

Testimony

Before the Subcommittee on Military Readiness,
Committee on Armed Services, House of Representatives

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**DEFENSE REFORM
INITIATIVE**

**Progress,
Opportunities, and
Challenges**

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to present our observations, based on ongoing and recently completed work, about efforts underway within the Department of Defense (DOD) to reform how it does business. My statement focuses on the various initiatives included in the Defense Reform Initiative (DRI) Report issued by the Secretary of Defense in November 1997.

The DRI Report outlined a series of initiatives that the Secretary and other DOD officials hope will revolutionize DOD's business affairs by making DOD's current organization and business practices more agile, responsive, and efficient. We strongly endorse the need for DOD to reform its business processes and reduce its support infrastructure costs. DOD officials have expressed the hope that the DRI will eventually provide a major source of annual recurring savings that can be used to help increase funding for weapon systems modernization.

Today, as you requested, I would like to (1) outline actions taken by DOD to provide program direction and give momentum to the DRI effort; (2) discuss additional steps that could be taken to facilitate a more comprehensive reform effort; (3) discuss the impact of the current initiatives on the DOD's budget process; (4) highlight progress generally being made in implementing the initiatives; and (5) provide a more detailed discussion about the status of the competitive sourcing initiative.

Results in Brief

The Secretary and the Deputy Secretary of Defense have shown strong support for the DRI program and established an organizational framework to give additional structure and guidance to the effort. Also, using special directives, performance contracts, and planning and budget guidance, DOD has sought to institutionalize and sustain the DRI. DOD's inclusion of the DRI into its plans for implementing the Government Performance and Results Act (Results Act), and its requirements for strategic goals and performance plans, represent an important step toward ensuring a long-term focus on the initiatives and on efforts to track their progress.¹

¹The Results Act requires federal agencies (including DOD) to set strategic goals, measure performance, and report on the degree to which goals were met. Its intent is to focus agencies more on results, service delivery, and program outcomes. This is expected to provide the Congress and other decisionmakers with objective information on the relative effectiveness and efficiency of federal programs.

Because the DRI framework has been in place for just over a year, it is too soon for us to assess how effective it will be in the long term. We did, however, identify several areas where DOD could build on its initial efforts to give greater impetus to its desire to achieve a “revolution in business affairs.” These include (1) incorporating other major ongoing reform efforts in the DRI so that DOD can develop a more comprehensive integrated strategy for reforming defense business and support activities; (2) better delineating the funding requirements needed to achieve the major reforms; and (3) enhancing the Department’s abilities to measure DRI results, particularly through needed financial management and related reforms.

DOD has projected specific savings for only two of the initiatives, and these savings have already been factored into DOD’s future budget plans. The two initiatives relate to DOD’s desire to conduct additional base closure rounds in 2001 and 2005, and to open 229,000 government positions to competition within the public and private sectors over the next several years. DOD officials expect both initiatives to provide significant savings. However, a variety of factors suggests that significant short-term savings from these and other initiatives are uncertain. First, while DOD has requested, the Congress has not authorized additional base closure rounds because of concerns about prior rounds. Second, DOD components have not fully identified the resource requirements needed to conduct the planned competitive sourcing studies or the personnel separation costs likely to be associated with implementing the results. Other initiatives also have significant up-front investment costs that must be offset before net savings begin to accrue. Further, some initiatives, such as utility and housing privatization, might be better depicted as helping to avoid future operating costs and capital outlays, rather than reducing existing budget levels.

The DRI program includes a variety of reform or reengineering initiatives, many of which were ongoing before they were brought under the DRI umbrella. To varying degrees, the DRI framework has given them increased visibility and top-level support within DOD. Yet, each initiative varies in its progress toward meeting its objectives and milestones, and some will likely require more time to complete than originally projected by the DRI. Some initiatives still face challenges that could affect their ultimate success.

