

CHAPTER 9

INCREASING EFFECTIVENESS THROUGH ACCOUNTABILITY AND EFFICIENCY

The FY 2003–2007 defense program stresses the need to increase effectiveness through increased accountability and efficiency. Emphasis in this area will enhance Congress' confidence in the budget, reflect responsible stewardship of taxpayer resources, and ensure that every dollar of defense spending contributes to winning the wars of the future.

In order to measure the Department's advances toward increasing effectiveness through accountability and efficiency, the concept of institutional risk has been incorporated into the new risk framework. Mitigating institutional risk will require revamping the Department's business practices, overhauling its major management processes, and transforming its support structure.

Transforming DoD's outdated support structure is a key step in achieving a more capable fighting force. The current situation serves as an impediment to change, perpetuates inefficiency, and wastes scarce resources. For example:

- DoD maintains more facility infrastructure than needed to support its forces;
- DoD's financial systems are decades old and not properly interconnected so that accounting and auditing processes cannot meet the standards of generally accepted accounting principles; and
- DoD's business processes and regulations are engineered to prevent mistakes. By doing so, these regulations often discourage taking any risk, but significantly improve efficiency.

While America's businesses have streamlined and adopted new business models to react to fast-moving changes in markets and technologies, the

Department has lagged behind without an overarching strategy to improve its business practices.

To redress this situation and lead the revitalization process, the DoD has established the Senior Executive Council (SEC) chaired by the Secretary of Defense and consisting of the Service Secretaries and the Under Secretary of Defense for Acquisition, Technology and Logistics. The SEC will steer the Department through a challenging period of change. The Defense Department has also created a Business Initiative Council to search for cost savings and efficiencies and a Defense Business Practices Implementation Board to tap outside expertise as the Department moves to improve its business practices.

Revitalizing the Defense establishment is aimed at accomplishing the following goals:

- Reducing the cycle time for decisions on weapons development and logistics support;
- Shortening and bringing realism into our program budgeting process;
- Reducing inefficiency and allocating savings to higher priority needs;
- Attracting talented people to defend the nation;
- Ensuring that the nation's defense maintains its technological advantage;
- Ensuring the defense infrastructure is sized and modernized to meet the needs of our forces; and
- Develop metrics to track and measure how well the Department is performing.

To focus our efforts toward these goals, the Department will institute programs to:

- Modernize DoD business processes;
- Improve the management of acquisition, technology, and logistics;

- Properly size and modernize DoD installations and facilities;
and
- Spur innovation in the industrial base.

In addition, continuing to attract talent to DoD is critical to reduce institutional risk as well as force management risk.

Modernizing Business Processes

Many of DoD's business processes and much of the infrastructure are outdated and must be modernized. The Department's objectives are to enhance the capabilities and creativity of its employees, and to free resources to support the war on terrorism and the transformation of military capabilities.

To do this, the Department's organizational structure must take advantage of the opportunities that the rapid flow of data and information present. DoD must concentrate on achieving excellence in core functions. Stovepipes must be reduced to accelerate change across the entire organization, promote cooperation, share information and best practices, and to institutionalize change throughout DoD. In both the organizational structure and the military culture, DoD is taking steps to encourage and reward innovation and risk-taking by support personnel as well as fighting forces.

The challenge is to remove layers that are no longer adding value and eliminate functions that are better performed by others. To accomplish this, the Department will initiate efforts in the following areas:

Streamlining the overhead structure and flattening the organization. The Department of Defense is committed to reducing headquarters staffs by 15 percent from FY 1999 levels by the end of FY 2003. The Department is also working to align, consolidate, or differentiate overlapping functions of the Office of the Secretary of Defense, the Services, and the Joint Staff. To do this, the Senior Executive Council will develop recommendations to eliminate redundancy by the end of 2002. Complementing these efforts, the military departments are evaluating and implementing changes in their

headquarters structures to improve their ability to perform executive functions at lower staffing levels.

To make these reductions possible, the Department must improve its business processes to reduce and focus the work that must be done. Two major institutional processes, the planning, programming and budgeting system (PPBS) and the acquisition process, create significant amounts of self-imposed requirements in the Department. Simplifying these processes will support the streamlining of the entire organization. Over the next several years, DoD will explore options to redesign the way it plans and budgets.

