DEFENSE EFFICIENCY INITIATIVES

DOD Needs to Improve the Reliability of Cost Savings Estimates

Accessible Version
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Why GAO Did This Study
Section 346(a) of the National Defense Authorization Act for Fiscal Year 2016 requires that DOD implement a plan to achieve no less than $10 billion in cost savings from headquarters, administrative, and support activities for fiscal years 2015 through 2019. Congress further mandated DOD to report on that plan with its budget submissions for fiscal years 2017 through 2019, and for GAO to examine each report.

DOD has not submitted the report that was required with the department’s fiscal year 2017 budget submission but did submit a letter to Congress in March 2016 with an interim update on its plan. GAO examined the extent to which DOD has identified the cost savings required through fiscal year 2019 using reliable cost savings estimates.

GAO reviewed DOD’s interim update and related documentation, including DOD budget and guidance documents. GAO also interviewed DOD officials about the status of the plan and related efficiency efforts.

This is a public version of a sensitive report that is being issued concurrently. Information on budget data that DOD deemed sensitive has been redacted from this report.

What GAO Found
DOD has not identified $10 billion in cost savings through fiscal year 2019 as required and does not have a reliable cost savings estimate to support the cost savings it has identified. According to DOD documents, the department estimates that it will save about $13.1 billion from fiscal years 2015 through 2021. It based its cost savings estimate on savings DOD (1) identified in May 2015 and (2) reported to Congress in its March 2016 interim update (see table below).

<table>
<thead>
<tr>
<th>Department of Defense (DOD)-Identified Efficiency-Related Cost Savings Estimates, Fiscal Years 2015-2021 (in billions of dollars)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated cost savings identified in DOD’s May 2015 Section 904 Report</td>
<td>5.3</td>
</tr>
<tr>
<td>Estimated cost savings DOD reported to Congress in its March 2016 interim update</td>
<td>7.8</td>
</tr>
<tr>
<td>Total</td>
<td>13.1</td>
</tr>
</tbody>
</table>

Source: DOD | GAO-17-724

Note: GAO determined the cost savings estimate are unreliable because the DOD-provided supporting documentation was not sufficiently detailed to support the estimate.

bCost savings from headquarters, administrative, and support activities as required by Pub. L. No. 114-92, § 346(a) (2015).
cIn a letter from DOD commenting on a draft of this report, the department stated it identified additional savings that it intends to count toward the required cost savings but did not provide a timeframe for achieving these savings.

DOD’s projected cost savings estimate is unreliable because DOD-provided documentation, when compared with best practices for cost estimates, was not sufficiently detailed to support the estimate. According to DOD’s internal assessment, the $5.3 billion in cost savings identified in the May 2015 report were “not auditable” because the baseline for reductions had not been established, among other reasons. The March 2016 update identified additional cost savings in categories of efficiencies, and the level of detail in DOD’s documentation related to these categories varied. For example, for one category, documentation showed cost savings estimates by organization, how estimates were calculated, and actions organizations planned to take to achieve the cost savings. In contrast, for two categories, documentation identified cost savings by fiscal year but did not include information on specific actions planned to achieve them. Without detailed documentation allowing someone unfamiliar with the program to easily recreate or update the cost savings estimate, the estimate is not reliable and, thus, does not allow for clear tracking of cost savings.

What GAO Recommends
GAO recommends that DOD develop reliable cost savings estimates that include detailed information and documentation. DOD partially concurred with this recommendation but did not address how it intended to implement the recommendation. GAO continues to believe the recommendation is warranted.

View GAO-17-724. For more information, contact John H. Pendleton at (202) 512-3489 or pendletonj@gao.gov.
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<th>Description</th>
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<tr>
<td>DCMO</td>
<td>Deputy Chief Management Officer</td>
</tr>
<tr>
<td>DOD</td>
<td>Department of Defense</td>
</tr>
<tr>
<td>FYDP</td>
<td>Future Years Defense Program</td>
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</table>

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July 24, 2017

Congressional Committees:

As the administration seeks to focus its resources on readiness and operations, it is critical for the Department of Defense (DOD) to find efficiencies. In 2010, the Secretary of Defense expressed concerns about the dramatic growth in DOD’s headquarters and support organizations that had occurred since 2001. The Secretary directed that DOD undertake a department-wide initiative to assess how the department is staffed, organized, and operated, with the goal of reducing overhead costs and reinvesting these savings toward the sustainment of DOD’s current force structure and the modernization of its weapons portfolio. Since then, the department has worked to identify and implement headquarters-related efficiencies.

