Reducing Overhead and Improving Business Operations

Initial Observations

July 22, 2010
# Report Documentation Page

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Task Group Overview

Terms of Reference
The Secretary of Defense is concerned over the ability of the Department of Defense to sustain current force structure levels and to continue critical modernization of military capabilities given the current and projected fiscal climate. It is imperative that the Department identify and pursue every opportunity to economize and increase the efficiency of its business operations.

Deliverables
Provide recommendations on options to materially reduce overhead and increase the efficiency of the Department's business operations. This effort should identify both short- and long-term opportunities to achieve budget savings as well as make process or organizational changes that will yield long-term operational efficiencies.

Task Group
Mr. Arnold Punaro (Chair)
Mr. Fernando Amandi
Mr. Pierre Chao
Mr. Patrick Gross
Mr. Joseph Wright

“The Defense Department must take a hard look at every aspect of how it is organized, staffed and operated”
Defense Secretary Robert M. Gates, May 8, 2010

Military Assistant
Captain Michael Bohn, USN
INTRODUCTION
Background

- Since its inception in 2001, the DBB has been recommending ways for the department to improve its effectiveness and service delivery.

- Most importantly, during the Transition of the current administration in 2009, the DBB articulated three existential challenges facing the Department that needed fixing. Those were:
  - Acquisition
  - Overhead
  - Health care costs

- This effort is an expansion of the issues we raised in that transition report on the threat presented to the department by the escalating costs and burden of overhead.

- Without this fixed, the Department will be unable to provide adequate resources to its warfighters.
The purpose of this briefing is to
- Outline the challenge
- Describe near term opportunities for the Department to pursue
- Outline longer term systemic fixes necessary to meet the Secretary’s challenging end state goals

We see four major themes
- There has been an explosion of overhead work because the Department has failed to establish adequate controls to keep it in line relative to the size of the warfight
- In order to accomplish that work, the Department has applied ever more personnel to those tasks which has added immensely to costs
- The majority of this new work is being done by contractors, the cost of which is nearly invisible to the Department as it is buried within O&M accounts rather than in the more visible personnel accounts
- There is a sizeable portion of the active military who are performing what would otherwise be not inherently government work or work that should be more appropriately assigned to DoD civilians. The military are compensated at rates substantially greater than their civilian counterparts but, more importantly, are needed at the tip of the spear
Some Initial Observations

- The Nation cannot sustain a strong defense on a weak economy
  - The Country’s current fiscal posture is a national security threat
- Congress and DoD have a poor track record in addressing overhead expenses
- Whether it’s improving the tooth-to-tail ratio; increasing the “bang for the buck”, or converting overhead to combat, Congress and DoD must significantly change their approach
- Must think “smarter” … not “richer”
- Must focus on “outputs” … not “inputs”
- Must use the numerous world-class business practices and proven business operations that are applicable to DoD’s overhead
What This is Not

- It is not a criticism of DoD leadership in current or previous administrations
  - Many of these problems have been in the “too hard” box for years because the solutions are not easy

- It is not a suggestion that no improvements have occurred
  - The measure is not how far we’ve come … but how far we have to go

- It is not ignoring the past 10 years of fighting two wars and more including increasing homeland security

- It is not a suggestion that anyone knows precisely what DoD’s overhead costs are, the best way to define them, that changing the adverse trend lines can occur quickly or without significant opposition
## History of DoD Characteristics by Presidential Administration

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<tr>
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</tr>
</thead>
<tbody>
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<td>Total Budget Authority ($B - Constant $)</td>
<td>$383</td>
<td>$518</td>
<td>$451</td>
<td>$381</td>
<td>$694</td>
<td>$553</td>
<td>44%</td>
<td>7%</td>
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<tr>
<td>Total Budget Authority ($B - Current $)</td>
<td>$142</td>
<td>$288</td>
<td>$285</td>
<td>$287</td>
<td>$672</td>
<td>$553</td>
<td>289%</td>
<td>92%</td>
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<tr>
<td>Supplementals ($B)</td>
<td>$0</td>
<td>$0</td>
<td>$4</td>
<td>$0</td>
<td>$190</td>
<td>$159</td>
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<td>Active Duty Personnel (K)</td>
<td>2,101</td>
<td>2,209</td>
<td>1,886</td>
<td>1,449</td>
<td>1,406</td>
<td>1,484</td>
<td>-29%</td>
<td>-33%</td>
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<tr>
<td>Reserve and Guard Personnel (K)</td>
<td>851</td>
<td>1,158</td>
<td>1,135</td>
<td>865</td>
<td>843</td>
<td>845</td>
<td>-1%</td>
<td>-27%</td>
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<tr>
<td>DoD Civilian Personnel (K)</td>
<td>1,019</td>
<td>1,090</td>
<td>1,006</td>
<td>698</td>
<td>671</td>
<td>785</td>
<td>-23%</td>
<td>-28%</td>
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<tr>
<td>Active in Commission Ships</td>
<td>521</td>
<td>573</td>
<td>471</td>
<td>341</td>
<td>282</td>
<td>284</td>
<td>-45%</td>
<td>-50%</td>
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<tr>
<td>Army Divisions (active)</td>
<td>19</td>
<td>20</td>
<td>20</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>-47%</td>
<td>-50%</td>
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<tr>
<td>AF Fighter/Attack (Total Active Inventory)</td>
<td>2,789</td>
<td>3,027</td>
<td>2,000</td>
<td>1,666</td>
<td>1,460</td>
<td>1,280</td>
<td>-54%</td>
<td>-58%</td>
</tr>
</tbody>
</table>