The Under Secretary of Defense for Acquisition, Technology and Logistics has begun streamlining the Defense Acquisition Board (DAB) process, including the elimination of 31 of 72 acquisition-related advisory boards. Additionally, the Under Secretary has reduced funding for OSD studies and analyses by 10 percent. The goal throughout this set of initiatives is to reduce the complexity of the Department of Defense.

Focusing DoD Resources on Core Defense Functions. The Department of Defense has historically provided many of the supporting functions for the nation's defense.

Over the last several decades, most private sector corporations have moved aggressively away from providing their own support services. Instead, they have concentrated efforts on core functions and businesses, while building alliances with suppliers for a vast range of products and services not considered central to the product or service they can best provide.

The central challenge is determining which functions are core and would be performed best by the Department of Defense. Traditionally, "core" has been loosely and imprecisely defined, and too often used as a way of protecting existing arrangements. The Department of Defense defines core functions as those that are directly necessary for warfighting.

The Department has taken steps to outsource and shed non-core warfighting responsibilities, including the military housing privatization program and the privatization of utility systems on military installations. Based on the

success of these early efforts, the Department will pursue additional opportunities to outsource and privatize.

Restructuring Defense Agencies. Over time, Defense Agencies have served to consolidate functions common to the Services and to increase jointness. In some cases, this process has resulted in better, more integrated outputs and has helped to modernize the Department's business processes. However, while some agencies have proven to be effective, their overhead costs are still not competitive with similar private sector services.

The SEC will undertake a review of business practices of defense agencies, focusing first on the Defense Finance and Accounting Service, the Defense Logistics Agency, and the Defense Information Systems Agency. The SEC will evaluate the support each agency provides to warfighting and will examine what functions should be outsourced.

Integrating DoD financial and non-financial operations and systems. The Department's current financial and non-financial operations and systems do not work together effectively to produce business management information needed by DoD leaders.

The Comptroller—in consultation with the Under Secretary of Defense for Acquisition, Technology and Logistics, and the Chief Information Officer (CIO)—will provide policy direction and oversee the execution of all financial management modernization efforts. As a first step, they have initiated a \$100 million department-wide Financial Management Modernization Program. Working with the Military Departments, they will also create a DoD-wide blueprint for how the Department's financial and non-financial feeder systems will interact. This architecture will guide the development of all financially related processes and systems throughout the Department.

Improving the Management of Acquisition, Technology and Logistics

A cornerstone to DoD's ability to fight and win wars globally is the ability to acquire material and to deploy, employ, and recover forces and material

rapidly. Acquisition, technology, and logistics excellence is paramount to achieving that objective.

Achieving Acquisition and Technology Excellence

DoD is improving the management of acquisition and technology programs with the aim of accelerating the fielding of systems through new approaches to development and the adoption of best business practices in the management of programs.

Reducing Development Cycle Time. The average time from program initiation to initial operational capability for a weapon system is over nine years, with some new platforms taking as many as 20 years to field. DoD has adopted a new model for system development that emphasizes technology maturation prior to system integration and using an evolutionary acquisition development process. The goal is to provide the best technology available to the warfighter sooner while continuing to develop improvements for future system integration and fielding.

Implementing Best Practices. DoD must learn from the best practices in both the public and private sectors. Recent successes include increased use of Strategic Supplier Alliances. For example, a recent Strategic Supplier Alliance between Honeywell and the Defense Logistics Agency resulted in reduced delivery times (from 200 to 15 days), eliminated \$14 million in inventory, and lowered costs by \$3.3 million per year for the next 12 years.

Defense Business Practices Implementation Board. The Secretary of Defense recently established the Business Practices Implementation Board to advise the Department's Senior Executive Council on strategies to adopt best business practices in management, finance, acquisition, production, logistics, personnel leadership, and the defense industrial base. The Board, composed of senior executives and experts from the business community, will help the Department maximize the benefits of its ongoing management reform efforts.

Realistic Funding of Acquisition Programs. The 2003 budget funds acquisition programs at realistic levels. The underfunding of programs historically resulted in financial instability and increased programmatic

risk. Realistic funding puts acquisition programs on a healthier footing for the future.