Competitive sourcing is one of the major initiatives, and DOD’s plan for this effort is ambitious. Benefits to be gained from this program are significant

and savings can be expected. However, in our past work we have raised some concerns about the magnitude of savings likely to occur under this program in the short and long term. Short-term savings may not be realized as quickly as DOD has projected because of the need to offset the up-front investment costs associated with implementing this initiative. There is also some uncertainty about the extent to which savings initially estimated from competitive sourcing studies can be sustained over time based on changes that have occurred after competitions were completed, and DOD's lack of a system for tracking savings. Additionally, some DOD component officials have expressed concerns about the capacity of DOD components to initiate and complete so sizeable a study effort in the time frames currently established. In many cases, detailed plans for specific positions and functions to be studied by individual DOD components have not yet been developed. Some officials have expressed uncertainties about the number of positions/functions in DOD that are suitable candidates for competitive sourcing studies. DOD's new commercial activities inventory that was to be provided to the Congress in January 1999, is still pending. This inventory is supposed to provide an updated assessment of positions suitable for competitive sourcing studies.

Background

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

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

While DOD expected that each of these efforts would reduce support infrastructure costs, most savings were to come from two initiatives—BRAC and competitive sourcing. These were the only two initiatives for which DOD established specific savings goals. At the same time, success in implementing these and other initiatives could also be expected to

contribute toward departmentwide plans for significant additional civilian and military personnel reductions. Our July 1998 report on DOD's 1999-2003 Future Years Defense Program (FYDP)² noted that the services planned to reduce 175,000 military and civilian positions by 2003.³

In implementing the DRI program, DOD has addressed some of the obstacles that have limited the success of past reform efforts by adopting some proven management change concepts. For example, the Secretary and Deputy Secretary have shown strong support for the program and established an organizational framework to give additional structure, guidance, and follow-through to the effort. This framework consists of a Defense Management Council, a "Coordinating Group" to support the Council, and a DRI office to track implementation and surface issues that need management attention. The Council is chaired by the Deputy Secretary of Defense and includes among its membership the Undersecretary of Defense (Comptroller), the Vice-Chairman of the Joint Chiefs of Staff; the other three Under Secretaries of Defense, the three service under secretaries, the four service vice-chiefs, and the Director of the DRI office. The Coordinating Group is also comprised of senior-level representatives from the services and the Office of the Secretary of Defense (OSD) such as the Deputy Director for Army Program Analysis and Evaluation, and the Marine Corps Assistant Deputy Chief of Staff for Requirements and Planning. The Executive Director for the group is the Director for OSD Program Analysis and Evaluation. Several months after the DRI was announced, the Secretary established a small DRI office to help track the implementation of the initiatives and advise him when the reform efforts were not progressing as expected.

Program Direction and Follow Through

The Secretary and Deputy Secretary have used a variety of public forums to give visible support to the DRI effort. Additionally, they and other top departmental executives are using a variety of means within the Department to communicate the goals and objectives of the DRI program

²The FYDP is an authoritative record of current and projected force structure costs and personnel levels approved by the Secretary of Defense. In its annual FYDP documents DOD presents its estimated expenditures and appropriations needs for the budget year for which funds are being requested, at least the 4 years following it, and the 2 years preceding it. The Fiscal Year 1999 FYDP supports the President's fiscal year 1999 budget request.

³Future Years Defense Program: Substantial Risks Remain in DOD's 1999-2003 Plan (GAO/NSIAD-98-204, July 31, 1998).

and provide program emphasis and direction. The means include (1) developing DRI directives to communicate specific goals and objectives, milestones, and decisions for selected initiatives; (2) creating performance contracts for selected DOD agencies; (3) directing that the military services and DOD agencies adopt performance plans that address DRI objectives; and (4) including emphasis on DRI in departmental budget guidance.

Defense Reform Initiative Directives (DRID) are coordinated through the Defense Management Council and issued by the Deputy Secretary of Defense for selected DRI initiatives. They describe the initiatives and provide specific direction, including milestones, to the DOD components responsible for carrying them out. They are a continuation of what DOD previously called Management Reform Memoranda (MRM), first used by the Deputy Secretary in early 1997 in his former capacity as Under Secretary of Defense (Comptroller). As of February 1999, DOD had issued 17 MRMs and 49 DRIDs. Though not issued for all initiatives, they have been used most frequently to implement organizational changes and to give directions to actions that cut across multiple organizations.