Since 2013, Congress has also directed DOD to find efficiencies. In section 904 of the National Defense Authorization Act for Fiscal Year 2014, Congress directed DOD to develop and report on a plan to streamline headquarters by changing or reducing the size of staffs, eliminating tiers of management, cutting functions that provide little or no added value, and consolidating overlapping and duplicative programs and offices (i.e., the Section 904 Report). Additionally, the National Defense Authorization Act for Fiscal Year 2016 directed DOD to modify the streamlining plan described in the Section 904 Report to ensure the department achieves savings not less than 25 percent of the baseline amount in the total funding available for major headquarters activities through fiscal year 2020. Congress also directed DOD to conduct a

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3 According to Pub. L. No. 114-92 § 346(b)(2), the baseline amount is the amount authorized by the act for fiscal year 2016 for major DOD headquarters activities adjusted by a credit for reductions in such headquarters activities that are documented by February 25, 2016, as having been accomplished in earlier fiscal years as a result of DOD’s 2013 memorandum on headquarters reductions. See Deputy Secretary of Defense, Results of the Office of the Secretary of Defense Organizational Review, memorandum (December 4, 2013).
comprehensive review of its headquarters for purposes of consolidating and streamlining headquarters functions, among other things.

Since 2012, we have reported on the prior growth in DOD’s headquarters-related activities, the difficulties of accounting for the resources, functions, and costs associated with headquarters activities, and the department’s efforts to pursue reductions in headquarters staff. As part of our fragmentation, overlap, and duplication work, we have tracked steps that the department has taken in response to recommendations to achieve headquarters reductions and improve program efficiency.\textsuperscript{4} For example, in March 2012, we recommended that DOD continue to seek further opportunities to centralize administrative and command support services, functions, and programs and that the department improve its ability to identify headquarters personnel.\textsuperscript{5} The department concurred with our recommendation, and DOD officials have stated that since 2012 the department has established a comprehensive definition of major headquarters activities and will update the DOD instruction defining major headquarters. However, as of April 2017, DOD has not completed its update of the instruction.

In June 2014, we recommended, among other things, that DOD set clearly defined and consistently applied baselines and track management headquarters reductions against the baselines.\textsuperscript{6} The department concurred with these two recommendations and said that it planned to use Future Years Defense Program (FYDP)\textsuperscript{7} data to set the baseline going forward. DOD officials also stated that the department had created additional Program Elements to better identify and track major


\textsuperscript{7}DOD’s FYDP is the official document and database summarizing forces and resources associated with DOD programs. It is updated and published at least two times during the annual Planning, Programming, Budgeting, and Execution process to coincide with submission of recommendations from the military services and defense agencies to the Secretary of Defense concerning how they plan to allocate resources to meet planning and programming guidance, budget estimate submissions, and the President’s budget.
headquarters activities resources in the FYDP. In addition, as of November 2016, DOD had taken some steps to set a clearly defined and consistently applied starting point as a baseline for headquarters reductions, but the department’s efforts were not yet complete. A listing of related GAO products appears at the end of this report.

In the National Defense Authorization Act for Fiscal Year 2016, Congress required DOD to implement a plan to ensure it achieves not less than $10 billion in cost savings from headquarters, administrative, and support activities (hereafter referred to as efficiency-related cost savings) for fiscal years 2015 through 2019. This plan is to include specific elements related to the types of savings and dates for achievement. Further, in the act Congress required DOD to submit a report describing and assessing the department’s progress in implementing and achieving cost savings for each of fiscal years 2017, 2018, and 2019. DOD was to submit this report upon submitting the department’s fiscal year 2017 budget, which the department submitted on February 9, 2016. At the time of our review, DOD officials stated they had not submitted the required report; however, in March 2016, DOD submitted to Congress a letter with an interim update on its plan. The update identified $7.8 billion in cost savings for fiscal years 2017 through 2021, but it provided no detail about how DOD would achieve these cost savings.