Charting a New Acquisition Course

The Department has promulgated a new acquisition process. This new model emphasizes (1) rapid acquisition with demonstrated technology, (2) time-phased requirements and evolutionary development, and (3) integrated test and evaluation.

DoD is also working to create new incentives for performance. For example, the F-22 was approved for low rate initial production, challenging the Air Force and providing incentives to the contractor to produce more aircraft at lower prices. The V-22 was approved for return to flight test on an events-driven schedule to determine its performance relative to requirements.

In maritime systems, the DD-21, a large new destroyer, was canceled in favor of a restructured DDX program, which will focus on advanced technologies to support a family of next generation surface combatants.

Operation Enduring Freedom and associated threats have highlighted the importance of precision guided munitions, other high usage weapons, and counters to chemical and biological threats.

The Administration's commitment to missile defense has not taken a back seat to ongoing operations, either. The Department has achieved development success in "hit-to-kill" technology, the Airborne Laser Program and the PAC-3 interceptor. Efforts are also underway to invite international industrial participation in this program as it matures, using models developed on the Joint Strike Fighter program. This will be an important step toward broadening its technology base and the protective shield that it can provide allied nations.

As of September 30, 2001, all but 11 Major Defense Acquisition Programs (MDAPs) were meeting more than 90 percent of the aggregated number of cost, schedule, and performance goals for that program. The 11 exceptions which are under review to determine the future course for each, were:

Chemical Demilitarization; V-22; H-1 Upgrades; Space Based Infrared System (SBIRS)—High, Evolved Expendable Launch Vehicle (EELV); Maneuver Control System (MCS); MH-60R Helo; LPD-17; Multiple Launch Rocket System Upgrade (MLRS); 21st Century Destroyer Program (DD-21); Airborne Laser (ABL); and Global Broadcast System (GBS).

The average period for converting emerging technology into operating capability for all current major programs was calculated to be 115 months from program initiation dates to initial operating capability dates. The calculation of the average period of MDAPs described above includes a significant number of older programs that were structured and developed using the traditional acquisition processes instead of the more streamlined acquisition processes that the Department is now implementing. A more accurate assessment of the effects of the DoD's acquisition reform efforts would be to concentrate on those programs initiated under the revised acquisition processes. The MDAPs started since 1992 have an average period of 95 months based on the September 30, 2001, Selected Acquisition Reports.

Achieving Logistics Excellence

The funding that the Congress provided in recent years to buy more spare parts and depot-level repairs has had a positive impact on materiel readiness. Parts backorders are down and the decline in mission capable rates has been arrested. However, the combination of supporting Operation Enduring Freedom and other global U.S. military commitments is stressing the weapons systems being employed, and additional funding requested in the FY 2002 Supplemental and the FY 2003 President's Budget will be needed to replenish munitions and spare parts stocks.

Each of the Military services has some reported shortfall relative to its new weapon systems, the introduction of new operational concepts, and the exigencies of real-world combat operations that translate into changes to logistics sustainment requirements. These factors, coupled with the lead-time to procure and distribute materiel, translate into some shortfalls between current requirements and on-hand assets.

As the war on terrorism has demonstrated, future logistics operations will require: reducing deployment times and minimizing logistical footprints; achieving reliable delivery of equipment and supplies to warfighters; and providing comprehensive logistics tracking and accounting. The Future Logistics Enterprise (FLE) is aimed at improving logistics operations through enterprise integration and end-to-end customer service. The primary objective of the FLE is to ensure a logistics capability that is not tied to a particular threat, but flexible enough to respond to an uncertain world.

Sizing and Modernizing DoD Installations and Facilities

The Department is modernizing its installations and facilities for the requirements of the 21st century, both through increased resources and through better use of existing resources. This effort capitalizes on the strengths of the private sector through:

- Housing privatization;
- Competitive sourcing initiatives; and
- Best business practices to operate more efficiently.

These efforts are designed to both ensure readiness to accomplish missions more effectively and improve the quality of life for service members.

