives relating to the efficient organization and management of the department. It identifies opportunities to achieve improved efficiency and effectiveness in DOD operations, such as improved business practices and consolidation of managerial functions and activities. A senior Defense official acknowledges, however, that given the high level of membership, the lines between ongoing management responsibility and the management reform agenda may sometimes appear blurred. Formal SEC meetings are held monthly.

The directive that created SEC required it to "consult with members of the business and the academic communities to seek innovative methods to resolve management problems, reengineer business practices, and streamline operations." To fulfill this requirement, a formal advisory board, the Defense Business Practice Implementation Board, was created and met for the first time on March 15, 2002. It plans to meet quarterly, and has met three times to date and covered a variety of issues, such as human capital transformation and financial performance metrics.

The SEC and BIC memberships overlap considerably. Four of the six members of the SEC also sit on the seven-member BIC. Such a considerable overlap in membership provides a direct line of communication between the two councils and ensures consistency between the intent and implementation of business transformation initiatives. In addition, the Executive Secretary of the SEC also attends BIC meetings and acts as a liaison.

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DOD Business Transformation Program
Management Structure

- BIC focuses on identifying and implementing specific business reform actions.
- BIC lead management responsibility rotates among military departments every 6 months.
- BIC directs Business Initiative Executive Steering Committee and seven Process/Functional Boards, among others.

According to its charter, the BIC "will establish the overall DOD business reformation objectives and strategic direction, champion the implementation of this initiative across DOD, and hold the participating organizations responsible and accountable for positive results and stated outcomes." The BIC approves the business reform initiatives.

The BIC charter provides for a phased approach, with the initial focus aimed at near-term reform actions. The four phases are:

1. **Scoping of the Business Initiative** (July 2001-September 2001): recommend and implement near term "quick hits" that were expected to result in some budgetary savings in fiscal year 2003 and recommend longer-term initiatives.

2. **Exploration of Long-Term Initiatives** (October 2001-March 2002): begin to implement longer-term initiatives and define metrics to be used to measure effectiveness of reforms, including feedback from the warfighter and achievement of projected savings.

3. **Implementation of Long-Term Opportunities** (April 2002-September, 2002): commence execution phase for long-term reform and provide reports and results regarding progress and outcomes of reform actions.

4. **Continuation of Reform Implementation** (October 2002-March 2003): follow-on work to the previous phase and document and present final report of BIC efforts to the Under Secretary of Defense for Acquisition, Technology and Logistics.

Lead responsibility for each phase of the effort rotates among the military departments, with the Navy leading the first phase, followed by the Air Force and the Army for subsequent phases. The lead military department is primarily responsible for maintaining the forward-motion of the BIC efforts. The intent is to ensure that all participating military departments share in leading the BIC efforts and provide a climate for the exchange of good ideas. The leadership role lasts approximately 6 months.

The BIC establishes the overall DOD business reformation objectives and strategic direction, champions the implementation of this initiative across DOD, and holds the participating organizations responsible and accountable for positive results and stated outcomes. The Business Initiative Executive Steering Committee, the Joint Integration and Support Team, and the Process/Function Boards support the BIC work.

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DOD Business Transformation Program
Management Structure

- New business transformation program has higher senior-level management involvement and focus on decision making than DRI.
- New program focuses primarily on effectiveness of reforms with expected financial savings and cost avoidances as a byproduct.
- New program includes a private sector advisory board.
- New program still evolving, identifying reform initiatives from both top-down and bottom-up.

The SEC has a higher-level membership than the former Defense Management Council and a much smaller membership as well— 6 members instead of 17. Unlike the DMC, the SEC does not have any military members—all are currently civilians. According to DOD officials, one lesson learned from the DMC was that in order for members to be effective, they had to be willing to focus on departmentwide solutions, putting aside their individual service and agency interests as necessary. According to a high-ranking DOD official, the service secretaries

understood that they would be expected to work for the Secretary of Defense as well as their own service organizations.

There appears to be less emphasis on a formal program construct than with the DRI structure, which relied heavily on a central management office (DRI Office) and formal Defense Reform Initiative Directives and Management Reform Memoranda. In contrast, a senior Defense official told us that much of the coordination and cooperation within the DOD Business Transformation program seems to be based on relationships and personality rather than on formal program structure. Additionally, there is a higher level of personal accountability. Each level in the management structure is accountable to the next level, up to the service secretaries and, ultimately, to the Secretary of Defense.

To date, the business transformation program has focused on the effectiveness of reforms with the belief that efficiencies and savings will ultimately result rather than on initially focusing on specific savings targets. Under DRI, projected savings from the Base Realignment and Closure and A-76 initiatives were taken from the budget and put toward higher priority efforts. Department officials told us that the business transformation program has not programmed projected savings into future budget plans from its new initiatives and remains undecided whether to focus on savings being retained in the implementing office or shifted elsewhere, such as to support force transformation. Furthermore, DOD officials acknowledge that savings from some initiatives, while expected, may be difficult to quantify. Additionally, a senior Defense official told us that not all initiatives require budgetary savings to be an objective—they can be approved on the basis of good business practice. However, we believe this could change as the initiatives move from being "quick hits" to longer term, which require more investment dollars.

The DOD Business Transformation program structure includes a formal advisory board to make recommendations to SEC on implementing best business practices of interest to the department. This is quite different than the DRI program. While DRI had working groups that included some individuals from the private sector, it did not provide for a private sector board to advise and help formulate the reform program as a whole.

The new program is still evolving—SEC and BIC were established in July 2001 and the events of September 11, 2001, changed the focus of both councils, at least for a time. Like the DRI program before, the current program may also change focus. At this point, it is difficult to determine where the change in focus might occur.

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DOD Business Transformation Program
Initiatives

- BIC initiatives have been publicized and visible.
  - To date, most initiatives have been smaller in scope than DRI efforts.
  - Initiatives are a combination of top-down and bottom-up.
    - BIC directed some of the initiatives, such as optimize professional continuing education and streamline contract close-out process.
- SEC has oversight responsibility for broader initiatives.
  - Recently directed actions on financial management reform, organization of Defense agencies, and alternatives to A-76 for noncore activities.
- SEC and BIC envision taking on broader projects over time.

DOD issues press releases to announce business reform initiatives approved by BIC. The first press release, issued October 15, 2001, announced the initial round of approved initiatives. The press release announcing the sixth round of approved initiatives approved on September 4, 2002, was issued on October 15, 2002. Early initiatives were dubbed "quick hits" by DOD and defined as "those that have positive influence/benefit in FY03." They were smaller in scope than the DRI efforts, owing in part to the short time frame to accomplish the initiatives by fiscal year 2003 and because DOD already had the authority and ability to implement the initiatives. A list of initiatives approved in each round is shown in appendix V.

BIC initiatives may come from a variety of sources, such as the services, their major commands, the functional boards, BIC itself, and even SEC, although DOD officials stated most are generated from the bottom-up. Initiatives originating at the lower levels of the management structure were identified in different ways. For example, the Air Force sent out a general servicewide request for initiatives, while the Navy reviewed Defense Science Advisory Board reports for potential initiative candidates. The functional boards included brainstorming sessions as part of their periodic meetings and also formed integrated product teams to help identify initiatives.

The SEC is responsible for the oversight of broader initiatives and recently directed each military service and Defense agency to participate in the development of a core-competency based approach for determining the source of services required. Such sources could include current DOD employees, other federal agencies, and private-sector contracts and/or partnerships. The premise behind this approach is for DOD to focus its energies and talents on core functions and transition the noncore competencies to alternative sources, initially through pilot programs. These pilot programs, referred to as pioneer projects, were approved in the May 31, 2002, round of BIC initiatives. This was in keeping with the phased approach of the BIC, which started with near-term initiatives and is progressing toward long-term opportunities. DOD is still in the early stages of initiating this effort.

Briefing Section IV: Conclusions

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- SEC/BIC structure has the potential to be a very effective mechanism.
  - Senior-level management with decision-making authority.
  - Joint service lead involvement.
  - Private sector advisory council.
- Efforts are still evolving.
  - It is too soon to tell how effective the new approach will be over time.
  - An overarching plan for the new business tranformation program is not yet in place.

In an effort to reform DOD's business processes, the Secretary of Defense established two top-level councils, empowering both to make decisions that have the potential to transform DOD. The councils' structures include senior level management from the various services with decision-making authority. The joint membership and leadership efforts of the councils are intended to ensure that all the services and Defense agencies are engaged in changing the way DOD does business. The Secretary also established a private sector advisory council in the form of the Defense Business Practice Implementation Board to tap management reform innovations and ideas from outside the federal government.

The department's efforts are still evolving, and consequently, it is too soon to tell how effective this approach will be in transforming DOD's business operations. We believe this new management program has the potential to be an effective mechanism for reform, given the high-level membership and significant amount of interservice participation. However, like the former DRI program, the DOD Business Transformation program has not yet developed an overarching plan tying all the individual reform efforts together. Although the Business Initiative Council Charter suggests one was anticipated, it states,

"The BIC efforts will be conducted within a total systems approach, with individual reforms identified, reviewed, and executed within the context of an integrated business model for DOD. This approach will also allow for an assessment of the overall extent of the proposed changes to ensure that DOD has the capacity and resilience to effectively integrate the cumulative impact of the various functionally oriented changes."

As the new program takes on broader initiatives, the development of an overarching integrated plan could take on increased importance, particularly where initiatives become more interrelated and up-front investments are required.

We have previously recommended that the department establish a comprehensive, integrated strategy and action plan for reforming its major business processes and support activities.[1] We believe that recommendation is in line with the plan cited in the BIC Charter.

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[1] GAO/NSIAD-99-87.

Appendix I: Status of Defense Logistics Reform Efforts

The Defense Reform Initiative (DRI) program had three broad logistics initiatives, two of which dealt with aspects of strategic planning. Subsequently, the Department of Defense (DOD) restructured its logistics improvement initiatives, discontinuing the framework for reform begun under the DRI process. Many of the objectives identified in the DRI are continued in varying degrees under current departmental improvement initiatives—though not specifically under the oversight of the new Senior Executive Council (SEC) or Business Initiative Council (BIC). A key difference under the DOD Business Transformation program is the departure from previous efforts to develop a comprehensive, integrated logistics strategic plan, with the military components developing complementary implementation plans. At the same time, many other previously initiated service-led logistics reform efforts continue. Providing logistics support that is economical and responsive has been identified by us as a major management challenge facing the department, as reported in our periodic Performance and Accountability reports covering 21 federal agencies.

DRI Logistics Reform Initiatives

The DRI, begun in 1997, was aimed at improving the effectiveness and efficiency of DOD business operations. This effort included three broad logistics improvement initiatives:

- development and implementation of a logistics strategic plan to provide a vision and set of objectives for improving logistics support to the warfighter;
- submission of annual logistics transformation plans by DOD components to document how these organizations were to reach the goals and objectives laid out in the logistics strategic plan; and
- improvement of the value of logistics to the warfighter by reducing logistics response time, increasing total asset visibility,[1] and reducing supply inventories.

DOD identified 11 associated objectives that represent the specific actions it would undertake to implement the three DRI logistics improvement initiatives. Table 1 provides the objectives of each DRI logistics initiative, along with its associated metrics and milestones. This table also characterizes the extent to which the initiatives are continued under current logistics improvement initiatives.