The DRI report called for the development of performance contracts for various DOD agencies; such contracts were intended to improve DOD's oversight of these agencies. The contracts are to include cost cutting and service improvement goals for each of the agencies, along with specific performance measures and annual reporting requirements. Four agencies were selected to pilot the effort in fiscal year 1999; others will be included in fiscal year 2000.

As you may recall, we testified before this Subcommittee last year concerning challenges facing DOD as it attempted to implement the DRI.⁴ In that testimony, we pointed out limitations in DOD's planning processes related to prior reform efforts and the need for hierarchically linked goals and performance measures. DOD took an important step toward addressing these issues as it began to implement the Results Act and its requirement for strategic and performance plans. A key performance goal included in DOD's recently issued Results Act Performance Plan for fiscal year 2000, which we are assessing, is to streamline the DOD infrastructure by redesigning the DOD's support structure and pursuing business practice

⁴Defense Management: Challenges Facing DOD in Implementing Defense Reform Initiatives (GAO/T-NSIAD/AIMD-98-122, Mar. 13, 1998).

reforms. DOD also cited a variety of performance indicators that it would track over time, such as percentage of budget spent on infrastructure and the number of public-private sector competitions. This incorporation in the Performance Plan represents an important step toward institutionalizing the initiatives and attempting to track progress.

DOD has also emphasized the DRI through its budget guidance. In this respect, the Defense Planning Guidance, which was issued to guide preparation of the fiscal year 1999 Defense budget, directed the services and Defense agencies to construct budgets and programs consistent with the corporate-level goals in the QDR. Further, the planning guidance for the fiscal year 2000-2005 defense program directed the services and DOD agencies to support QDR and DRI goals through the planning process for future years budgets.

For the most part, DOD has relied upon its DOD components to provide any needed funding for DRI from their own operating budgets with the promise that they could retain and reallocate savings achieved to other needs. At the same time, anticipated savings from the competitive sourcing initiative are already being reallocated from operating budgets to other needs within the services.

Opportunities to Facilitate a More Comprehensive Reform Effort

Because the DRI framework has been in place for just over a year, it is too soon for us to assess how effective it will be in the long term. We did, however, identify several areas where DOD could build on its initial efforts to give even greater impetus to its desire to achieve a "revolution in business affairs." These areas include (1) incorporating other major ongoing reform efforts in the DRI so it can develop a more comprehensive integrated strategy for reforming defense business and support activities; (2) better delineating the funding requirements needed to achieve the major reforms, and (3) enhancing the Department's abilities to measure DRI results, particularly through needed financial management and related reforms.

The DRI report did not include all of the Department's ongoing or planned major business process and support activity reform efforts, and several that were included represented small elements of larger reform efforts not under DRI. Some not included are significant and impact many functional areas. Examples include logistics and financial management reforms. Only limited pieces of logistics reform measures, such as expanded use of prime vendor agreements and use of purchase cards, were included in the

original DRI report and, except for reducing the number of Defense Finance and Accounting Service locations, financial management reform was not discussed. A key aspect of reengineering DOD's logistics process is the development of modern, reliable logistics information systems. These systems will also be important feeder systems for DOD's financial management systems. Thus, these are some areas that could benefit from increased visibility and discussions in the senior leadership forums provided by the Defense Management Council. The absence of key initiatives from DRI also show that DOD's reform efforts, while significant, have not been brought together to provide as comprehensive and integrated a plan for defense reform as they might be. Doing so could provide a more complete picture of major reform efforts that are needed and planned and, to the extent they are interrelated, provide the basis for developing a more comprehensive, integrated strategy for achieving them.