Significant “More for Less” Trends

- Paying more for smaller numbers
  - Military personnel, force structure, equipment

- Paying more for more of the same
  - Overhead, HQs + staffs + agencies + layers + commands

- Adding costs and inefficiencies due to the cumulative weight of laws, rules, and regulations
  - most Congressionally driven

- Paying for much of this with operations and maintenance funds which have evolved to a catch-all

  - $184.5B for FY10 (approximately 3% CAGR)
Significant Unsustainable Trends

- Paying the military and their families for 60 years to serve for only 20 years
  - Military “entitlements”, which have expanded rapidly, have become part of the nation’s mandatory spending problems

- Allowing 340,000 military personnel to serve in commercial activities (not inherently governmental)

- Allowing military personnel to serve in inherently governmental activities billets that otherwise should be occupied by DoD government civilians

- Increasing the number of contractors in all activities without proper planning, adequate visibility, or careful oversight

- Creating new organizations and large staffs without sufficient controls to ensure their efficiencies
Significant Opportunity Areas

- Ignoring proven business processes in areas like logistics and supply chain, knowledge based services, IT expenses, and contracted services
  - Driving costs much higher than required in these enormous expenditure areas

  Total for contracted services $197B
  Total for supplies and equipment $179B

  - Logistics and Supply Chain $190B
  - Knowledge Based Services $52B
  - Information Technology Expenses $37B
FEDERAL AND DOD SPENDING
Federal Deficits as a Percent of GDP

Source: Peterson Foundation

State of the Union’s Finances – A Citizen’s Guide
April 2010

Mandatory spending and interest on debt crowding out discretionary

Interest will exceed defense budget in 2017

Discretionary and Mandatory Trends
Percent of Total in Constant 2009 Dollars

Sources: Data derived from the Office of Management and Budget, A New Era of Responsibility: The 2011 Budget, Historical Tables and the Congressional Budget Office, Preliminary Analysis of the President’s Budget: March 2010. Calculated by PGPF.

Source: Peterson Foundation State of the Union’s Finances – A Citizen’s Guide April 2010
FY 2010 Base Budget (Enacted)

(Dollars in Billions)

$530.7B

Military Personnel: $135.0

Operation & Maintenance: $184.5

Procurement: $104.8

RDT&E: $80.1

Military Construction: $21.0

Family Housing: $2.3

Revolving Funds: $3.1

$660.7B with OCO

At least $200 billion ($1 trillion across the FYDP) is “overhead”

Numbers may not add due to rounding
If DoD overhead was a separate country, it would rank 49\textsuperscript{th} in GDP

<table>
<thead>
<tr>
<th>RANK</th>
<th>COUNTRY</th>
<th>GDP ($B)*</th>
</tr>
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<tbody>
<tr>
<td>45</td>
<td>Chile</td>
<td>244</td>
</tr>
<tr>
<td>46</td>
<td>Bangladesh</td>
<td>242</td>
</tr>
<tr>
<td>47</td>
<td>Singapore</td>
<td>235</td>
</tr>
<tr>
<td>48</td>
<td>Portugal</td>
<td>232</td>
</tr>
<tr>
<td>49</td>
<td>DoD Overhead</td>
<td>212</td>
</tr>
<tr>
<td>50</td>
<td>Israel</td>
<td>205</td>
</tr>
<tr>
<td>51</td>
<td>UAE</td>
<td>200</td>
</tr>
</tbody>
</table>

*Sources: Year 2009 Country GDP PPP Statistics (CIA Factbook); Federal Budget for Fiscal Year 2011, Analytical Perspectives, Table 32-1 (Base budget of $513B, not including $130B in OCO funding); FY09 Defense Manpower Requirements Report, Chapter 2, Tables 2-1a through 2-1d, Infrastructure (40\% of total).