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[1] Total asset visibility involves the use of automatic identification technology to access the location of DOD assets throughout the supply and distribution systems.

Table 1: Status of DRI Logistics Initiatives

Initiative objective	Metrics	Milestones	Extent to which prior efforts continued under current logistics improvement initiatives
I–Develop Logistics Strategic Plan	See below.	See below.	DOD-wide strategic plan is no longer directed, although several planning efforts continue.
Optimize support to the warfighter by baselining existing mission-capable rates, and then establishing and moving toward achieving higher target rates.	Mission-capable rates.	Establish baseline and target rates by 2001, and achieve improvement through the end of fiscal year 2006 with components reporting progress annually.	The Office of the Secretary of Defense (OSD) no longer tracks mission-capable rate metrics but continues to focus on support to the warfighter by using weapon system performance metrics such as weapon system availability. The services continue to track mission capable rate goals and status.
Improve strategic mobility to meet warfighter requirements by increasing cargo airlift, sealift surge, and afloat preposition capacity to meet current DOD guidance.	Ton-miles/square footage/containers.	Eliminate all shortfalls by end of fiscal year 2006.	This specific objective is not carried over into new OSD logistics initiatives. However, the U.S. Transportation Command has a strategic plan that includes metrics and milestones for resolving projected shortfalls and that no longer calls for eliminating all shortfalls by the end of fiscal year 2006. It currently estimates being able to meet the sealift shortfall by fiscal year 2003 and the airlift shortfall by 2018.
Improve strategic mobility to meet warfighter requirements by developing a measurement approach and appropriate targets for mobility infrastructure and mobility process improvements.	Not developed.	Develop an improvement plan by the end of 2001 and achieve improvement goals by the end of fiscal year 2006.	This specific objective is not carried over into new OSD logistics initiatives. However, the U.S. Transportation Command has a strategic plan that includes metrics and milestones for improving the mobility infrastructure and processes by the end of 2006.
Refine the definition of customer wait time, develop appropriate measures, and implement as the departmentwide logistics metric.	Number of days from customer order to delivery (for total supply chain).	Develop definition and measurement by end of fiscal year 2001 and fully implement measurement for all selected segments by the end of fiscal year 2006.	This objective, and its associated metric and 2006 milestone, continues under the current OSD logistics improvement initiatives.

Initiative objective	Metrics	Milestones	Extent to which prior efforts continued under current logistics improvement initiatives
Fully implement total asset visibility across DOD to allow users to view information on the identity and status of Defense materiel and assets and to complete business transactions using this information.	Visibility into the location of assets.	Determine methods, asset information requirements, and associated measures by the end of fiscal year 2000 and implement 100 percent of requirements by the end of fiscal year 2006.	This objective is no longer continued under current OSD logistics initiatives.
Reengineer and modernize applicable logistics processes and systems by developing modernization plans by the end of fiscal year 2001 and by increasing the proportion of modernized logistics business systems according to those plans.	Percentage of systems modernized.	Develop modernization plans by the end of 2001 and increase the proportion of modernized logistics business systems according to those plans by the end of fiscal year 2006, with components reporting annually against targets.	While this objective continues under the new OSD logistics initiative, the approach has changed. Milestones have been established for initial and midterm tasks—such as reviewing ongoing information system development efforts—but new metrics and milestones for full program implementation have not yet been developed.
Minimize logistics costs while meeting warfighter requirements by reducing the overall costs of logistics support for selected weapon systems.	Logistics costs.	Reduce the overall costs of logistics support for selected fielded weapon systems by 7 percent by fiscal year 2000, by 10 percent by fiscal year 2001, and by 20 percent by the end of fiscal year 2005.	This objective, and its associated metrics and milestones, continues under the current OSD logistics initiatives.
II–Implement Logistics Strategic Plan using Component Transformation Plans	See below.	See below.	Logistics transformation plans have been discontinued.
Each DOD component submits a logistics transformation plan that documents how the component plans to reach the goals and objectives laid out in the DOD Logistics Strategic Plan.	Not fully developed.	Submit plans annually to OSD beginning in fiscal year 2000.	This objective is not being continued, and the components are not preparing transformation plans to support a coordinated DOD-wide logistics transformation strategy.

Initiative objective	Metrics	Milestones	Extent to which prior efforts continued under current logistics improvement initiatives
III–Improve Logistics Value to the Warfighter.	See below.	See below.	Initiative as structured in the DRI has significantly changed or been discontinued, but the general goal of improving support to the warfighter continues under current OSD initiatives.
Reduce logistics response time.	Number of days from customer order to delivery (for wholesale portion of supply chain).	Obtain orders from the wholesale system in 24 days in fiscal year 1999, and 18 days in fiscal year 2000.	This objective continues under the current OSD logistics initiatives; however, OSD is now using as a metric the number of days from customer order to delivery for the total supply chain. Current measurements are limited to spare and repair parts and do not include other classes of supply.
Increase total asset visibility.	Percentage of inventories that are visible to all integrated material managers.	Achieve 80 percent visibility of asset inventories in fiscal year 1999 and 90 percent in fiscal year 2000.	This objective does not continue under the current OSD logistics initiatives.
Reduce supply inventories.	Adjusted acquisition value of DOD's secondary item inventories.	Reduce secondary item inventories to an adjusted value of $56 billion by fiscal year 2000.	This objective does not continue under the current OSD logistics initiatives.

Source: GAO analysis of DOD data.

Under DRI, the department had recognized two broad approaches for addressing critical logistics shortfalls—strategic planning and implementation and optimizing support to the warfighter. As a result of its DRI improvement initiatives, the department then developed several versions of a logistics strategic plan and each of the components produced plans intended to support the implementation of goals and objectives in the DOD plan. We have recommended improvements to DOD's strategic planning process, including the development and implementation of a logistics strategic plan in several reports since the mid-1990's.[2] While we identified weakness in these efforts, we recognized that they were a positive step since the implementation of effective strategic planning is

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[2] U.S. General Accounting Office, *Logistics Planning: Opportunities for Enhancing DOD's Logistics Strategic Plan*, GAO/NSIAD-97-28 (Washington, D.C.: Dec. 18, 1996), *Defense Logistics: Actions Needed to Enhance Success of Reengineering Initiatives*, GAO/NSIAD-00-89 (Washington, D.C.: June 23, 2000), and *Defense Logistics: Strategic Planning Weaknesses Leave Economy, Efficiency, and Effectiveness of Future Support Systems at Risk*, GAO-02-106 (Washington, D.C.: Oct. 11, 2001).

essential to the comprehensive transformation of logistics structures, processes, and supporting information systems to improve customer service and reduce support costs. Further, regarding the need to improve support to the warfighter, DOD recognized three significant problems impacting successful, timely, and economical support—logistics response time, total asset visibility, and inventory reduction.

Various DOD organizations and activities were involved in pursuing aspects of the DRI logistics improvement efforts. The department produced several reports on its progress in implementing the logistics improvement initiatives, with the last report completed in 2001. Concluding that logistics strategic planning was on track, the report stated, "although logistics reform is relatively new compared with acquisition reform, progress has been achieved within the past 18 months, and the Department has developed an overarching logistics strategic plan in August 1999 that provides vision and a set of objectives for meeting the logistics challenges of the 21st century." However, the report acknowledged that the components' transformation plans showed programs that were "underfunded, not cohesive, lacked specific performance metrics and milestones, and had no clear relationship to DOD strategic objectives." Also, regarding the effort to improve logistics value to the warfighter, the report indicated that the services had achieved the three metrics established for this initiative.

New Reform Focus

With the change in administration in 2001, DOD's new leadership began formulating a new approach for dealing with problems within the department. Regarding logistics issues, in September 2001, the current Deputy Under Secretary of Defense for Logistics and Materiel Readiness announced a management improvement program, which discontinued the three DRI initiatives and refocused the department's top-level logistics improvement efforts. DOD officials stated that these new logistics initiatives, designated the Future Logistics Enterprise, would be the focus of the department's logistics support improvement efforts during the current administration. However, the officials stated that the tenets of the DRI logistics initiatives have been incorporated into the department's Future Logistics Enterprise or into other logistics improvement efforts within DOD.

The Future Logistics Enterprise is comprised of six new objectives. Table 2 summarizes the objectives with the associated metrics and milestones. The table also describes the extent to which current efforts are a continuation of prior DRI improvement initiatives.

Table 2: Status of Future Logistics Enterprise Initiatives

Objective	Metrics	Milestones	Extent to which current logistics improvement initiatives continue prior DRI efforts
Pursue depot maintenance public-private partnerships to achieve greater facility utilization, reduce cost, and realize greater investment in organic depots by empowering DOD depots to develop partnerships with the commercial sector.	Metrics are under development. Potential metrics include the value of private-sector investment in DOD depots and increased workload at DOD depots resulting from public-private partnerships. Officials said it will be sometime in early 2003 before the metrics will be finalized.	Not yet developed.	This was not an objective addressed by DRI.
Use more accurate condition-based maintenance data to predict failures and maintenance requirements, reduce unnecessary maintenance, and increase operational availability and readiness.	Not yet developed.	Not yet developed.	This was not an objective addressed by DRI.
Adopt a total life-cycle approach to weapon system management to achieve effective performance and optimum readiness while reducing operations and support costs, in order to meet warfighter weapon systems performance requirements.	Not yet developed for measuring collective success of this objective. DOD plans to develop metrics by February 2004.	Near-term milestones were established for six areas: (1) establish the framework and structure for the effort, including DOD policy and guidance by December 2002; (2) change the business processes within the current logistics environment and revise financial mechanisms by December 2005; (3) marshal resources to support the initiative, including the public and private supplier bases, new workforce, and investment funds by October 2003; (4) synchronize this effort with other initiatives by November 2002; (5) enhance existing and implement new oversight mechanisms for weapon system sustainment by December 2003; and (6) institutionalize this new acquisition and support concept throughout DOD by December 2003.	This objective continues the general DRI objective to optimize logistics support to the warfighter by requiring the use of performance measurements such as weapon systems availability and reliability.

Objective	Metrics	Milestones	Extent to which current logistics improvement initiatives continue prior DRI efforts
Pursue end-to-end distribution to streamline supply support to the warfighter by providing materiel, including retrograde, from the source of supply or point of origin to the point of use or disposal, as defined by the combatant commander.[a]	Customer wait times: number of days from customer order to delivery (for total supply chain).	Reduce the time for spare and repair parts from 18 days in 2001 to 17 days in 2002, and to 16 days in 2003. Unclear whether milestones will be established for other commodities.	This objective continues the DRI objective to reduce customer wait time.
Establish new executive agents determination process to assign responsibility to a service or Defense agency for providing common services (i.e., bulk fuel or area decontamination) and to improve planning to ensure that the needed resources are available.	Not yet developed.	Not yet developed.	This was not an objective addressed by DRI.
Enhance enterprise integration by building on service and Defense Logistics Agency software integration efforts and reduce information system support costs by streamlining and changing current DOD business processes and practices so that they are supported by commercially available software.	Not yet developed.	Not yet developed. Near-term milestones are in development.	This objective continues the DRI objective to reengineer and modernize logistics systems, but takes a different approach.[b]

[a]This effort is also supposed to ensure a smooth transition from peacetime to wartime distribution processes and to resolve conflicting demands for airlift and sealift that currently exist between deploying forces and sustainment distribution requirements.