The act also included a provision that we examine and report on DOD’s required plan to achieve the $10 billion in cost savings. Although DOD has not submitted the report, as we agreed with congressional committee offices regarding this report, our objective was to examine the extent to which the department has taken actions to achieve required cost savings, including using reliable cost savings estimates. This report is a public version of a sensitive report that we issued concurrently. DOD deemed some of the information in our report to be sensitive, which must be protected from public disclosure. Therefore, this report omits sensitive budget information. Although the information provided in this report is

8 The FYDP consists of thousands of Program Elements, each of which represents an aggregation of organizational entities and related resources.


The report addresses the same objectives as the sensitive report and uses the same methodology.

To address our objective, we obtained available information related to DOD’s efforts to develop and report on the required cost savings plan and compared this information with the elements required by the National Defense Authorization Act for Fiscal Year 2016 and our guidance for evaluating cost estimates. We used this guidance to assess the reliability of DOD’s estimates for headquarters-related cost savings because savings, if any, are derived from the difference in costs over time. The guidance states, among other things, that cost estimates used to make decisions or allocate resources should be reliable—well documented, comprehensive, accurate, and credible—and that they should be acceptable to someone unfamiliar with the program. We also assessed information reported to Congress in DOD’s March 2016 interim update on its cost savings plan and documentation related to DOD’s headquarters-related efficiency efforts DOD identified in a February 2016 budget document. Additionally, we obtained documents from, and conducted interviews with, officials from the office of the Deputy Chief Management Officer (DCMO), the office of the DOD Chief Information Officer, the Defense Human Resource Activity, the Defense Threat Reduction Agency, the DOD Test Resource Management Center, Washington Headquarters Service – Financial Management Directorate, and the Office of Cost Assessment and Program Evaluation to determine the scope and status of the estimated cost savings.

We conducted this performance audit from May 2016 to July 2017 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

DOD major headquarters activities include the Office of the Secretary of Defense; the Joint Staff; the Offices of the Secretary of the Army and Army Staff; the Office of the Secretary of the Navy and Office of the Chief of Naval Operations; Headquarters, Marine Corps; and the Offices of the Secretary of the Air Force and Air Staff.13 All personnel working within these headquarters organizations are considered to be performing major headquarters activities functions. Other headquarters organizations identified as major headquarters activities include portions of the defense agencies; DOD field activities; and the combatant commands, along with their subordinate unified commands and respective service component commands.14 Except for the military service headquarters listed above, DOD refers to these organizations and components that have manpower resources collectively as the Fourth Estate.15

The DCMO is responsible for ensuring that DOD components are accurately identifying and accounting for major DOD headquarters activities.16 In addition, department guidance gives the DCMO primary responsibility for improving the efficiency and effectiveness of operations across DOD’s business functions and the authority to issue policy and guidance regarding the management and improvement of department business operations. This includes responsibilities related to identifying and monitoring the implementation of cost savings opportunities and efficiencies across DOD’s business areas. As part of those responsibilities, the DCMO, as the Chair of the Defense Business

13Department of Defense Instruction 5100.73, Major DOD Headquarters Activities (Dec. 1, 2007) (incorporating change 2, June 12, 2012).

14Defense agencies and DOD field activities are responsible for performing supply or service activities common to more than one military department. See 10 U.S.C. § 101. Examples include the Defense Logistics Agency, the Defense Finance and Accounting Service, and the DOD Education Activity.

15DOD defines the “Fourth Estate” as DOD organizations other than the military services that have DOD manpower resources. These organizations include the Office of the Secretary of Defense, the Defense Agencies and DOD field activities, the Office of the DOD Inspector General, the Joint Staff, and the combatant commands. See Department of Defense Instruction 7730.64, Automated Extracts of Manpower and Unit Organizational Element Files (Dec. 11, 2004).