But it is run, not through market forces, but through bureaucratic processes:

- Planning, Programming, Budgeting, and Execution System and Future Year Defense Plan
- Acquisition Boards and Teams
- DoD Instructions and Directives
- Audits/Investigations/ Congressional Oversight
Organizational Totals

OSD, Joint Staff, COCOMs, and Defense Agencies

Dollars: $113B

People: 240,000

No Reliable Contractor Data Available
PEOPLE
DoD Layers
A Long Trip To The Top

**Joint Staff**
- Chairman
- Vice Chairman
- Director, Joint Staff
- Vice Director
- Director, J-#
- Vice Director
- Deputy Director
- Regional/Subject Officer

**Service Secretariat**
- Secretary
- Under Secretary
- Assistant Secretary
- Principal Deputy Assistant Secretary
- Deputy Assistant Secretary
- Director
- Action Officer

**OSD**
- Secretary
- Deputy Secretary
- Under Secretary
- Principal Deputy Under Secretary
- Assistant Secretary
- Principal Deputy Assistant Secretary
- Deputy Assistant Secretary
- Office Director
- Action Officer

**Service Military Staff**
- Chief of Staff
- Vice Chief of Staff
- Assistant Vice Chief of Staff
- Director of Service Staff
- Deputy Chief of Staff
- Assistant Deputy Chief of Staff
- Division Chief
- Office Chief
- Action Officer

Start with AO
Trends in OSD Staff Size
Projection a/o June 2010

Full-time Authorized Manpower

Reagan Administration build-up
FY98 NDAA baseline for 25% MHA reductions
9-11 impact begins
Defense Reform Initiative reductions
In-sourcing WSARA OUSD(C)
FY11 in-sourcing growth not yet included in projected FY11 total

All in estimate is ±5,100

Note: Chart does not include active duty reservists, detailees, contractor manpower, or temporary overstrengths
Source: Carol Walker at ODAM June 2010

$5.5B spent by OSD in FY10
We think the number of contractors adds +2,000 people
PERSONNEL ISSUES
Where is Pvt. Waldo?
Is the Department overdeployed and undermanned, or just performing too many “non-military” functions?

DoD Total for Active Duty

- Never Deployed: 560K
- Deployed Once: 424K
- Deployed Twice: 256K
- Deployed Three or More Times: 160K
Where is Private Waldo?

1.4M Total Active Duty
340K Deployed as of May 2010

- What are the other 1.1M doing?
- More active duty would be available for deployment if non-military functions converted to civilians or eliminated
Cost of Military doing not Inherently Governmental Commercial Activities

- 339,142 active duty military performing commercial activities (per FY2009 FAIR inventory)
  - Using an average cost of $160K/yr (CRS Milpers/troop index), this costs over $54B/yr!
  - 8% of the FY10 base budget!

- Eliminating 10% of commercial activities positions could save $5.4B

- Poor use of our most expensive personnel – active duty military

$54 BILLION ANNUALLY!!!
Cost of Military in DoD Civilian Roles

- Another group of personnel are most likely to be found within the non-deployable portions of each of the Services that have never deployed
- This number is not known
- Poor use of our most expensive personnel – active duty military
ORGANIZATIONS
### Defense Agencies Compared with Top Defense Contractors

<table>
<thead>
<tr>
<th>Rank</th>
<th>Contractors (Rank)/Defense Agencies</th>
<th>DoD Contracts/Agency Budget ($,M)</th>
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<tbody>
<tr>
<td>1</td>
<td>Defense Logistics Agency</td>
<td>38,890</td>
</tr>
<tr>
<td>2</td>
<td>Lockheed Martin Corp. (1)</td>
<td>30,052</td>
</tr>
<tr>
<td>3</td>
<td>Defense Health*</td>
<td>29,001</td>
</tr>
<tr>
<td>4</td>
<td>Northrop Grumman Corp. (2)</td>
<td>23,494</td>
</tr>
<tr>
<td>5</td>
<td>Boeing Co. (3)</td>
<td>23,338</td>
</tr>
<tr>
<td>6</td>
<td>BAE Systems (4)</td>
<td>16,280</td>
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<td>7</td>
<td>General Dynamics Corp. (5)</td>
<td>14,438</td>
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<td>8</td>
<td>Raytheon Co. (6)</td>
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<tr>
<td>9</td>
<td>Missile Defense Agency</td>
<td>11,584</td>
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<td>10</td>
<td>United Technologies Corp (7)</td>
<td>8,300</td>
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<td>11</td>
<td>Defense Commissary Agency</td>
<td>7,618</td>
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<tr>
<td>12</td>
<td>Defense Information Systems Agency</td>
<td>7,026</td>
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Five of the 12 Top Defense Contractors Are Defense Agencies