[b]DOD reviewed six ongoing systems' software modernization efforts—four in the Navy and one each in the Army and the Air Force—resulting in seventeen general findings and fourteen follow-on actions to guide and expand the enterprise integration effort. Based on the findings and recommended actions, DOD is developing a detailed logistics architecture for the services to follow in reengineering their information management systems.

Source: GAO analysis of DOD data.

While the Future Logistics Enterprise initiatives were originally adopted in 2001, many details have yet to be worked out regarding DOD's approach for implementing these initiatives. In some cases, policy is still being formulated. For five of the six objectives, the metrics to monitor and evaluate the success of the initiatives and milestones for achieving improved states are not yet developed or are not fully developed. Officials said that, in general, these initiatives are in their infancy. DOD has focused on initiating the efforts, setting policy for the new initiatives, and exploring

potential approaches for evaluating progress toward achieving
the objectives.

Many Logistics Objectives Continue

Many of the logistics improvement objectives under the former DRI
are continuing to varying degrees today. The following discussion
highlights the metrics and milestones of the DRI objectives shown in
table 1 and provides an assessment of the extent to which each is
continued in the current Office of the Secretary of Defense logistics
improvement initiatives.

- **Optimize support to the warfighter:** The Office of the Secretary of
  Defense is modifying its approach for evaluating logistics support to the
  warfighter, based on the adoption of its performance-based logistics
  support concept. The new measure should indicate the effectiveness of
  logistics support for specific weapon systems, but it does not provide as
  broad an indicator of the effectiveness of the total logistics support system
  as the mission-capable rates measure adopted under DRI to assess
  the effectiveness of logistics support to the warfighter. To optimize
  improvements in warfighter logistics support, DRI provided that each
  military component identify existing mission-capable rates for its various
  systems. Using these rates as a baseline, the services were to establish a
  goal of higher mission-capable rates and move toward achieving these
  higher rates by fiscal year 2006. While operational units will continue to
  use mission-capable rates, according to DOD officials, the adoption of
  performance-based logistics has resulted in the need for measures that
  will evaluate the performance of logistics providers in supporting weapon
  systems based on factors within their control. The process calls for
  program offices, in conjunction with the warfighter, to establish weapon
  systems-level performance metrics—such as system availability and
  mission reliability—based on existing constraints, including available
  funding levels, physical space for maintenance, and information about the
  quality of the weapon system. For example, the F-117 aircraft program is
  evaluated primarily on an aircraft availability measure of 99 percent for
  the aircraft system, excluding the engine. While DOD officials stated that
  improved system availability and reliability should equate to improved
  mission-capable rates, the mission-capable rates measure is a broader
  indicator of the health of a system and therefore a better indicator of the
  performance of the logistics system in supporting the warfighter.
- **Increase strategic mobility capacity:** The Future Logistics Enterprise
  includes a general goal to improve strategic mobility capability as
  envisioned by DRI, but the new initiative does not specifically address the
  DRI strategic mobility goals. Nonetheless, other improvement initiatives
  continue to track the strategic mobility shortfall and develop approaches
  for improving mobility infrastructure and processes. Strategic airlift

shortfalls have been a long-standing defense problem affecting the capability of the military services to transport required forces and support to the theater of operations in a timely manner. For example, when completed in 2001, the Mobility Requirements Study 2005 identified a strategic airlift carrying capacity requirement of 54.5 million ton miles. The DRI set a goal of achieving the required airlift, sealift, and afloat preposition capacity identified by the Mobility Requirements Study by 2006. The department currently estimates that it should be able to satisfy this requirement by the end of 2018 with the acquisition of 180 C-17 aircraft and modernization of 100 C-5 aircraft.

- **Improve strategic mobility processes and infrastructure:** While DOD is not focusing on strategic mobility shortfalls in its Future Logistics Enterprise initiatives, its other logistics improvement efforts continue to address these issues. For example, DRI called for developing a measurement plan and goals for mobility infrastructure and process improvements. The Transportation Command strategic plan identifies goals and measures for improving mobility infrastructure and processes. The Transportation Command also tracks DOD's progress toward resolving the defense strategic mobility shortfall, although officials noted that the requirement is currently being reassessed. It is appropriate for the Transportation Command to follow mobility shortfall issues. However, it also appears appropriate that (1) the ability of DOD to marshal its assets to the required theater of operations in a timely manner be identified as a critical logistics goal and (2) such a logistics improvement initiative be managed and measured within the Office of the Secretary of Defense, which has responsibility for setting transportation policy within DOD.

- **Reduce customer wait time:** DOD has carried forward the DRI goal of implementing customer wait time as a departmentwide logistics metric, and it uses customer wait time as the sole measure of logistics performance reported under the Government Performance and Results Act.[3] The DRI required the development of a definition and measurement of customer wait time and full implementation of the selected measurement by the end of fiscal year 2006. The department has defined and developed measures for customer wait time, and it is pursuing full implementation as part of its Future Logistics Enterprise initiative to pursue end-to-end distribution. However, the capability to capture and report customer wait time is still under development. The DOD definition

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[3] The Results Act (P.L. 103-62) requires agencies to develop periodic strategic and annual performance plans. Among other things, the performance plans provide agencies with a vehicle to identify their long-term goals and objectives for all major functions and operations, the measures they will use to gauge performance, and the strategies and resources they will use to achieve their performance goals.

of customer wait time—the elapsed time from order to receipt when a customer orders an item—is broader than what the department is currently able to measure. While the long-range goal is to use the customer wait-time measure to encompass all wholesale and retail transactions associated with customer orders, DOD's current capability is limited to measuring spare and repair parts ordered by organizational-level maintenance activities. DOD officials said they intend to meet the 2006 goal for full implementation of the broader customer wait time definition.

- **Increase total asset visibility:** Under the new business transformation program, DOD shifted its focus from total asset visibility to customer wait time. The DRI required the determination of appropriate asset visibility measures and the implementation of total asset visibility requirements by the end of fiscal year 2006. Office of the Secretary of Defense officials said that while they believe total asset visibility is a capability that in some instances should enable reductions in customer wait time, DOD is not pursuing total asset visibility as a part of its Future Logistics Enterprise. However, we found that total asset visibility continues to have importance to the combat commander by providing the ability to (1) see the flow of logistics into the theatre and make lateral transfers as needed, (2) reduce the potential for multiple/duplicative requisitions when assets do not show up on time, and (3) allow a commander to perform support-gap analyses on proposed operational plans. We have reported the need for gaining total asset visibility as an important tool in managing the procurement, distribution, and disposal of defense assets and have identified shortfalls in this capability as a factor in making supply management a high-risk area in DOD. According to joint staff officials, asset visibility is a critical capability that merits continued focus and resources to ensure the accomplishment of needed improvement. Consequently, a working group—comprised of Office of the Secretary of Defense, service, Defense agency, and selected Combatant Command membership—has formed to begin crafting a long-term total asset visibility strategy. We have previously recommended that DOD develop a total asset visibility system.

- **Reengineer and modernize logistics processes and systems:** The goal of updating or replacing logistics systems with modern systems has been carried forward under the Future Logistics Enterprise initiative to enhance enterprise integration, but the specific measures contained in the DRI are not part of the current initiative. The DRI required DOD to develop information system modernization plans with annual implementation targets and then to implement improvements according to those plans by fiscal year 2006, with each military component reporting annually on its progress toward modernization. Instead of continuing to pursue DRI information system improvement goals, DOD began the initiative to enhance enterprise integration in November 2001 with a different

information systems approach. The new logistics information system's objective is to achieve a common operating environment built on ongoing service and Defense Logistics Agency software integration efforts and reduce system support costs. The department began by reviewing six ongoing Enterprise Resource Program efforts within the services to identify best business practices to be considered for adoption agencywide. Based on the results of the review, DOD is developing a detailed logistics architecture for the services to follow in reengineering their information management systems. Whether the initiative to enhance enterprise integration will result in the same changes anticipated by DRI is not yet known because specific measures are only now being developed to support the desired enterprise integration end-state in 2015.

- **Minimize logistics costs while meeting warfighter requirements:** The goal to reduce logistics support costs for selected weapon systems has continued under the Under Secretary of Defense for Acquisition, Technology and Logistics functional area of responsibility within the department. DRI required the reduction of logistics support costs from a 1997 baseline for selected weapon systems by 7 percent by fiscal year 2000, by 10 percent by fiscal year 2001, and with a stretch goal of 20 percent by the end of 2005. To comply with the requirement, DOD used an ongoing effort to address the rising cost of sustaining weapon systems. This effort, called Reduction of Total Ownership Costs, tested approaches for reducing the weapons systems logistics sustainment costs in 10 weapons system pilot programs from each military department. This effort set goals to reduce the overall costs of logistics support for selected systems by fiscal year 2006. The ownership cost reduction effort is not specifically part of the Future Logistics Enterprise; however, according to program officials, the pilot programs have achieved some ownership cost reduction results, and the lessons learned are available to weapon system program offices in their ongoing efforts to reduce ownership costs.

- **Develop component logistics transformation plans:** DOD discontinued the DRI objective that required the components to prepare annual plans to serve as the primary vehicle for aligning the military component initiatives, attaining resources, and documenting the approach for achieving the goals and objectives as identified by the logistics strategic plan. In requiring the components to develop logistics transformation plans based on strategies and objectives established in a DOD-wide plan, the department recognized the need to implement a more coordinated approach to logistics support planning. While we identified disconnects in the transformation plans, the strategic planning process was designed to identify disconnects so that they might be resolved. Further, our review of the services' transformation plans found other weaknesses, but we recognized that the plans were a step in the right

direction. As we have previously recommended, we believe DOD needs a logistics strategic plan that is linked to service specific logistics plans.[4]

- **Reducing logistics response time:** DOD discontinued the metrics and milestones associated with this objective and instead adopted customer wait time to measure the effectiveness of logistics support to the warfighter. According to DOD officials, customer wait time is a broader measure for assessing logistics value to the warfighter. As discussed previously, the department is pursuing full implementation of measures for customer wait time as part of the Future Logistics Enterprise initiative to pursue end-to-end distribution. DOD officials said they intend to meet the 2006 goal for full implementation of the broader customer wait time definition.

- **Reducing inventory levels:** The department has discontinued the metrics and milestones associated with this objective and has adopted customer wait time as a broader measure for assessing logistics value to the warfighter. Officials stated that the drive to reach reduced inventory levels has resulted in the unintended consequence of parts shortages. Officials said DOD is pursuing better inventory practices that optimize inventory levels to provide for needed parts with minimum holding costs. While we recognize the need to maintain needed inventories, we have identified inventory management as a high-risk area since 1990.[5] We have reported that there are still opportunities to improve inventory processes, systems, and practices to prevent overbuying based on imprecise or inaccurate inventory management data.

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[4] Both we and the department have recognized that the disparate approaches to dealing with logistics planning in the past resulted in the initiation of some 400 different service- or DOD-sponsored logistics improvement initiatives.

[5] Our high-risk status reports are provided at the start of each new Congress. Historically, we have designated federal programs and operations as high risk because of their greater vulnerabilities to fraud, waste, abuse, and mismanagement.