Also, an important aspect of any reform effort is the ability to establish baseline costs and measure the impact of change. Because of the condition of DOD's financial management systems, obtaining this type of information is difficult and, in many cases impossible. As a result, DOD tends to rely on performance indicators that track progress or status rather than measure results, including any cost savings. While some measures of progress are necessary to understand what is left to be done, not having information on results or outcomes makes it difficult for DOD or anyone to determine to what extent overall goals and objectives are being met and dollar savings are being achieved.

To gauge the progress of individual DRIs, the DRI office periodically collects information on them—primarily those with established performance targets in a MRM or a DRID—and provides feedback to the Secretary of Defense and the Defense Management Council. Because most of the tracking information does not come directly from DOD systems, it must be compiled off-line and it is limited. The DRI Director told us that his staff is attempting to improve and expand on the collected information and hopes to develop better performance measures for reporting DRI progress and results. However, prospects for significant improvements in DOD's ability to measure the effects of its initiatives and achieved savings will likely depend more on progress in improving its financial management and feeder systems—actions that could require several years to complete.

Impact of Current DRI Program on DOD's Budget

DOD is relying on its components to provide funding from their operating budgets to implement DRI. Service officials, however, have expressed concern about their ability to fund some of these initiatives, considering other competing priorities. Tradeoffs among competing reform priorities could become more difficult as the magnitude of investment costs for the DRI initiatives becomes more fully known. In addition, it is not clear that DOD knows the total resources that are now being devoted to and required for DRI and other reform initiatives underway. If it did, we believe DOD would be in a better position to know the full impact on its budget. This information would also help DOD make tradeoffs among competing initiatives, considering their potential benefits and objectives. Further, it would also provide an enhanced basis for communicating information about needed reform investment requirements to DOD components and the Congress.

DOD has estimated savings for only two of the DRI initiatives and it has factored those savings into its future budget plans. These savings are related to DOD's ongoing efforts to conduct public/private competitions over the next several years involving 229,000 government positions currently engaged in commercial activities and DOD's desire to conduct additional base closure rounds in 2001 and 2005. DOD officials expect both initiatives will provide significant short-term and long-term annual recurring savings to the Department. However, a variety of factors suggests that the potential for these and other initiatives under DRI to yield significant short-term savings is likely to be less than expected. First, DOD components have not fully identified the resource requirements needed to complete the planned competitive sourcing studies or personnel separation costs likely to be associated with implementing the results. Second, while DOD has requested them, the Congress has not authorized additional BRAC rounds because of concerns about prior rounds. Third, other initiatives have significant up-front investment costs that must be offset before net savings begin to accrue. Additionally, some of these initiatives, such as utility and housing privatization, might better be depicted as helping to avoid future operating costs and government capital outlays, rather than reducing existing budget levels.

We recently reported that DOD's 1999-2003 FYDP incorporated \$6.2 billion of estimated savings from competitive sourcing between fiscal years 1997 and 2003, but these estimated savings did not fully account for up-front investment costs, which could reduce the amount of estimated savings in

the short term.⁵ In submitting DOD's budget request for fiscal year 2000, DOD officials increased their projections of cumulative savings from competitive sourcing to \$11 billion and increased the time period out to fiscal year 2005. The FYDP does provide a fuller estimate of the impact of investment costs associated with BRAC. For example, the 1999-2003 FYDP offsets estimated BRAC savings with implementation costs and comes up with net costs of \$832 million for fiscal year 2002 and \$1.45 billion for fiscal year 2003. DOD showed these net costs in the FYDP as a Department-level contingency account but did not allocate them to individual services. Beyond the FYDP period, DOD expects the two additional BRAC rounds to result in about \$3.4 billion in annual savings after the closures are completed and implementation costs have been offset.⁶

While DOD has not estimated savings from other initiatives under DRI, several of them are likely to require significant up-front funding to implement, which could affect the point at which any recurring net savings might begin to accrue. Among the more significant ones are demolition of excess buildings, and privatization of housing and utilities on military bases. In large measure, the major benefit from these initiatives involves cost avoidance—avoiding upkeep of unneeded buildings and relying on private sector resources, rather than the government's, for needed capital investments for new housing and revitalized utilities.