FY2009 Contracts Data from govexec.com; FY2009 Agency Budgets Include Defense Working Capital Revenues

*Defense Health Programmed Portion Only; Includes “Tricare for life” accruals; Excludes Service Medical Funding that is Outside Defense Health Program
Defense Agencies and Field Activities

- Have continued to grow and spend
  - The number and scope have outstripped current management and oversight mechanisms

- Fundamental problem: DAs/FAs are not being managed as cost-effective businesses or recognized as a major element of overhead
  - They spend over 20% of DoD’s entire budget
  - There is limited application of best business practices – military leadership – for most part – of largely business activities
  - Few meaningful performance management systems
  - Continued operation of non-core functions
  - Passive supervision but strong advocacy by over-worked OSD officials
  - Services believe they are being overcharged – and they are

- In spite of assertions to the contrary, there are substantial gains yet to be made by making them more cost-effective thru: business processes, consolidations of overhead functions, elimination, privatization, devolving, and merging
"Many Combatant Commands are staff and contractor heavy and very expensive"

Are some of the Combatant Commands becoming "Contractor" Commands??

10,800 estimated contractors based on chart

For FY10, in the 10 Combatant Commands, there are an approximate total of 98,000 military, civilian, and contractors with a total budget of $16.5B

Source: BGEN Walters J8 June 2010

Note: Contractor data was self-reported by COCOMs. All data is as of July 2009.
<table>
<thead>
<tr>
<th>Joint Forces Command’s own Joint Commands and Activities</th>
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<tr>
<td>- Joint Center for Operational Analysis (JCOA)</td>
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<tr>
<td>- Joint Irregular Warfare Center (JIWC)</td>
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<tr>
<td>- Joint Warfare Analysis Center (JWAC)</td>
</tr>
<tr>
<td>- Joint Warfighting Center (JWFC)</td>
</tr>
<tr>
<td>- Joint Communication Support Element (JCSE)</td>
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<tr>
<td>- Joint Systems Integration Center (JSIC)</td>
</tr>
<tr>
<td>- Joint Enabling Capabilities Command (JECC)</td>
</tr>
<tr>
<td>- Joint Unmanned Aircraft Systems Center of Excellence (JUAS COE)</td>
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<tr>
<td>- Joint Public Affairs Support Element (JPASE)</td>
</tr>
<tr>
<td>- Joint Deployment Training Center (JDTC)</td>
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<tr>
<td>- Joint Fires Integration and Interoperability Center (JFIIT)</td>
</tr>
<tr>
<td>- Joint Personnel Recovery Agency (JPRA)</td>
</tr>
<tr>
<td>- Joint National Training Capability (JNTC)</td>
</tr>
<tr>
<td>- Joint Knowledge Development and Distribution Capability (JKDDC)</td>
</tr>
</tbody>
</table>
Most Infrastructure (73%) is in the Military Departments

An effective infrastructure reduction effort must include the military departments.
BENEFITS,
ENTITLEMENTS,
& DEFERRED COMPENSATION
Outlays for Military Personnel and Retirees Fiscal Year 2007

GAO: "The military compensation system has had the same basic structure since the end of World War II. … It is unlikely that DoD’s current approach to compensation is reasonable, appropriate, affordable, and sustainable over the long-term", July 2005, April 2010

Total Federal Government Outlays $235.5B

- Department of Defense $159.6B
- Department of Education $0.4B
- Department of Labor $0.2B
- Department of Treasury $2.5B
- Department of Veterans Affairs $72.8B

Military Departments $128.8B
- Compensation Costs $103.3B
- Retirement and MERHC Funds $25.5B

Defensewide Components $30.8B
- Defense Health Program $24.1B
- DoD Dependents Education $2B
- Defense Commissary Agency $1.2B
- Defensewide Family Housing $3.5B

Payments for Concurrent Receipts $2.5B

Source: DTM 09-007, January 29, 2010
Changes in Military Pay and Benefits per Active Duty Troop
FY1998-FY2009

Source: CRS based on Department of Defense budget data.