Appendix II: Status of Defense Electronic Business/Electronic Commerce Reform Initiatives

In 1997, the Defense Reform Initiative (DRI) called for DOD to revolutionize its business operations by adopting best business practices, particularly those that promote electronic business operations. To accomplish this, the department identified and began implementing a number of specific, electronic business initiatives that it believed would help modernize selected business practices. The electronic business program and the related initiatives that began under the DRI rubric are, for the most part, continuing; however, management oversight generally has occurred under the responsible functional areas rather than under the Senior Executive Council (SEC) and the Business Initiative Council (BIC).[1] Nonetheless, the electronic business area is receiving significant departmental attention by the Chief Information Officer since it is one of the five governmentwide initiatives—Expanded Electronic Government— of the President's Management Agenda for fiscal year 2002.

DRI Electronic Business Initiatives

As an outgrowth of DRI, DOD established a Joint Electronic Commerce Program in May 1998 to increase the use of electronic business practices and associated information technologies that are common in private-sector companies, such as using the Internet and commercially available computer software to conduct business. In March 1999, DOD issued policy guidance for the program. The policy guidance identified three essential elements that DOD believed was needed to achieve its electronic business goals, including (1) an overarching electronic commerce architecture, (2) a strategic plan, and (3) an overarching implementation plan.

In June 2000, the department issued DOD Directive 8190.2 establishing policy and responsibilities for DOD's electronic business/electronic commerce program. This directive replaced Department of Defense Reform Initiative Directive #43—Defensewide Electronic Commerce—as well as the March 1999 policy guidance. Directive 8190.2 instructed DOD components to plan, develop, and implement electronic business from a DOD-wide perspective; describe and adhere to an architecture; and implement electronic business security solutions, among other things. The Chief Information Officer was designated the primary Principal Staff Assistant responsible for the program's overall policy direction, oversight, planning, development, architectures, security, technical integration, and implementation of approved DOD-wide initiatives.

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[1] In February 2002, the BIC approved an effort that complements part of the DRI electronic mall initiative.

In July 2000, we reported on the status of DOD's electronic commerce program.[2] At that time, we found that DOD had not yet (1) completed a detailed plan to implement its strategic vision, (2) developed an electronic commerce architecture, (3) determined how to best manage the electronic commerce program, and (4) fully implemented key security measures needed for electronic commerce.

Also in July 2000, DOD chartered its Electronic Business Board of Directors to recommend improvements to the electronic business vision, goals, and direction as well as coordinate implementation of activities and monitor metrics. The Board was established to focus primarily on cross-functions and cross-component programs, such as departmental priorities, departmental performance measures, and architecture/infrastructure. This board continues to place emphasis on electronic business issues, policies, and concerns.

In addition, the Electronic Business Steering Group was recently established within the Office of the Under Secretary of Defense Acquisition, Technology and Logistics (AT&L) to oversee DOD-wide initiatives that fall under AT&L's purview. It is chaired by the Principal Deputy Under Secretary of Defense (AT&L) with membership from the AT&L staff and representatives from the Offices of the Chief Information Officer and Chief Financial Officer. There is an overlap in membership between DOD's Electronic Business Board of Directors and AT&L's Electronic Business Steering Group.

The Defense Reform Initiative Transition Report 2001 indicated that most electronic business initiatives were continuing on-track, but that some efforts were identified as needing a reevaluation. In addition, DOD's February 28, 2002, DRI status report (see app. IV) identified successes and challenges related to electronic commerce or electronic business. Key among these initiatives are an electronic business architecture, an electronic business strategic plan, an electronic business implementation plan establishing electronic malls, and the safeguarding of electronic data.

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[2] U.S. General Accounting Office, *Defense Management: Electronic Commerce Implementation Strategy Can Be Improved*, GAO/NSIAD-00-108 (Washington, D.C.: July 18, 2000).

Current Electronic Business Reform Efforts

Under the new business transformation program, DOD's Chief Information Officer has responsibility for the Electronic Business/Electronic Commerce Program's overall policy direction, oversight, planning, development, architectures, security, technical integrations, and implementation of approved DOD-wide electronic business initiatives. The Chief Information Officer also provides direction and oversight to the Joint Electronic Commerce Program Office, which, among other things, ensures the coordination and integration of business processes throughout the department, much like it did under the DRI management structure.

DRI provided for a number of specific electronic commerce initiatives covering aspects of several DOD business processes, such as acquisition, logistics, and financial management. However, for this report, we focused our review on five key efforts, including the development of (1) an architecture, (2) a strategic plan, (3) an implementation plan, (4) an electronic mall, and (5) a public key infrastructure.[3] The first three efforts were developed as a result of policy guidance and were viewed by DOD as necessary underpinnings for the program's success. The other two efforts were specific Defense Reform Initiatives with associated goals and performance measures. Table 3 provides information on each of these efforts.

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[3] A public key infrastructure is a system of hardware, software, policies, and people that, when fully and properly implemented, can provide information security assurances that are important in protecting sensitive communications and transactions.

Table 3: Status of DRI Electronic Business Initiatives

Objective	Metrics	Milestones	Extent to which prior efforts continued under current program
Electronic Business Architecture: Integrate business processes and information systems across the military services and Defense agencies.	Not developed.	Initial architecture development in 3-5 years. Changing requirements, new technologies, and improved business practices will cause the initial architecture to continually evolve.	Work continues on the electronic business architecture, overseen by the Defense Information Systems Agency and the Defense Logistics Agency. The financial management enterprise architecture, overseen by the Comptroller, currently overlaps some electronic business architecture efforts.
Electronic Business Strategic Plan: Identify goals, objectives, and strategies DOD will pursue over the next 10 years to achieve an electronic business operations environment.	Plan included 3 overall goals supported by 10 objectives that were supported by 41 strategies.	Strategic plan issued May 1999.	Plan is being updated by the Chief Information Officer as Principal Staff Assistant, with expected completion in 2003.
Electronic Business Implementation Plan: Guide the military services and Defense agencies to develop their individual electronic commerce programs in a manner consistent with the goals and objectives of the strategic plan.	Not developed.	Not established.	In February 2000, DOD decided to abandon efforts to develop a DOD-wide plan.
DOD Electronic Mall: Create a primary source for DOD users to acquire commercially available items on-line.	Total sales, items available, catalogs available, and total registered users.	Use purchase cards for all mall purchases by January 1, 2000.	Efforts continue under the oversight of Defense Logistics Agency as the Executive Agent. Additionally, the BIC has initiated two efforts that expand capabilities of information technology (IT)purchases.
Safeguarding Electronic Data/Public Key Infrastructure: Improve DOD's ability to safeguard the integrity of data and verify the authenticity of transactions.	Not finalized but officials considering distribution of cards and reduction in paperwork.	Begin implementation of a DOD-wide "smart card" program in fiscal year 2001.	Work continues, managed by the Assistant Secretary of Defense for Command, Control, Communications, and Intelligence as the DOD Chief Information Officer.

Source: DOD and GAO reports.

The extent to which elements of the DRI objectives continue under current reform efforts is discussed more fully in the following sections.

Electronic Business Architecture

The department believes that an architecture is necessary to integrate business processes and information systems across the military services and Defense agencies. Without such an architecture, DOD runs the risk of having the services and Defense agencies develop and implement initiatives that are redundant, do not readily share information, and do not maximize the department's investments in information technology.

In July 2000, we reported that although DOD was making efforts to develop an electronic commerce architecture, little progress had been made. Currently, the Defense Information Systems Agency and the Defense Logistics Agency are continuing to work to jointly develop an electronic business architecture. An upgrade—version 4.0—is now being used by these agencies and may be released DOD-wide later this fiscal year. However, further development of this architecture is currently uncertain, pending the future direction of a financial management enterprise architecture.

In July 2001, the Secretary of Defense directed the development of a Defense-wide enterprise architecture, also referred to as the financial management enterprise architecture. According to senior DOD officials, the scope of this architecture includes all of DOD except the warfighter and is intended to seamlessly link the department's reengineered business practices and its financial and management information. In April 2002, DOD awarded a $100 million contract to IBM to develop this financial management enterprise architecture. Defense-wide implementation is expected to begin by 2005 and take several years to fully implement. The Office of the Comptroller is overseeing this effort.

DOD officials acknowledge that there are overlapping efforts between the financial management architecture and the electronic business architecture. The offices responsible for the development of the two architectures have recently begun discussing their separate efforts, but it is unclear how the current electronic business architecture may be incorporated into this broader enterprise architecture. However, the Office of the Chief Information Officer recognizes the need for such integration.

Electronic Business Strategic Plan

In May 1999, DOD released its Electronic Business Strategic Plan, which identified the goals, objectives, and strategies that DOD planned to pursue over the next 10 years to achieve an electronic business operations environment. The strategic plan broadened the scope of electronic commerce to include all DOD business processes, not just the buying and selling activities traditionally associated with electronic commerce. The

plan included 41 strategies aimed at achieving broad goals, such as improving productivity and promoting cultural changes in the department.[4] The goals were to be achieved through actions such as establishing training programs, partnering with industry, and basing new electronic commerce applications on commercial standards and practices.

According to DOD officials, the strategic plan is being updated to reflect the numerous changes that have occurred in the electronic business area since the plan was first issued in 1999. DOD expects the update will be completed sometime in fiscal year 2003.

Electronic Business Implementation Plan

After the strategic plan was issued in May 1999, the joint program office prepared two draft implementation plans that the military services and Defense agencies reviewed. The departmentwide Electronic Business Implementation Plan was intended to support the strategic plan and assure that the military services' and Defense agencies' individual electronic commerce programs would be consistent with the goals and objectives of the strategic plan. However, military service officials and others were not satisfied with the draft implementation plans, primarily because they believed the draft plans were too narrowly focused. Further, officials contended the drafts did not describe how the strategies outlined in the strategic plan would be implemented, and consequently, accountability and milestones for accomplishing the strategies were not established. In February 2000, DOD decided to abandon efforts to develop an implementation plan primarily because the Chief Information Officer and the Joint Electronic Commerce Program Office were unable to reach agreement with the military services and Defense agencies on the scope and content of an overarching implementation plan. At this time, there are no efforts underway to develop a departmentwide implementation plan in the near future.

While the services and the Joint Electronic Commerce Program Office have continued with separate programs without a joint implementation plan, some DOD officials told us they believe the risks associated with this

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[4] Three broad goals were identified in the May 1999 Electronic Business/Electronic Commerce Plan. They were to achieve (1) global flexibility, increased productivity, and a dynamic working environment through the application of electronic business/electronic commerce; (2) efficient and effective responses to changing environments by the rapid introduction of business process improvements or reengineering and the exploitation of electronic business/electronic commerce technologies; and (3) cultural changes and shifts from current business practices through guidance and the attainment of necessary skills for implementation of electronic business/electronic commerce.

condition are mitigated by the oversight provided by the DOD Electronic
Business Board of Directors. This board has high-level representation
from the services and Defense agencies, and critical issues and decisions
related to electronic business within DOD receive high-level visibility via
this board.

DOD Electronic Mall

The DOD electronic mall provides users with a simple means to order
commercially available items on-line from different catalogues through a
single location. Similar to a new retail business, the primary focus of the
electronic mall has been to establish itself in the marketplace. Since its
inception in 1998, electronic mall management has concentrated on
expanding the number of items offered, catalogs available, and customers
using the site.

In July 2000, we reported that although the electronic mall was available to
DOD shoppers, it was not a completed effort, with several pieces still
under development. DOD wanted to have four "shopping corridors" on
the mall that would group items under the categories of commodities,
information technology, services, and training. As of March 2000, only the
commodities and information technology corridors had been established,
with most items falling under the commodities corridor. Further,
commodity sales were lower than expected.