DOD believes that demolishing deteriorating and excess structures will help reduce operating costs and improve safety. At DOD's direction, the services are moving forward with plans to demolish 8,000 excess structures by 2003, and they have set aside funding to accomplish this objective. The Navy's funding for demolitions increased from \$6 million in fiscal year 1996 to \$27 million in fiscal year 1998, with additional funding programmed in future years. Similarly, funding for the Army's program, which involves the largest share of square footage to be demolished, increased from \$20 million in fiscal year 1997 to \$104 million in fiscal year 1998, with funding to remain at about \$100 million per year through 2003. The Army projects it will demolish 53.2 million square feet of space by 2003, the Navy 9.9 million by 2002, the Air Force 14.9 million by 2003, and the Marine

⁵Future Years Defense Program: How Savings From Reform Initiatives Affect DOD's 1999-2003 Program (GAO/NSIAD-99-66, Feb. 25, 1999).

⁶Future BRAC savings are expressed in fiscal year 1999 dollars and represent savings expected to occur annually for fiscal year 2012 and beyond, when the two proposed future rounds are projected to be completed. DOD estimated future savings on the assumption that future costs and savings would be similar to those of the 1993 and 1995 rounds.

Corps 2.1 million by 2000. Because demolishing buildings is costly, some service officials have expressed doubt about the magnitude of savings that will result from this initiative; many prefer to characterize the long-term benefit as a cost avoidance. Our prior work on this issue indicates that demolitions can result in a savings and cost avoidance because they eliminate the need to maintain unneeded structures and avoid future outlays for renovations.⁷ We also noted, however, that demolition costs can vary and increase because of the type-of-construction and the extent of environmental clean-up required. We therefore noted that it is important to continue to examine the cost-effectiveness of individual projects.

DOD's housing privatization initiative is designed to leverage private sector resources to address pressing needs for military housing much quicker than would be possible by relying on traditional military construction funding. As we reported last year, questions exist about the costs and savings associated with the new initiative and concerns about the extent to which this new program will be able to address the full range of military housing needs.⁸ To improve housing faster and more economically, the Congress authorized the Military Housing Privatization Initiative in 1996 to encourage private sector financing, ownership, operation, and maintenance of both military family and unaccompanied housing. The goal of the program is to speed the revitalization and replacement of military housing by encouraging the private sector to invest at least \$3 for each \$1 that the government invests. In this way, DOD plans to build or renovate three times as many units compared with the amount renovated under traditional approaches and, hopefully, eliminate all inadequate housing by fiscal year 2010.

However, it is unclear what impact the housing privatization program will have on infrastructure outlays in either the short or long term. Some up-front investments still will be required. For example, traditional military construction funding still will be needed as the seed money for privatization projects and for projects not suitable for privatization. Also, until many units are renovated or built on bases under the program, DOD will need substantial outlays to operate and maintain existing units.

⁷Defense Infrastructure: Demolition of Unneeded Buildings Can Help Avoid Operating Costs (GAO/NSIAD-97-125, May 13, 1997).

⁸See Military Housing: Privatization Off to a Slow Start and Continued Management Attention Needed (GAO/NSIAD-98-178, July 17, 1998) and Defense Infrastructure: Challenges Facing DOD in Implementing Reform Initiatives (GAO/T-NSIAD-98-115, Mar. 18, 1998).

Finally, as additional units become privatized, the operations and maintenance funding savings that DOD realizes largely will be offset by increased budgeting for the military personnel account to cover the payment of housing allowances to more families. Several officials believe that the program may, in fact, be budget neutral.