16DOD Instruction 5100.73 identifies these responsibilities for the Office of the Director of Administration and Management, which was moved to the DCMO in 2014.
Council, can make recommendations to the Deputy’s Management Action Group, a senior-level forum that discusses various department-wide management issues. The group works to develop a common management approach to ensure that management actions are coordinated across the defense enterprise.

Since 2010, in part in response to the constrained fiscal environment and National Defense Authorization Acts of Fiscal Year 2014 and Fiscal Year 2016, DOD has undertaken efficiency-related efforts to reduce the cost of doing business for major headquarters activities and other administrative and support activities. These include, but are not limited to the following:

- In May 2010, DOD began an assessment of how the department is staffed, organized, and operated, with the goal of reducing excess overhead costs.

- In March 2012, DOD conducted the More Disciplined Use of Resources review of bureaucratic structures, business practices, modernization programs, civilian and military personnel levels, and associated overhead costs.

- In July 2013, the Secretary of Defense set a target for reducing DOD components’ total management headquarters budgets by 20 percent for fiscal years 2014 through 2019, including costs for civilian personnel and contracted services, while striving for 20 percent reductions to authorized military and civilian personnel. The National Defense Authorization Act for Fiscal Year 2016 subsequently required the department to achieve additional reductions through fiscal year 2020.

- In May 2015, DOD concluded its Core Business Process Review. Through this review, the DCMO identified at least $62 billion in potential cumulative savings opportunities across the six business processes—human resources management, healthcare management, financial management, acquisition and procurement, logistics and

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17 DOD established the Deputy’s Management Action Group in 2011 as the Deputy Secretary of Defense’s principal forum for making cross-cutting department management decisions. The Defense Business Council serves as DOD’s principal governance forum for vetting issues related to the management and improvement of department-wide business operations, including the monitoring of performance.

18 See Pub. L. 114-92 § 346(b). The act required DOD to save not less than 25 percent of the baseline amount—the amount authorized by the act for fiscal year 2016 major DOD headquarters activities adjusted by a credit for reductions in such headquarters activities documented by February 25, 2016.
supply, and real property management—for fiscal years 2016 through 2020. However, in June 2016, we reported that DCMO officials had stated that the potential savings opportunities could not entirely be achieved.  

Our Cost Estimating and Assessment Guide states that cost estimates are necessary to make decisions and allocate resources and that cost estimates should be reliable—well documented, comprehensive, accurate, and credible—and provide enough information so that someone unfamiliar with a program could easily recreate or update the estimate. The guidance also states that thorough documentation is essential for validating and defending a cost estimate and that the documentation should include enough detail to allow for clear tracking of costs. Doing so will help ensure that cost savings calculated using these estimates are reliable and that agency management and Congress will be able to monitor progress and ensure implementation of these cost savings.

DOD Has Not Identified Required Cost Savings and Does Not Have a Reliable Estimate to Support the Cost Savings It Identified

DOD has not identified $10 billion in cost savings through fiscal year 2019 as required and does not have a reliable cost savings estimate to support the cost savings it has identified. DOD has identified approximately $13.1 billion in efficiency-related cost savings through fiscal year 2021. However, we determined its cost savings estimate is unreliable because the DOD-provided documentation was not sufficiently detailed to support the estimate. As a result, neither the department nor other decision makers will be able to monitor progress and ensure achievement of the required cost savings.


20 GAO-09-3SP.
DOD Has Not Identified All Required Efficiency-Related Cost Savings

According to documents provided by DCMO officials, DOD has not identified the required $10 billion in efficiency-related cost savings for fiscal years 2015 through 2019.\textsuperscript{21} DOD identified $13.1 billion in estimated cost savings for fiscal years 2015 through 2021. DOD considers the specific amount of savings it will achieve by 2019 to be pre-decisional and, therefore, not releasable in a public report.