According to a Defense Logistics Agency official, the electronic mall
has made reasonable progress toward achieving the goals set out in the
legislation.[5] The Army, Navy, and Defense Logistics Agency have selected
the DOD electronic mall as their electronic ordering platform. Consistent
with the goal of having the suppliers host the catalogs (rather than having
the government host catalog data), the DOD electronic mall now provides
access to many suppliers that have electronic catalogs. In fiscal year 2002,
73 commercial catalogs with approximately 10 million catalogue listings
accounted for sales of about $13.7 million. This is up from approximately
$175,000 in fiscal year 1998 and $2.8 million in fiscal year 2000.

The BIC has also initiated two efforts that affect the procurement of
IT goods and services. The first effort, "Enterprise Software Initiative,"
was approved in the BIC's first round of initiatives in September 2001 and
was intended to streamline the acquisition process for commercial
software products. To extend the Enterprise Software Initiative to include

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[5] Strom Thurmond National Defense Authorization Act for Fiscal Year 1999,
Pub. L. 105-261, Oct. 17, 1998.

IT hardware and selected services, BIC approved an initiative titled "Virtual IT Marketplace" at its February 6, 2002, meeting. This initiative addresses a concern that current Defense customers have access to numerous stand-alone alternatives to shop for IT products and services. This new DOD initiative would allow DOD customers to access this IT corridor either directly through a General Services Administration portal or through the DOD electronic mall. The Assistant Secretary of Defense for Command, Control, Communications, and Intelligence as the DOD Chief Information Officer is overseeing this effort. The Virtual IT Marketplace will also provide a software assessment management capability to support the Enterprise Software Initiative.

Safeguarding Electronic Information/Public Key Infrastructure

DOD's electronic commerce goals cannot be fully realized unless it improves its ability to safeguard and verify the authenticity of electronic data and transactions. DOD has launched many initiatives to improve security over information. However, one effort—the public key infrastructure (PKI)—is seen as critical because it will provide important safeguards. The President's Management Agenda for fiscal year 2002 specifically directs federal agencies to undertake a PKI program to promote digital signatures for transactions within the federal government, between government and businesses, and between government and citizens.

PKI is essential to improving security because it allows DOD to ensure that (1) the data contained in electronic transactions and messages have not been tampered with, (2) systems users can confirm who is on the other end of an electronic transaction, (3) the parties involved in a transaction cannot later deny that they participated in the transaction, and (4) the transaction or message data cannot be accessed and read without proper authorization. The program will achieve these assurances by giving digital signature and data encryption capabilities to DOD personnel.

In July 2000, we reported that the PKI program is not a simple undertaking for DOD. The "infrastructure" in the program's title refers to the policies, procedures, systems, facilities, and organizations that need to be involved in issuing, managing, and revoking digital certificates that vouch for a user's identity and contain the keys that are used to digitally sign and encrypt documents and data. In short, PKI is a system of hardware, software, policies, and people that, when fully and properly implemented, can provide information security assurances that are important to protecting sensitive communications and transactions.

The DRI Transition Report 2001 reiterated that the PKI program was a very difficult challenge for the department. The necessary technology was not mature and technical issues, including interoperability and ease of use, had not been fully resolved. Moreover, for the infrastructure to work properly, DOD sources noted that the department will have to

- confirm the identity of each user;
- mass distribute programmable "smart cards" that will carry a mathematical key and PKI certificate that will enable DOD personnel to digitally sign documents and enable the encryption of data;
- ensure that individual computer workstations have the necessary "middleware,"[6] which allows the hardware to accept the smart cards; and
- enable appropriate DOD software applications to interface with the smart cards.

According to department officials, the DOD PKI, based on commercial industry standards, is being deployed in phases, introducing new features and capabilities in an orderly fashion, consistent with commercial technology progression. Each release adds new capabilities while maintaining the core functionality that defines a successful PKI. DOD is in the process of issuing smart cards; in fact, over a million cards have been issued and more are being issued each day. DOD expects to have over 3.5 million cards and certificates issued to all eligible DOD personnel by October 2003. Middleware is being installed and made operational at many DOD locations.

The DOD Office of the Inspector General issued a report in December 2001, which stated DOD had made progress in implementing the PKI program. However, the report also identified several unfunded requirements for the program. The unfunded requirements included enabling applications to work with PKI, security support for the smart card, and middleware development. This is consistent with comments from DOD officials, who reported that DOD still needs to issue smart cards, put middleware in place, and establish a PKI system of hardware, software, and policies.

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[6] Middleware is a layer of software between the network and applications that provides services, such as identification, authentication, authorization, directories, and security.

Appendix III: Summary Table of Defense Reform Initiatives

Defense Reform Initiative	Completed	Ongoing (as is)	Ongoing with revision	Subsumed
Streamlined Headquarters			•	
Paperless Contracting				•
Prime Vendor Program		•		
Simplifying Payments with the Government Purchase Card	•			
Defense Agency Performance Contracts			•	
Electronic Business Strategic Plan			•	
Simplifying and Saving with Electronic Malls			•	
End-to-End Procurement Process			•	
Safeguarding Electronic Data		•		
Improved Military Pay and Retirement Benefits	•			
Basic Allowance for Housing			•	
Family Programs			•	
Household Goods Transportation		•		
Consolidate and Improve Financial Management Operations	•			
Reduce the Number of Financial Systems			•	
Reconciling Disbursements		•		
Reduce Characters in Lines of Accounting			•	
A-76 Process (Meeting the Office of Management and Budget Goal for Competitions)				•
Demolition and Disposal of Excess and Obsolete Defense Facilities		•		
Reduce Energy Consumption		•		
Base Realignment and Closure			•	
New Approach to Systems Acquisition	•			
Performance-Based Service Acquisition		•		
Civil/Military Integration			•	
Shaping the Civilian Acquisition Workforce of the Future			•	
DOD Logistics Strategic Plan Objectives				•
Logistics Value to the Warfighter				•
Contract Conversion			•	
DOD Electronic Business Implementation Plan			•	
Electronic Commerce Architecture			•	
Permanent Change of Station	•			
Temporary Duty Travel			•	
Improve Military Housing			•	
Reengineer DOD Business Practices			•	
Auditable Financial Statements			•	
A-76 Process (Changing Business Processes to Improve Mission Effectiveness and Reduce Cost)				•
Privatize DOD Utility Systems			•	

Defense Reform Initiative	Completed	Ongoing (as is)	Ongoing with revision	Subsumed
Reduce Acquisition Cycle Time		•		
Transforming Logistics				•
Defense Management Council Charter and Authority				•

Source: DOD February 28, 2002, report.

According to DOD, the following definitions were used to categorize the DRI initiatives:

- **Completed:** The initiative is considered to have been completed, i.e., met the goal(s) established.
- **Ongoing (as is):** The initiative remains active, without change, and there are existing efforts to meet the established goal(s) or objective(s).
- **Ongoing With Revision:** The initiative remains active, although the target goal(s) or objective(s) has been changed.
- **Subsumed:** The initiative has been made part of another management effort but remains viable.

PRINCIPAL DEPUTY UNDER SECRETARY OF DEFENSE

3015 DEFENSE PENTAGON
WASHINGTON, DC 20301-3015

FEB 28

ACQUISITION,
TECHNOLOGY
AND LOGISTICS

United States General Accounting Office
Mr. Henry L. Hinton
Managing Director
Defense Capabilities and Management Team
Washington, DC 20548

Dear Mr. Hinton:

In response to your letter of January 23, 2002, to the DoD Office of the Inspector General, I have enclosed a status report of the Defense Reform Initiatives (DRI). The Department has completed its review of the previous DRI initiatives and determined those that will be continued and incorporated into the new management reform program. As you are aware, the Department has created two new management committees to improve business practices and transform the military. The Senior Executive Committee (SEC), headed by the Secretary of Defense, functions as a board of directors for the Department while the Business Initiatives Council (BIC), headed by the Under Secretary of Defense for Acquisition Technology and Logistics, will focus on improving business practices that will achieve cost savings or cost avoidance.

Management reform remains a high priority. The management transformation underway furthers the program of change throughout the Department. Many of the DRI reforms continue to receive high-level attention. In addition, the SEC and BIC have developed on going initiatives that are consistent with good governance. If you have any questions, please contact my action officer for this, Ms. Mary Margaret Evans, (703-614-7522), email marymargaret.evans@osd.mil

MICHAEL W. WYNNE

Enclosure: as stated

cc: DoDIG

DRI Elements	New Management Reform Program
Successes	
Streamlined Headquarters: DoD's goal is to reduce staffing at major DoD Headquarters' elements by more than 35,000 personnel, with the majority of these staff reductions (27,000) coming from the Headquarters of the Defense Agencies. The Secretary directed that OSD staff be cut by one-third by the end of FY 1999. This reduction is already completed. The Joint Staff will be reduced by 29 percent by FY 2003. Defense Agencies are moving forward with reductions of 21 percent by FY 2001. This goal was adjusted in the FY 1999 Budget.	**POC: BARTLET RHOADES, DIR, ADMIN & MGMT.** **Update: ongoing with revision.** As directed, OSD staff was cut by one-third by the end of FY99, the Joint Staff is on target to reduce by 29 percent by end FY02 and non-intelligence Defense Agencies achieved a 23 percent reduction by the end of FY01. The current administration has initiated reviews to substantially restructure and further reduce DoD headquarters organizations.
Paperless Contracting: The goal is to achieve a paperless contracting process from requirements generation to contract closeout by January 1, 2003.	**POC: COL. LYNDI BALVEN, AT&L (DP)** **Update: subsumed.** This effort continues but has been made part of the End-to-End Procurement Process, which is assigned to the Defense Contract Management Agency (DCMA). The revised target is to be 90 percent paperless across the six activities in the contracting process FY03. As of the end of FY 01, it is estimated at 86%.
Prime Vendor Program: This initiative sought to lower total ownership costs through reduction of government inventories, processes, and workforce used to maintain, repair, and operate (MRO) facilities at DoD installations. The goal of the MRO Prime Vendor initiative was to simplify customer support, ordering, and payment and aimed to reduce government infrastructure needed to perform the MRO function at installations.	**POC: RENE BALANGA, AT&L (LM&R)** **Update: ongoing as is.** The Defense Logistics Agency (DLA) continues to work with military activities to identify and remove obstacle to program implementation. For example, DLA is working with military customer and MRO Prime Vendor contractor to develop solutions to systems integration issues.
Simplifying Payments with the Government Purchase Card: The goal was to decentralize use of the Purchase Card throughout DoD and make it the primary vehicle for buying 90 percent of the goods and services costing $2,500 or less by FY 2000.	**COMPLETE**
Defense Agency Performance Contracts: DRI Directive #23, dated January 26, 1998, provided guidance for the establishment of annual performance contracts between designated Defense Agencies, Field Activities, Principal Staff Assistants (PSAs) and the Deputy Secretary of Defense.	**POC: DR. NANCY SPRUILL, AT&L (ARA)** **Update: ongoing with revision.** Agencies are to develop customer support agreements, which include performance plans, through a process which provides customer inputs to the Defense Agency requirements and priorities. The plans will be consistent with the President's Management Agenda and link to program and budget submissions.
Electronic Business Strategic Plan: DoD released its Electronic Business (EB) Strategic Plan in May 1999, which identifies the goals, objectives, and strategies that DoD will pursue over the next 10 years to achieve an electronic business operations environment.	**POC: PRISCILLA GUTHRIE/ MARGARET MYERS, OSD-C3I** **Update: ongoing with revision.** Capitalizing on the opportunities and savings associated with applying eBusiness is a Department-wide priority. Transformation of DoD includes moving toward "net-centricity" which includes many of the concepts and goals associated with eBusiness, eCommerce, and eGovernment. A new eBusiness Strategic Plan will be written.
Simplifying and Saving with Electronic Malls: The DoD Electronic Mall (E-Mall) was created to be the primary source for DoD users to acquire commercially available items on-line without having to place repetitive small purchases.	**POC: Mr. ALLEN BECKETT, AT&L (LM&R)** **Update: ongoing with revision.** Will evolve as part of ongoing DoD E-Business initiative.
End-to-End Procurement Process: DRID #47 pulled together in a single initiative other related electronic business initiatives that were previously issued separately, such as DRID #32, "Paperless Contracting Closeout"; DRID #33, "Paperless DD250"; and elements of DRID #2, "Moving to a Paper-Free Contracting Process." The Department realized that it would not receive maximum benefits from these process improvements until an end-to-end procurement process for the future acquisition environment was defined and implemented as the basis for a shared data environment.	**POC: MIKE WILLIAMS, DCMA** **mwilliams@hq.dcma.mil** **Update: Ongoing with revisions.** We are now focused on implementation of the End-to-End Procurement Process, not just in the target "to be" acquisition and financial management automated systems, but also in the existing "legacy" systems. We have also recently adopted a new set of implementation tracking metrics.