The services have also been examining the potential to privatize their utility systems (electric, gas, water, and wastewater) as a means of using private-sector capital to upgrade these facilities. Since the DRI report was issued, the services have identified about 1,700 utility systems as potential privatization candidates, but few of them had been privatized as of February 1999.⁹ Service officials attributed the slow progress to the up-front work required and stated that each privatization requires extensive and costly feasibility and environmental studies. Because of the slow progress, DOD recently extended the DRI goal of privatizing all utility systems, except those needed for security reasons or those that are uneconomical to privatize from, January 1, 2000, to September 30, 2003.

DOD recently directed the services to set aside \$243.6 million over the next several years to cover costs of utility privatizations. The program budget decision, which directed this action, estimated that utility privatization might begin providing about \$327 million in annual savings after the privatizations are completed but it also stated that the true cost of implementing the privatizations and savings could not be accurately estimated until a further analysis was completed. Some service officials have expressed caution about the extent of actual budget reductions likely to occur from these privatizations. While some DOD officials believe reductions in operating costs are likely, others believe they may be offset by private sector utility rates that would be set to recoup the private sector's capital investments. In some instances, service officials expressed concern that the private sector may not agree to take over some utility systems without the services upgrading them from their deteriorated state.

⁹Prior to the DRI, the Army had begun efforts to privatize some utilities. Under these prior efforts, it privatized about 40 utility systems, most of which were natural gas systems.

General Progress in Implementing DRI Initiatives

Each of the four DRI pillars includes a variety of reform or reengineering initiatives, many of which were already ongoing before being brought under the DRI umbrella. To varying degrees the DRI organization has given them increased visibility and top-level support within DOD. Yet, each initiative varies in its progress toward meeting its objectives and milestones. Many still face a variety of issues that could affect their ultimate success, and most will likely take longer to complete than the milestones established under the DRI.

The one DRI pillar associated with adopting best business practices included the broadest range of initiatives, from the increased use of electronic commerce to reengineering the movement of household goods. Progress varies among the individual initiatives with the outcome for some uncertain. Appendix I provides a general overview of the key initiatives, under this pillar.

Another DRI pillar involved a series of reductions, reorganizations, and other organizational adjustments primarily within OSD and DOD agencies. The DRI report called for a flatter, more streamlined headquarters throughout DOD that would ensure that OSD focused on core, corporate-level tasks rather than on program management and day-to-day management of subordinate activities. The DRI effort called for reducing OSD personnel by 33 percent—about 1,000 personnel—and DOD agencies by 21 percent—about 27,000 personnel. In numerous instances, implementing direction came from the issuance of DRIDs. Over 30 DRIDs were issued to bring about these reductions and reorganizations within OSD. The 21-percent reduction in DOD agency personnel will be accomplished by initiatives in the other DRI pillars—reengineering, consolidations, and competitive sourcing.

DOD organizations are making progress toward meeting DRI-directed staff reduction goals. OSD, for example, has met 80 percent of its goal of reducing OSD personnel. It did this primarily by transferring 506 personnel to other DOD organizations and eliminating 284 positions—a total reduction of 790 personnel. Officials at the Defense Finance and Accounting Service (DFAS), the Defense Information Systems Agency (DISA), and the Defense Logistics Agency (DLA)—three of the largest Defense agencies—showed us plans for achieving their reductions and told us they do not foresee a problem reaching the 21-percent goal by fiscal year 2003. They expect to meet the goal by reengineering and competitive sourcing.

However, not all of the changes have been carried out as originally planned. For example, the DRI called for dissolving the Office of the Assistant Secretary of Defense for Command, Control, Communications, and Intelligence; transferring its intelligence functions to the newly created position of Assistant Secretary of Defense for Intelligence; and spinning off other functions to other areas. DOD reassessed the decision and subsequently decided not to disband the office, deciding it made better sense to keep the office in place.

Apart from DRI planned reductions, DOD also continues to develop plans for implementing a 25-percent reduction in the number of management headquarters and headquarters support activities between October 1, 1997, and October 1, 2002. Although DOD intends to meet a portion of these reductions through the DRI-related cuts, DOD is still trying to determine how to meet the requirement for additional reductions.