DOD based its cost savings estimate on two separate inputs. The first is associated with headquarters reductions identified and submitted in May 2015 as part of the Section 904 Report.\textsuperscript{22} These reductions include reducing the size of DOD headquarters staffs and layers of management, eliminating functions that have little or no added value, and consolidating overlapping and duplicative programs and offices. The second is associated with five categories of DOD-identified efficiency initiatives that were highlighted in DOD’s fiscal year 2017 Defense Budget Overview and referenced in DOD’s March 2016 update to Congress.\textsuperscript{23} The reductions include cost savings related to business operations, service contracts, and information technology. See table 1 for the cost savings estimates that DOD identified in its May 2015 Section 904 Report and March 2016 update to Congress.

\textsuperscript{21}DOD is also required to program at least half of the cost savings—$5 billion—before fiscal year 2018 and must not include any cost savings or reductions to military force structure or military operating units of the armed forces. DOD has estimated that it will program approximately $2.8 billion of the required $5 billion in cost savings before fiscal year 2018. Further, DCMO officials stated that the department is not counting cost savings from military force structure and military operating units of the armed forces because they are not part of major headquarters activities. However, we were not able to verify this because the department did not have a detailed plan related to the cost savings.

\textsuperscript{22}Pub. L. No. 113-66, § 904 (2013).

\textsuperscript{23}The act directed DOD to apply previously identified savings toward the $10 billion. See Pub. L. 114-92 § 346(a)(2) and (3).
Table 1: Department of Defense (DOD)-Identified Efficiency-Related Cost Savings Estimates, Fiscal Years 2015-2021 (in billions of dollars)

| Estimated cost savings identified in DOD’s May 2015 Section 904 Report<sup>a</sup> | 5.3  
|----------------------------------------------------------------------------------|------
| Estimated cost savings DOD reported to Congress in its March 2016 interim update<sup>b</sup> | 7.8  
| **Total<sup>c</sup>**                                                                 | 13.1 |

Source: DOD | GAO-17-724

Note: We determined that these cost savings estimates are unreliable because the DOD-provided supporting documentation was not sufficiently detailed to support the estimate.


<sup>b</sup>Cost savings from headquarters, administrative, and support activities as required by Pub. L. No. 114-92, § 346(a) (2015).

<sup>c</sup>This table does not include $938 million savings DOD identified in written comments on a draft of this report that it intends to count toward the required cost savings but did not provide details or a timeframe for achieving these savings.

At the time of our review, officials stated that DOD has not submitted the required report to Congress on its cost savings plan. DCMO officials responsible for submitting the report stated that their intent is to complete and submit a report, but they did not have timeframes for the submission and did not provide a reason for the delay. However, DOD officials acknowledged that the department has not identified the required $10 billion cost savings by fiscal year 2019, and the department does not have specific plans to identify further cost savings within the mandated time period. DCMO officials further stated that other efficiency-related efforts may achieve additional cost savings that they could count toward the requirement, and that the department plans to exceed the requirement by fiscal year 2020. In a June 27, 2017, letter from DOD commenting on a draft of this report, the department stated it identified $938 million in additional savings that it intends to count toward the required cost savings but did not provide a timeframe for achieving these savings or details about them. Moreover, with the additional cost savings, the department acknowledged that it had not yet identified the $10 billion cost savings required but asserted it expected to achieve them by the required date.
DOD Does Not Have a Reliable Cost Savings Estimate

We determined the cost savings estimate is not reliable because the DOD-provided documentation for the two separate inputs was not sufficiently detailed consistent with the best practices for cost estimates described in our Cost Estimating and Assessment Guide.\textsuperscript{24}

DCMO officials provided varying levels of documentation related to the two inputs for its cost savings projections. For example, the DCMO provided a March 2016 briefing it gave the Senate Armed Services Committee that included information on both inputs. The briefing described both inputs and briefly described some of the department’s plans for achieving the cost savings estimate. However, the briefing did not contain specific information that would convince management and oversight staff that the estimate was credible. Additionally, DOD officials stated that the cost savings through fiscal year 2021 are documented as reductions in the Future Years Defense Program (FYDP). However, the FYDP is the plan that represents DOD’s projected funding needs for the department’s current budget and for at least the next 4 years,\textsuperscript{25} and the plan does not include sufficient detail—such as specific plans to achieve the reductions or specific programs or personnel to be reduced—to allow for the clear identification of the efficiency-related cost savings.