Note: This document has been reformatted by GAO for portrait view.

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DRI Elements	New Management Reform Program
Safeguarding Electronic Data: DoD has initiated many initiatives to improve security over its information, and one effort—the Public Key Infrastructure (PKI)—is seen as critical, because it will offer important safeguards.	**POC: PRISCILLA GUTHRIE/ MARGARET MYERS-OSD-C3I** **Update: ongoing as-is.** DoD is implementing the Common Access Card, or CAC, as a medium security token, to replace the traditional military identification card. Ultimately, the DoD users will use their CAC to gain access to their building, gain access to a secure office, enable logon to a DoD local area network, digitally sign and encrypt electronic objects, and conduct business on Public Key Enabled Applications and workstations. Initial CAC issuance will be to over 3.5 million people. Over 230,000 CACs have been issued world-wide thus far.
Improved Military Pay and Retirement Benefits: DRI pursued a three-pronged approach: First, the Department sought annual pay increases above the Employment Cost Index (ECI), a measure of private-sector wage increases. Second, the Department wanted to reform the military retirement system for members who entered the military after August 1986, to the previous system, based on 50 percent of basic pay at 20 years of service. The third prong was to correct military pay tables so that performance would be rewarded over longevity.	**POC: NINA RICHMAN-LOO, OSD P&R (PI)** **Update: This is completed.**
Basic Allowance for Housing (BAH): The goal was eliminate out-of-pocket housing expenses for military members who reside off base by the end of FY 2005.	**POC: CAPT KOPANG, OSD P&R** **Update: ongoing with revision**–OSD P&R is now the action office and responsible for reporting on this effort. There is no change to the initiative in the new management reform program but it is not yet fully implemented.
Family Programs: • Increased per capita investment in commissaries, schools, recreation facilities, family centers, child care, family advocacy, transition assistance, relocation services, and others. • Started full-day kindergarten and reduced pupil-teacher ratios in the early grades within DoD-dependent schools. In addition, the number of school psychologists and guidance counselors was increased. • Increased the investment in technology for DoD schools. • Reached a 95 percent accreditation of DoD child development centers. • Increased funding for the Morale, Welfare, and Recreation (MWR) program and for improving physical fitness centers by 19 percent.	**POC: NINA RICHMAN-LOO, OSD P&R (PI)** **Update: ongoing with revision.** The Department has continued to focus on improving how military families live and work. The President's FY03 Budget supports an increase in funding for Family Centers of $17M (8.5% increase); Child Care–an increase of $27M (7%) and in facilities improvement–a $60.3M in Fitness Center Construction and Renovation Program, $10.7M in Child Development Centers, $54.6M in DoD Schools and $6.6M in other community support facilities. Likewise the President's Budget contained an additional $69M to support Tuition Assistance for service members. The Department is also examining how it can improve its support to the military population that resides off the installation. Concerning commissaries, the Department is working to reduce per capita investment through business efficiencies.
Household Goods Transportation: DRI pursued initiatives to reengineer the personal property shipping process, incorporating best industry practices to simplify the moving process and improve service. These initiatives were grounded in a common principle: that military families deserve the same quality of moving services enjoyed by the private sector.	**POC: RENE BALANGA, AT&L (LM&R)** **Update: ongoing as is.** Household Goods reform is progressing and 3 pilot programs have been concluded. Evaluation is being performed by US Transportation Command and a final report is due to Congress June 30, 2002.
Consolidate and Improve Financial Management Operations: The goal was to consolidate more than 330 Service finance and accounting locations into 26 locations by FY 2000 and to make them more effective and efficient.	**POC: RON BROOKS, OUSDC** **Update: Complete**
Reduce the Number of Financial Systems: The goal was to reduce the number of finance and accounting systems from 156 in 1997 to 38 by the end of FY 2005.	**POC: RON BROOKS, OUSDC** **Status: ongoing with revision** SecDef inaugurated Financial Management Improvement Program (FMMP) to develop Department enterprise architecture to govern the acquisition and management of information systems; ultimately reducing the number of systems operating throughout the Department.

2

DRI Elements	New Management Reform Program
Reconciling Disbursements: The goal is to reduce problem disbursements from $34.3 billion (1993 baseline) to $2.0 billion by the end of FY 2000. (Note: FY 2000 data not available by the time of the DRI Transition Report in January 2001.)	**POC: KAREN WOLFF/ JERRY SHEA, OUSDC** **STATUS: ongoing as is.** At FY 2000 year end, problem disbursements were reduced to $2.772 Billion. By FY 2001 year end, through tightened policy, problem disbursements were further reduced to $1.246 Billion. Original goal complete, but on-going efforts underway to reduce further.
Reduce Characters in Lines of Accounting: In March 2000, the Defense Management Council tasked the Office of the Under Secretary of Defense [OUSD (Comptroller)] to simplify the lines of accounting for contractual transactions under $2,500.	**POC: RON BROOKS, OUSDC** **Status: On-Going with Revision** The SecDef's Financial Management Improvement Program (FMMP) will standardize the financial data used throughout the Department which will simplify and standardize the line of accounting used by DoD's financial activities.
A-76 Process: In 1997, DoD announced a goal to compete 150,000 positions between FYs 1997 and 2003 under the Competitive Sourcing or A-76 process. In 1999, DoD embraced Strategic Sourcing and established a goal to compete 244,000 positions between FYs 1997 and 2005.	**POC: JOE SIKES, ODUSD (I&E)** **Update: Subsumed-** The Department competed 116,981 positions between FY 1997 and FY 2001, and projects an additional 23,231 positions will be competed in FY 2002 and FY 2003 under the A-76 process. In 2001, OMB directed changes to the guidelines for public/private competitions. In November 2001, The Secretary established the Business Initiative Council (BIC), and charged them with changing our business processes to improve mission effectiveness and reduce cost. The BIC is developing a plan for achieving business efficiencies across the Department, concurrent with the Commercial Activities Panel initiative. This DRI now falls under the new management reform effort.
Demolition and Disposal of Excess and Obsolete Defense Facilities: Goal was to demolish and dispose of 80.1 million square feet by 2003.	**POC: DOUG HANSEN, ODUSD (I&E)** **Update: ongoing as is** - 61.9M square feet were disposed of through FY 2001 — 6.9M sq. ft. ahead of plan and about 9% under target cost. Expect to meet goal of 80.1M square ft. demolished by FY 2003.
Reduce Energy Consumption: By Presidential order, the Department was to decrease its consumption of electricity, water, and natural gas. The President's goal was to reduce energy consumption per square foot in our buildings and facilities by 30 percent below 1985 levels by 2005 and by 35 percent below 1985 levels by 2010.	**POC: DR. GET MOY, ODUSD (I&E)/U&E** **Update: ongoing** - DoD is currently on track to meet these goals, and this initiative has further been reinforced by Section 317 of the National Defense Authorization Act for Fiscal Year 2002.
Base Realignment and Closure: The focus of the DRI was to have two additional BRAC rounds authorized for 2003 and 2005.	**POC: PETE POTOCHNEY, ODUSD (I&E)** **Update: ongoing with revision.** DoD requested two BRAC rounds, but Congress approved only one BRAC round, and that is in 2005.
New Approach to Systems Acquisition: A new DoD systems acquisition process was unveiled in October 2000, by issuance of a completely revamped DoD Directive 5000.1, "The Defense Acquisition System," and its sister publication, DoD Instruction 5000.2, "Operation of the Defense Acquisition System."	**POC: RIC SYLVESTER, OSD-AT&L (AI)** **Update: complete.** The DoDD 5000.1 was issued on Oct 23, 2000 and updated on Jan 4, 2001. The DoDI 5000.2 was issued on Oct 23 and updated on Jan 4. DoD 5000.2-R was issued in June, 2001.
Performance Based Service Acquisition: In April 2000, the Under Secretary of Defense for Acquisition, Technology, and Logistics issued a new DoD policy that (1) directed the use of performance-based acquisition strategies whenever possible, (2) directed that 50 percent of Service acquisitions are to be performance-based by the year 2005.	**POC: BILL TIMPERLEY, OSD-AT&L (DP)** **Update: ongoing.** Performance Based Service Acquisition continues to be a major initiative. There are on-going efforts to establish effective metrics, develop more training, provide usable models and templates, and communicate the program. On-line courses and posting of guidebooks and existing Statements of Work are all being used to accomplish the goal.
Civil/Military Integration: DoD should increasingly rely on an integrated civil-military industrial base in lieu of a defense-unique industrial base.	**POC: LEANTHA SUMPTER, OSD-AT&L (AI)** **Update: ongoing with revision**–The goal of civil military integration is still valid; however, the advent of September 11th has ensured that this integration requires constant vigilance, both from the perspective of technology refreshment as well as sustaining the capability to support unanticipated threats. Current initiatives are being reassessed to ensure that both perspectives are balanced.