Another DRI pillar called for eliminating unneeded infrastructure and identified a variety of methods for doing so. They ranged from eliminating unneeded facilities through additional BRAC rounds to privatizing functions that DOD believes could be more appropriately handled by the private sector. Initiatives under this pillar are the ones most directly related to actual physical reduction of defense facilities infrastructure. Of these initiatives, BRAC is the most controversial, although it appears to offer the greatest potential for long-term savings. Two other initiatives involve reductions in operating locations within DFAS and DISA. DISA is moving to reduce the number of its megacenter sites from 16 to 6, reengineering its processes, and establishing 23 regional centers. As of February 1999, DISA officials reported that their effort is progressing on schedule, with the number of megacenters reduced to 12 and the regional centers established. In conjunction with these efforts, DISA's plans call for total reductions of 893 personnel between fiscal years 1997 and the end of fiscal year 2000. As of February 1999, DISA reported that it had eliminated 869 positions, 97 percent of its goal.

Under DRI, DFAS planned to eliminate 8 of its 19 operating locations. After the DRI report was issued, DFAS assessed the extent of excess capacity in its current structures—it expects to have 34 percent excess capacity by the end of fiscal year 2003—and identified a set of criteria that could be used to evaluate which locations to close. However, recent legislation enacted as part of the Fiscal Year 1999 Strom Thurmond National Defense Authorization Act added requirements that DFAS must consider as it assesses its infrastructure requirements. It also required a report to the

House and Senate Committees on Armed Services providing a strategic plan for improving the financial management operations at each of the DFAS operating locations. That report, originally expected in January 1999, is now expected to be submitted by March 15, 1999. Appendix II provides a summary status for this and other initiatives under this DRI pillar. The remaining pillar is discussed in the next section.

Status of Competitive Sourcing Initiative

DOD has an ambitious plan for implementing its competitive sourcing program under DRI. Our prior work shows the likelihood of savings from this effort, but as already indicated, has raised some questions about the magnitude of those savings. Service officials have expressed some concerns about their ability to execute the magnitude of studies planned over the next few years, as well as uncertainty over the number of positions suitable for study. OSD has issued guidance to Defense components urging efforts to develop more definitive study plans for their competitive sourcing studies, and has identified a number of steps to stimulate progress in implementing this initiative.

DOD's fiscal year 2000 budget plans call for competitively examining about 229,000 positions between fiscal years 1997 and 2005 for potential conversion to the private sector.¹⁰ It previously projected that this effort would produce \$6 billion in cumulative savings by 2003, but more recently increased it to \$11 billion by 2005 and revised the projection of subsequent annual recurring savings to more than \$3 billion each year thereafter. DOD officials told us that the competitive sourcing issue is one that has consumed the greatest amount of attention by members of the Defense Management Council at their meetings.

We have monitored this issue and provided the Congress with a variety of reports since DOD began its renewed emphasis on competitive sourcing. We believe there are significant benefits to be gained from this program, particularly the emphasis on creating more efficient operations regardless of who wins these competitions. While we believe that competitive sourcing competitions will produce savings, we have urged caution regarding the magnitude of savings likely to be achieved in the short and long term. We have reported that short-term savings may not be realized as

¹⁰Data available from DOD in recent months concerning the number of positions expected to be studied have varied from 225,000 to 237,000 and the time frames for completing them extended from 2003 to 2005.

quickly as DOD has projected because of the need to offset the up-front investment costs associated with implementing this initiative.¹¹ DOD components have not fully calculated the investment costs associated with undertaking these competitions, or the personnel separation costs likely to be associated with implementing them. We have noted that prior savings estimates, which provide a basis for current estimates, were based on initial savings estimates from competitive sourcing competitions. However, the initial savings estimate can change over time with changes in scope of work or mandated wage changes.¹² We have also reported that DOD's data systems provide an inadequate basis for tracking changes in savings from competitive sourcing that may occur over time.¹³ DOD is working to address this issue.