Source: STATEMENT OF STEPHEN DAGGETT SPECIALIST IN DEFENSE POLICY AND BUDGETS CONGRESSIONAL RESEARCH SERVICE BEFORE THE HOUSE COMMITTEE ON ARMED SERVICES HEARING ON RESOURCING THE NATIONAL DEFENSE STRATEGY: IMPLICATIONS OF LONG-TERM DEFENSE BUDGET TRENDS NOVEMBER 18, 2009

Draft – Pre-decisional Pending Full Board Deliberations

35
Congressional Actions Shape the Compensation Bill

[Bar chart showing compensation changes from FY02 to FY10.]

- **FY02**: $0.3B
- **FY03**: $8.9B
- **FY04**: $12.7B
- **FY05**: $16.0B
- **FY06**: $17.4B
- **FY07**: $18.9B
- **FY08**: $20.0B
- **FY09**: $21.3B
- **FY10**: $22.8B

Legend:
- Blue: TRICARE for Life
- Orange: Healthcare for Non-Activated Reservists
- Red: Increased Family Separation Allowance
- Green: Survivor Benefit Enhancements
- Yellow: Redux Repeal
- Gray: Concurrent Receipt
The “Military Retirement” sacred cow is increasingly unaffordable

- # of military retired for:
  - 1980 1,264,525
  - 1990 1,472,129
  - 2000 1,701,218
  - 2010 1,905,074 projected
  - 2020 1,935,840 projected

- Amount treasury pays in military retirement pay each year from 1990 projected to 2020

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
<th>Year</th>
<th>Amount</th>
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<th>Amount</th>
<th>Year</th>
<th>Amount</th>
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<td>1991</td>
<td>$23,221,989</td>
<td>2001</td>
<td>$34,154,145</td>
<td>2011</td>
<td>$47,051,058</td>
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<td>1994</td>
<td>$26,999,869</td>
<td>2004</td>
<td>$36,895,426</td>
<td>2014</td>
<td>$49,763,256</td>
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<td>1995</td>
<td>$27,186,463</td>
<td>2005</td>
<td>$38,790,217</td>
<td>2015</td>
<td>$50,987,103</td>
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<tr>
<td>1996</td>
<td>$28,974,224</td>
<td>2006</td>
<td>$41,130,056</td>
<td>2016</td>
<td>$52,248,515</td>
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<tr>
<td>1998</td>
<td>$31,206,731</td>
<td>2008</td>
<td>$45,656,789</td>
<td>2018</td>
<td>$55,362,008</td>
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</table>

- Percentage of people that join the military that earn retirement
  - Based on current decrement rates, 17 percent of a typical group of new entrants attains 20 years of active duty service and becomes eligible for non-disability retirement from active duty. Specifically, 47 percent of new officers and 15 percent of new enlistees attain 20 years of active duty service. It should be noted that some military personnel who begin their careers on active duty move to the reserves and retire from there. The stated percentages also reflect the effect of reentrants.
Number of Military Retirees receiving retired pay by years of service
CONCLUSION
Best Business Practices for Immediate Consideration

1. Initiate hiring freeze and headcount control process
   - Start with OSD, JCS, and COCOMs
   - Establish a high-level process to track and control military, civilian, and contractor head counts and costs denominated by full-time equivalents
   - Direct Military Department and Defense Agencies to do same
   - Direct civilian reductions back to FY 2003 levels or 15% whichever is greater
   - Find out how many contractors work for DoD
     - Freeze “contractor” spending at current levels until this headcount is known
     - Once known, reduce to FY 2003 levels in all activities

2. Eliminate organizational duplication and overlap
   - Focus first in areas such as OSD/JCS in Public Affairs, Legislative Affairs, Legal Affairs, Personnel Oversight, Cables, J-8/CAPE and JROC and AT&L
Best Business Practices for Immediate Consideration

3. Downsize Combatant Commands beginning with elimination of JFCOM and do the same for OSD organizations as NII

4. Curtail indirect spending now
   – Reduce the frequency of duty station moves
   – Reduce travel
   – Reduce conferences
   – Modify end of year “use it or lose it” policy
Finding the $100B

- While DoD’s near term goal is to achieve $7B in savings, the harder task is to find the gains sufficient to reach the $100B goal set by the Secretary of Defense.

- Much of the initiatives just briefed will take years to develop and years more to begin to harvest the benefits and savings.

- This requires managing in parallel the harvesting of near term efficiencies and cost savings along with the initiation of these just discussed major reforms to control work and redefine the compensation of uniformed and contract personnel.

- Without immediate action and long term discipline, the Department will not have sufficient active duty military, or be able to properly train and equip them to defeat the nation’s enemies.
Questions?

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