3

DRI Elements	New Management Reform Program
Shaping the Civilian Acquisition Workforce of the Future: In October 2000, the DoD's Acquisition 2005 Task Force issued its report, "Shaping the Civilian Acquisition Workforce of the Future," which was prepared for the Under Secretary of Defense (Acquisition, Technology, and Logistics) and the Under Secretary of Defense (Personnel and Readiness). The report provides recommendations for the orderly transition of the aging civilian acquisition workforce to meet the national security requirements of the 21st century.	**POC: JIM MC MICHAEL, OSD-AT&L (AI)** **Update: ongoing with revision** Our overarching goal of this initiative is to improve the quality, morale, and management of the DoD acquisition, technology, and logistics workforce. The original DRI initiative comprised 31 separate workforce-shaping initiatives. 14 are in implementation, 14 are continuing, 2 have been added, and 3 were discontinued. With human capital strategic planning as the cornerstone, the new constellation of separate initiatives has been refocused into 6 areas: Marketing, recruiting & retention; Hiring; Co-op student development; Career development; Certification; and Workforce data management. Further details are in the DoD report to the armed services committees of the Congress, "Implementation of the Acquisition Workforce 2005 Task Force Recommendations," March, 2002.
DoD Logistics Strategic Plan Objectives: 1. Optimize Support to the Warfighter 2. Improve Strategic Mobility to Meet Warfighter Requirements 3. Implement Customer Wait Time (CWT) as the DoD Logistics Metric 4. Fully Implement Total Asset Visibility across DoD 5. Reengineer/Modernize Applicable Logistics Processes/Systems	**POC: POC: RENE BALANGA, AT&L (LM&R)** **Update: Subsumed.** The DUSD (L&MR) strategic vision is evolving from the specific requirements of the Logistics Strategic Plan to a broader set of collaborative initiatives under the Future Logistics Enterprise (FLE).
Logistics Value to the Warfighter: Three primary outcomes were increased readiness, increased performance through reduced logistics processes cycle times, and reduced process and infrastructure costs. Three initiatives were developed to attain these outcomes: • Reduce logistics response time to an aggregate of 18 days by FY 2000 • Increase total asset visibility to 90 percent • Reduce supply inventories 90 percent (measured in constant FY 1995 dollars)	**POC: POC: RENE BALANGA, AT&L (LM&R)** **Update: Subsumed-** within DoD Logistics Strategic Plan Objectives. Logistics response time was reduced to 15 days in FY 2000 and 12 days in FY 2001. Neither Logistics Response Time, nor total asset visibility, nor supply inventory reduction will be reported by the Secretary of Defense as Government Performance and Results Acts measures after FY 2001. A new measure, Customer Wait Time, has been developed and a baseline of 18 days was established for FY 2001.
Challenges	
Contract Conversion: The goal was to retire the MOCAS system, a critical contract management/contract payment legacy system, by September 2002, as part of an effort to modernize and standardize contract payment and achieve elimination of unmatched disbursements and negative unliquidated obligations.	**POC: VIVIAN HILL, DCMA** **Update: ongoing with revision.** The goal remains to retire the MOCAS system but the date has changed. There are several open issues with regards to retiring the existing contract files in MOCAS, the contracting system which feeds it, SPS (Standard Procurement System), and the planned Defense Corporate Database — all impact MOCAS replacement. In preparation for the retirement of MOCAS, the Department established a working group to address and facilitate reconciliation and contract close out of the oldest contracts in MOCAS.
DoD Electronic Business Implementation Plan: DoD has ceased efforts to develop an implementation plan for the Electronic Business (EB) Strategic Plan primarily because the Chief Information Officer and the JECPO are unable to reach agreement with the Military Services and Defense Agencies on the scope and content of an overarching implementation plan. Without the plan, DoD has no assurance that the Military Services and Defense Agencies will continue with their individual EB projects in a manner consistent with the goals and objectives of the Electronic Business Strategic Plan.	**POC: PRISCILLA GUTHRIE/ MARGARET MYERS-OSD-C3I** **Update: ongoing with revision.** Because transformation includes becoming "net-ready" which includes many of the concepts and goals associated with eBusiness, eCommerce, and eGovernment, coordinated strategic and implementation planning is necessary. We are continuing with our efforts to ensure that the planning for these efforts is convergent across the DoD enterprise, there is no commitment at this time to create a single, combined implementation plan.
Electronic Commerce Architecture: The Joint Electronic Commerce Program Office was given responsibility to develop the DoD EC architecture. DoD Components have not fully embraced the architecture development approach being promoted by JECPO. Without an architecture, the Department runs the risk of having the Services and Defense Agencies develop and implement redundant initiatives, do not readily share information, and do not maximize the Department's investments in information	**POC: PRISCILLA GUTHRIE/ MARGARET MYERS-OSD-C3I** **Update: ongoing with Revision.** Currently an eBusiness Architecture version 3.0 exists, and has been included in the Department's Enterprise Architecture, Global Information Grid (GIG) ver 1.0. We are currently working on eBusiness Architecture version 4.0 with the expectation that it will be included in version 2.0 of the GIG.

4

DRI Elements	New Management Reform Program
technology.	
Permanent Change of Station (PCS): There were three DRI goals— 1. Simplify relocation entitlements and formulas 2. Reengineer the relocation process such as developing methods to facilitate automated computations, as well as improve quality of life and customer satisfaction 3. Implement an improved relocation system using standard business and reengineering methodologies to eliminate redundancy, automate manual processes, and maximize the use of electronic commerce	**POC: NINA RICHMAN-LOO, OUSD (P&R)(PI)** **Update: Completed.** The Defense Integrated Travel and Relocation Solutions (DITRS) Office was chartered to implement DRID 50, Reengineering of Relocation and Reserve Component Travel, from 27 June 1999 to 30 September 2001. DITRS was tasked with reviewing and simplifying entitlement policies that govern PCS travel, and, specifically, to investigate the potential use of a lump sum payment option for reimbursement of PCS costs in order to take maximum advantage of concepts that would ensure a seamless, paperless and electronic process. DITRS recommendations resulted in three legislative changes: advance payment of Temporary Living Allowance (TLA), advance payment of Temporary Living Expense (TLA), and Household Goods (HHG) Cost Avoidance Benefit Sharing. The program ended in FY 2001 and the initiative no longer exists under the new management reform program.
Temporary Duty Travel (TDY): The goal was to create a new Defense Travel System (DTS) using information technologies to authorize travel arrangements, as well as to compute travel claims—and do it all in an electronic environment from the convenience of a desktop computer.	**POC: COL. LARRY SCHAEFER, PM DTS** **Update: ongoing with revision** The Defense Travel System (DTS) successfully passed a comprehensive technical and functional assessment in 2001. It was identified as the future single standard system for satisfying temporary duty travel requirements. The program successfully completing an independent Operational Assessment at Ellsworth AFB, SD in 2001. One pilot site is currently operational and the rest will become operational as follows: two by March 2002, five by June 2002, and three by August 2002. Plans are being developed to deploy to about 50 high travel volume sites during fiscal year 2003. The program is also actively working with the eGov eTravel initiative to provide lessons learned and explore the potential of DTS to meet the requirements of this initiative.
Improve Military Housing: The goal was to increase reliance on the private sector through privatization, and eliminate substandard housing by 2010.	**POC: JOE SIKES, ODUSD (I&E)** **Update: ongoing with revision.** The August 30, 2001 Defense Planning Guidance revised this goal and accelerated it from 2010 to 2007.
Re-engineer DoD Business Practices: The overall goal was to make DoD financial business practices straightforward, more efficient, and more effective in order to meet stakeholder, customer, and staff requirements. One key element of this transformation process was to develop a future Defense Procurement and Payment System that achieves a paperless environment.	**POC: RON BROOKS, OUSDC** **Update: ongoing with revision** The SecDef Financial Management Modernization Program enterprise architecture effort in concert with USD(AT&L) & CIO will require the business process reengineering of business practices in virtually every DoD support activity (logistics, personnel, health care, etc.). That effort will address the business practices associated with DPPS.
Auditable Financial Statements: The goal was for the Department to receive an "unqualified" audit opinion on its financial statements for FY 2003.	**POC: HENRY BEZOLD, OUSDC** **Update: ongoing with revision** The revised approach involves two parallel and coordinated paths. One path is addressing policy, procedures and compliance issues that require minimal systems changes. The other path is focused on the implementation of an integrated financial management environment that includes both financial and nonfinancial information systems. The original estimated completion date of FY 2003 has proven to be overly optimistic, instead, it is likely to be several more years before the Department achieves an unqualified audit opinion.

5

DRI Elements	New Management Reform Program
A-76 Process: In 1997, DoD announced a goal to compete 150,000 positions between FYs 1997 and 2003 under the Competitive Sourcing or A-76 process. In 1999, DoD embraced Strategic Sourcing and established a goal to compete 244,000 positions between FYs 1997 and 2005.	**POC: JOE SIKES, ODUSD (I&E)** **Update: Subsumed**- made a part of another management reform effort. The Department competed 116,981 positions between FY97 and FY01. We are projected to compete an additional 23,231 positions in FY02 and FY03 for a total of 140,212 under the A-76 process. In a 30 Jan 02 meeting with OMB, we reached agreement [in principle] that our ongoing efforts would allow us to meet the 15% goal by FY 2003. A significant portion of the remaining 50% goal will be met by an assortment of business tools to include re-engineering, divestiture, privatization, public/private partnering, diversification, and A-76 public/private competitions. The particulars of the agreement will be formalized by way of an MOU between DoD and OMB.
Privatize DoD Utility Systems: DRID #49, "Privatizing Utility Systems, " directed the Military Departments to award privatization contracts for all eligible utility systems by the end of FY 2003. The DRID also set forth the criteria for exempting systems from the privatization program, for using competitive procedures, and for conducting the economic analyses.	**POC: DR. GET MOY, ODUSD (I&E)/U&E** **Update: ongoing with revision** - This program is more complex and time-consuming than originally anticipated. Revised guidance is in final preparation to clarify a number of program issues, including a revised date for completion of the goal.
Reduce Acquisition Cycle Time: A key objective is to reduce by 25 percent the average acquisition systems cycle time (measured from program start to initial operating capability) for all major defense acquisition programs (MDAPs) that started since FY 1992. The overall goal is to achieve a cumulative average cycle time of 99 months for all MDAPs started since 1992.	**POC: LARRY AXTELL, AT&L (ARA)** **Status: ongoing as is.** The tracking of acquisition cycle time for DoD major defense acquisition programs (MDAPs) continues with FY 2001 result of 95 months for MDAPs that started since FY 1992. This represents a 28 percent reduction from the average acquisition cycle time for MDAPs that started prior to FY 1992. This metric will continue in FY 2002/03.
Transforming Logistics: The Deputy Secretary of Defense issued Defense Reform Initiative Directive #54, "Logistics Transformation Plans," on March 23, 2000. The purpose of the Directive was to require the Military Components, Defense Logistics Agency (DLA), and the U.S. Transportation Command (USTRANSCOM) to submit annual logistics transformation plans. The intent was to document how these organizations planned to reach the goals and objectives laid out in the DoD Logistics Strategic Plan.	**POC: POC: RENE BALANGA, AT&L (LM&R)** **Update: Subsumed.** DRID 54 should be considered closed since the requirements of the Logistics Transformation Plan and the initiatives under the Future Logistics Enterprise have incorporated virtually all of the tenets contained in the DRID. DUSD (L&MR), in conjunction with the Components, should adopt a consistent approach for documentation of progress on logistics transformation and implementation.
Defense Management Council (DMC) Charter & Authority: DoD Directive 5160.69, the authority that created the DMC, contained a sunset provision of December 31, 2000. The Defense Management Council played an effective role over the past several years, and the DRI recommended that it be extended or a similar body be created.	**POC: MARY MARGARET EVANS, AT&L (AI)** **Update: Subsumed** the sunset provision essentially kicked in and the DMC ceased to operate. In June 2001, the Secretary of Defense formed two new internal management committees to recommend improvements to business practices and transform the U.S. military into a 21st Century fighting force. The Senior Executive Committee (SEC) is headed by the SecDef, and has the DepSecDef, USD (AT&L), and the Service Secretaries as members. The Business Initiatives Council (BIC), headed by the USD (AT&L), consists of the Service Secretaries and the vice chairman of the Joint Chiefs of Staff.