Some uncertainties exist about the capacity of DOD's components to initiate and complete so sizeable a study effort as now planned within the established time frames. In many cases, detailed plans for specific positions and functions to be studied by individual DOD components have not been developed. Additionally, delays in launching previously projected studies, and some service projections of greater times anticipated to complete them than previously planned, could add pressure to complete even larger numbers of studies in succeeding years--adding to an already heavy resource requirement in this area.

Uncertainties also exist about the number of positions/functions in DOD that are suitable candidates for competitive sourcing studies. Some DOD-sponsored studies have suggested that the numbers of military and government civilian personnel perform work involving commercial type activities are greater than the 229,000 positions currently planned for study. However, various officials have urged caution about the potential for significantly large numbers of positions to be competed, believing that positions must be studied in the context of functions, and that many functions may not be suitable for outsourcing for various reasons. DOD's new commercial activities inventory that was to be provided to the Congress in January 1999 is still pending.

¹¹DOD Competitive Sourcing: Questions About Goals, Pace, and Risks of Key Reform Initiative (GAO/NSIAD-99-46, Feb. 22, 1999).

¹²See Defense Management: Challenges Facing DOD in Implementing Defense Reform Initiatives (GAO/T-NSIAD/AIMD-98-122, Mar. 13, 1998) and Base Operations: Challenges Confronting DOD as It Renews Emphasis on Outsourcing (GAO/NSIAD-97-86, Mar. 11, 1997).

¹³DOD Competitive Sourcing: Results of Recent Competitions (GAO/NSIAD-99-44, Feb. 23, 1999).

The Deputy Secretary of Defense issued a DRID on January 16, 1998, dealing with this initiative. It called for the services and DOD agencies to update their inventories of positions involving commercial activities and to differentiate between activities involving functions deemed inherently governmental in nature that should remain in-house and those that could be subject to A-76 competitions. The DRID established a January 1999 reporting date to the Congress. The House Committee on Armed Services,¹⁴ in its report on a bill providing for fiscal year 1999 defense authorizations, had requested a similar type of analysis. As of February 1999, DOD officials were still preparing the report.

The Deputy Secretary of Defense, in a December 1998 memorandum, addressed to the secretaries of the military departments and other key leaders, stressed the importance of achieving the projected savings from competitive sourcing. He stressed the need for components to submit their fiscal year 1999 competition plans and more general competitive sourcing master plans for the fiscal years 2001-2005 period, accounting for functions and numbers of positions to be competed. He also emphasized the importance of a number of actions to be taken to improve implementation of this program, among them were the following:

- completing the review underway to identify those functions that are commercial in nature and that could be opened up for competition under the A-76 process;
- identifying best practices for completing competitions;
- preparing standardized templates for performance work statements;
- formulating performance work statements that allow for innovative approaches to performance of functions;
- employing multi-disciplinary expert teams for engagement at critical milestones in the A-76 process;
- exercising, where possible, the waiver and exemption authorities in OMB Circular A-76 to convert commercial functions directly to contractor performance; and
- improving management information systems to enhance the collection and maintenance of data required for visibility into program planning and execution.

¹⁴The Committee was formerly known as the House Committee on National Security.

The Deputy Secretary concluded by stating that the competitive sourcing program holds the promise of making a major contribution to DOD's revolution in business affairs.

Mr. Chairman, in closing let me state, as we have in the past, our strong support for efforts to reform DOD's business processes. The organizational framework the Secretary and the Deputy Secretary have put in place is key to providing a sustained emphasis on the important reforms underway. Issues and concerns I have raised are based on our experience in examining some of the areas undergoing reform and are intended to strengthen DOD's efforts. However, we believe it important to sound cautionary notes, as appropriate, about the potential for expecting too much too soon in some areas. Consequently, it will be important for DOD to carefully track implementation of these initiatives and make resource and other management decisions as necessary to guide the program as it advances.

This concludes my prepared remarks. I would be pleased to answer any questions that you or Members of the Subcommittee might have.

Best Business Practices Initiatives

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

Initiatives to Eliminate Infrastructure

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