Reshaping Infrastructure—Efficient Facilities Initiative (EFI)

The EFI is essential to rationalize the Department's management of installations infrastructure to meet the military missions and challenges of the future. The United States is estimated to have between 20 and 25 percent more base capacity than needed for its forces, and these excess or under-utilized facilities waste limited resources to maintain this infrastructure. In 2001, the Department developed the EFI as a comprehensive, analytical process to identify and eliminate this excess capability. The three major components of EFI are to authorize: (1) an additional round of base closures and realignments, (2) significant improvements to the existing base closure process, and (3) a set of tools for the efficient operation of enduring military installations. The Department also is assessing overseas basing posture to align those bases with current

operational requirements. Finally, DoD is employing enhanced-use leasing authorities to enable better use of infrastructure, reduce ownership costs, foster cooperation between DoD and private industry, and stimulate the local job market.

In 2001, Congress authorized another round of base closures for 2005. While the need to close bases is immediate, the Department will pursue the authority for 2005 in a systematic manner so as to rationalize the force structure requirements with the basing needs at home and abroad.

Facilities' Sustainment, Restoration, and Modernization (SRM)

For too long, DoD's facilities have been neglected, and modernization efforts have been postponed, jeopardizing their long-term health. The Department's FY 2001 Installations' Readiness Report showed 69 percent of its facilities were rated C-3 (have serious deficiencies) or C-4 (do not support mission requirements). The Department invested additional money in FY 2002 to renew and revitalize facilities—cutting almost in half the previous recapitalization rate of 192 years. This progress is significant and moves the Department closer to its goal of a 67-year replacement cycle (equivalent to a commercial industrial standard).

Facilities' Strategic Plan

The long-term Facilities Strategic Plan is designed to ensure the Department's facilities are: (1) the right size and in the right place, (2) of the right quality, (3) resourced adequately, and (4) measured with the right tools and metrics.

Improving the Quality of Military Housing

In addition to overall DoD facilities, the quality of military housing declined over the past decade. Recognizing the link between safe, adequate housing and the retention of high caliber personnel, the Department established FY 2007 as its goal to eliminate all inadequate military family housing through military construction, privatization, and increases in the basic allowance for housing.

DoD has a three-pronged approach to improve housing conditions for military families living both on and off base. First, the Department will provide funding to fix inadequate on-base housing and renovate overseas housing and barracks. Second, it will increase housing allowances to put more money in the pockets of military members. This not only allows them to afford better houses but also gives them more options as to size and location, thereby reducing demand for on-base housing. Because housing allowances are the primary economic drivers of the housing privatization program, increased allowances stimulate more and better quality privatization projects. The program for housing allowances increases by over \$3 billion from FY 2001 to FY 2005, with the goal to eliminate out of pocket housing expenses for military members. Third, the Department will pursue privatization to leverage its dollars. This would solve the problem a decade faster than by relying alone on military construction funding to renovate housing.

Spurring the Defense Industrial Base

The combination of new and old systems deployed in Operation Enduring Freedom is a proud tribute to our strong defense industrial base. Workhorses like the forty-six-year old B-52s, supported by an aging KC-135 tanker fleet, dropped state-of-the-art Joint Direct Attack Munitions (JDAM) only three years after the JDAM completed operational testing. The five-year-old Hellfire II missile was deployed aboard the Predator unmanned aerial vehicle—for which concepts of operations are still being formulated. These creative combinations point the way to an even bolder transformation of the art of war and the industrial base in the years ahead.

The challenge for this and future administrations and private sector suppliers will be to maximize the exploitation of all manners of old and new systems in order to take the war to the enemy in ways never contemplated before.

DoD's industrial partners are critical to the nation's success. If the Department is to provide U.S. fighting forces with the very best equipment, then the country must have a healthy industrial base to produce and support that equipment. A healthy industrial base requires investment and quality people, which results in a more competitive and innovative industry. Every

effort must also be made to promote the entry of less traditional suppliers into the defense industrial base. The nation's defense must attract new pharmaceutical, telecommunications, and network-based suppliers. Entry barriers must be lowered by greater use of commercial procurement practices, and improved profitability. The intellectual property of firms must be protected in order to continue fostering innovation.

Advanced Concept Technology Demonstration (ACTD) programs are paying dividends as well. Products and technologies from 13 of these fast-track acquisitions have been used in Operation Enduring Freedom to date—systems ranging from “cave-busting” penetration technology to real-time C4ISR combat support using Global Hawk and Predator to aid in the prosecution of time sensitive targets.