6

Appendix V: Summary Table of Business Initiative Council Initiatives

BIC initiatives approved September 14, 2001	Description of initiatives
One-Time Clearance of Priority Placement for Scientific and Engineering Positions	To eliminate unnecessary delays in hiring hard to fill scientific and engineering positions by allowing for a one-time clearance of the Priority Placement Program.
Modify 180-Day Waiting Period to Hire Retired Military	To encourage highly qualified retired military personnel to pursue civil service careers by changing the DOD policy to allow service secretaries to delegate within the components the 180-day waiver authority.
Management Mix Management Flexibility	To allow the services to make the most efficient use of civilian/contract personnel without predetermined constraints/expectations.
Recovery Auditing	To use contingency fee auditing services contract to identify and recover overpayments in the Working Capital Funds to providers of goods and services.
Raise Below Threshold Reprogramming (BTR) Thresholds	To raise the thresholds for BTR actions by providing program managers greater flexibility to execute their programs by increasing the threshold for procurement accounts from $10 million to $20 million and by increasing the threshold for research and development from $4 million to $10 million.
Web-Based Invoice/Receipt Processing	To reduce the incurrence of incorrectly prepared or missing receiving reports and to move toward a paperless process by using existing automated systems that will allow the Defense Finance and Accounting System to pay vendors more quickly and accurately.
Common Range Scheduling Tool	To enhance coordination of testing schedules across multiple sites and to avoid unnecessary scheduling delays by developing and implementing a Web-based scheduling tool capable of real or near real-time updates.
Local/Regional Cell Phone Pooling	To overcome rising cost of cellular telephone bills and inefficient phone purchases, negotiate new local or regional cell phone contracts to consolidate cell phone users into appropriate pools.
Enterprise Software Initiative (ESI)	To streamline the acquisition process by providing best-priced, standards-compliant software products through expanding the use of the ESI process as the benchmark acquisition strategy by using the current structure of executive agents distributed among military departments/Defense agencies, maintaining a flexible process to be responsive to customer needs, and extending a software asset management framework within DOD to enhance enterprise software-life cycle management capability.
Common Flight Clearance Process	To reduce clearance turnaround time, develop and implement a "common" flight clearance process by incorporating the latest information technology advancements.

BIC initiatives approved December 3, 2001	Description of initiatives
Optimize Professional Continuing Education (PCE)	To streamline professional continuing education by allowing the services to determine where PCE will take place and which service is best suited to provide PCE.
Modify Joint Professional Military Education (JPME) II Requirements	To modify JPME II by allowing the course to be less than 12 weeks, removing the mandatory sequencing requirements for Joint Specialty Officer designation, and by allowing service staff and War Colleges to provide resident and nonresident Joint Professional Military Education II.
Allow for Contracting of Security Guards	To allow services to contract security guards in the continental United States at small locations to provide increased flexibility as DOD continues to enhance antiterrorism/force protection measures.
Revise Davis-Bacon Act Thresholds	To raise the Davis-Bacon Act threshold from $2,000 to $100,000.

Improve Interservice Product Quality Deficiency Reporting (PQDR) Business Process	To develop and implement a methodology to seamlessly share PQDR data across all services and agencies.
Establish Process for Property Conveyance for Conservation Purposes	To allow DOD to convey surplus property to a state or local government, or nonprofit conservation organization for natural resource conservation purposes.
Establish Funding Flexibility within a Program	To establish transfer flexibility "between" appropriations in the "same program" at $30 million or 10 percent, whichever is less.
Increase Flexibility of Expired Year Funds	To avoid the need to request specific program legislation when expired appropriations have been exhausted by establishing the authority to reprogram expired dollars.
Increase Expense/Investment Threshold	To provide field commanders greater flexibility in their decision-making process and ability to fund critical requirements by increasing the expense/investment threshold from $100,000 to $500,000.
Establish Operations and Maintenance (O&M) Close-Out Flexibility	To pay for emerging but not forecasted must-pay bills by allowing DOD to carryover up to 2 percent of O&M funding for 1 year.
Streamline Administrative Coordination Process	To streamline and simplify the procedures used to coordinate documents and actions within DOD.
Streamline Contract Close-Out Process	To close out 400 plus completed cost contracts that are under $1 million and that are at least 9 years old; and by using lessons learned develop new business practices within the contract close-out community.
Streamline Clinger-Cohen Implementation	To develop a process for the appropriate implementation of the Clinger-Cohen Act while avoiding the duplication of existing acquisition processes and oversight.
Eliminate Excise Tax on DOD Tactical Vehicles	To request exemption from the Treasury department from paying the federal retail excise tax on military and tactical-wheeled vehicles above 33,000 pounds gross vehicle weight.
BIC initiatives approved February 6, 2002	**Description of initiatives**
Commercialize Military-Developed Systems	To have the private sector purchase up to 10 C-17 aircraft for its use with the agreement that the aircraft would be available to DOD if required in a contingency.
Commercializing Acquisition: Raise the Truth in Negotiations Act (TINA) Thresholds	To raise the TINA dollar threshold to $7.5 million.
Virtual IT Marketplace	To implement a virtual IT marketplace portal to extend the DOD Enterprise Software Initiative to include IT hardware and selected services using the General Services Administration.
Streamline the General Officer/Flag Officer Nomination Process	To simplify the nomination process and allow the services to make timely and flexible moves of general/flag officers.
BIC initiatives approved March 18, 2002	**Description of initiatives**
Cell Phone Subsidy	To develop procedures to select and reimburse employees a flat payment for official use of their personal cell phone.
Streamline Technology Readiness Assessments	To modify the mandatory requirement for Technology Readiness Assessments.
Elimination of Value Engineering Reporting	To eliminate the annual value engineering reporting requirements of the Office of Management and Budget Circular A-131.
Streamline IT Equipment Disposal Process	To eliminate duplicative IT equipment disposal processes.
BIC initiatives approved May 31, 2002	**Description of initiatives**
Pioneer Projects	To use a variety of sourcing arrangements such as commercial cost comparison; divestiture; reengineering; and/or further expansion of privatization efforts in order to transition noncore competencies to the private sector.

Buy to Budget	To allow DOD to purchase increased amounts of major procurements without obtaining prior congressional approval.
Simplify Physical Access Control at DOD Installations and Facilities by Using the Common Access Card	To eliminate the necessity for DOD to issue and for personnel to carry additional physical access badges after the Common Access Card is issued.
Eliminate Unnecessary Reports	To implement a process to routinely evaluate potential unnecessary, duplicative, or excessive reporting requirements.
Embedded Instrumentation	To establish acquisition policy that requires all systems to have an integrated set of embedded instrumentation for diagnostics, prognostics, testing, and training if the business case analysis considers it reasonable and practicable.
BIC initiatives approved September 4, 2002	**Description of initiatives**
Improve Visibility of Contract Services	To obtain better visibility of the contractor work force by establishing the Army as the DOD pilot to test the contractor manpower and cost reporting process.
Consolidate Defense Agency Overhead Functions	To examine opportunities for potential consolidation of the noncore functions performed by the Defense agencies and field activities.
Reengineer Personnel Security Investigation	To seek relief from the burdensome and slow processes associated with granting personnel security investigations.
e-Content Enterprise Licensing	To expand the enterprise agreement methodology in order to further leverage the purchasing power of DOD.
International Electronic Information Release policy	To determine the best method of sharing information between U.S. government offices and foreign government organizations for the purpose of conducting foreign military sales business, military equipment loans, and cooperative programs for the development and production of military equipment.
Managing for Results	To link resources consumed by DOD installation activities to performance outcomes (results), customer demands, and work outputs by using activity-based costing and management tools, performance measures, and benchmarks.
Guaranteed Fixed-Price Remediation (GFPR)	To use GFPR contracts, a new contracting method that obligates contractors to guarantee achievement of DOD's environmental cleanup objectives for a fixed price, and the contractors use insurance to protect against cost overruns.
Reengineer Legislative Coordination Process	To redesign DOD's procedures for formulating, reviewing, and submitting legislative proposals to Congress.
Cost-Effective Multiyear Contracting Arrangements and/or Purchase of Military Sealift Command Ships	To explore alternative approaches for acquiring the required capability with the primary objective of reducing rates charged to customers while still meeting mission requirements.
Working Capital Fund–Business Practices	To improve the business practices and financial policies of the Defense Working Capital Fund across all business areas.
Provide Adequate Fitness Facilities	To establish a team with representatives from the Office of the Secretary of Defense and the services to explore various fitness facilities alternatives that each service could use as appropriate for addressing its unique requirements.
Improve the Speed and Quality of the Decision-Making Process within DOD	To establish a cross-component team to study the reengineering of DOD's decision-making process.

Source: DOD.

Appendix VI: Defense Business Practice Implementation Board Members

Member	Affiliation
William (Gus) Pagonis (Chair)	Executive Vice President, Supply Chain, Sears, Roebuck and Company
Michael Bayer (Vice Chair)	Private consultant engaged in enterprise strategic planning and mergers and acquisitions
Neil Albert	Senior Vice President and Director of MCR Federal, Inc.
Brad Bends	Vice President, Financial Services, KPMG
Denis Bovin	Vice Chairman, Bear Stearns and Company, Inc.
Frederic Cook	Frederic Cook & Company
Travis Engen	President and CEO, Alcan, Inc.
Steve Friedman	Chairman, Board of Columbia University
Robert Hale	Senior Fellow, Logistics Management Institute
W.N. Johnson	Vice President, Dean of Students, Boston University
James Kimsey	Founding CEO and Chairman Emeritus of America Online
Dana Mead	Retired Chairman, Tenneco, Inc.
Phil Merrill	Board of Capital-Gazette Communications
Richard Perle	Chairman, Defense Policy Board, ex officio
William Phillips	Partner, PricewaterhouseCoopers, Washington
Arnold Punaro	Senior Vice President and Director, Federal Business Development, Science Applications International Corporation
William Schneider, Jr.	Chairman, Defense Science Board, ex officio
Andrew Siegel	Deutsche Bank
Frank Sullivan	Frank Sullivan Associates
Mortimer Zuckerman	Editor-in-Chief, U.S. News & World Report
Observer	**Affiliation**
David Walker	Comptroller General of the United States
Mark Everson	Controller, Office of Federal Financial Management, Office of Management and Budget

Source: DOD.

Appendix VII: Comments from the Department of Defense

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

ACQUISITION,
TECHNOLOGY
AND LOGISTICS

1 4 NOV 2002

Mr. Barry W. Holman
Director, Defense Capabilities and Management Team
United States General Accounting Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Holman:

This is the Department of Defense (DoD) response to the GAO draft report, "DEFENSE MANAGEMENT: New Management Reform Program Still Evolving," dated October 11, 2002 (GAO Code 350233/GAO-03-58). While the draft report did not contain specific recommendations for the Department, I appreciate the opportunity to review the draft report. The report is technically accurate and I have no comments to the report as written.

If you have any questions, please contact my action officer for this action, Mr. Frank Leaming (703-614-7529), email: frank.leaming@osd.mil.

Sincerely,

Deidre A. Lee
Director, Defense Procurement and
  Acquisition Policy

Appendix VIII: Staff Acknowledgments

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Related GAO Products

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