DOD-provided documentation for the two inputs was not sufficiently detailed to support reliable estimates, as described below.

Estimated Cost Savings from Efficiencies Identified in DOD’s May 2015 Section 904 Report

DCMO based the first part of its estimated cost savings—approximately $5.3 billion—on efficiency-related reductions required by section 904 of...
the National Defense Authorization Act for Fiscal year 2014 and reported the cost savings in DOD’s May 2015 Section 904 Report.26

DCMO-provided documentation for the estimated cost savings was a summary table listing funding and personnel reductions allocated to various organizations and included a statement that the reductions listed were “not auditable” because the baseline for the reductions had not been established, among other reasons. The documentation did not contain detailed information or specific actions the organizations have taken or planned to take to achieve the cost savings. Without additional details, we cannot determine how DOD calculated or is implementing these reductions. In addition, we previously reported that the department did not have a clear or accurate accounting of the resources that it used as a starting point for reductions; as a result, DOD would be unable to track and reliably report its headquarters reductions and ultimately may not realize significant savings.27

Estimated Cost Savings Identified in DOD’s March 2016 Update to Congress

DOD based the second part of its estimate—which it estimates will save approximately $7.8 billion by fiscal year 2021—on five categories of DOD-identified efficiency-related initiatives that the department identified in its March 2016 update to Congress describing how it would achieve the required cost savings.

DOD-provided documentation for the estimated cost savings varied for the five categories. For its Service Requirement Review Boards category, DOD provided documentation showing specific cost savings estimates by organization, an explanation of how those estimates were calculated, and implementation actions that organizations plan to take to achieve the cost savings. In contrast, for the Business Operations Improvements and Defense Resale Optimization categories, DOD’s documentation was limited to a summary table without detailed information such as specific

26 DOD also reported that the efficiency-related reductions would result in a reduction of 11,000 manpower authorizations.

27 GAO-14-439. GAO found that DOD relied on self-reported data that were potentially inconsistent and did not include the totality of headquarters resources. As a result, DOD did not have a clear or accurate accounting of the resources being devoted to management headquarters to use as a starting point to track management headquarters reductions.
actions it will take or an explanation of when such actions will be completed to achieve these cost savings. For the Information Technology Optimization category, DOD-provided documentation was limited to a brief description of the initiatives without specific actions the department plans to take to implement the savings. For the Major Headquarters Activities category, DOD documented the amount of planned cost savings by organization, explained how approximately 25 percent of the cost savings was calculated, and provided an example of how some of the cost savings will be implemented. However, DOD documentation for the remaining Major Headquarters Activities cost savings was limited to a summary of total estimated cost savings by fiscal year without additional information. In addition, DOD officials were unable to explain how the department had calculated the estimated cost savings. For example, for one of the categories, officials provided a description of pilot programs they planned to implement, but they could not provide details about the cost savings they anticipated the programs would achieve.

Brief descriptions of the five categories of the DOD-identified efficiency-related initiatives and the supporting documentation the department provided for the estimated cost savings for each category are in table 2. For a more complete description of the five categories, see appendix I.
Table 2: Department of Defense (DOD)-Identified Categories of Efficiency-Related Initiatives and Supporting DOD Documentation for Estimated Cost Savings

<table>
<thead>
<tr>
<th>Category</th>
<th>Description of category</th>
<th>Supporting DOD documentation for estimated cost savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Requirement Review Boards</td>
<td>DCMO directed Fourth Estate organizations to review service-related contracts for valid requirements and proposed reductions that would yield a 10-percent cut.</td>
<td>DOD documentation comprises standardized presentations by Fourth Estate organizations and a list of DCMO-directed reductions by organization. The documentation includes specific cost savings estimates by organization, an explanation of how DOD calculated those estimates, and implementation actions that organizations plan to take to achieve the cost savings.</td>
</tr>
<tr>
<td>Information Technology Optimization</td>
<td>DOD has six initiatives related to personnel and pay systems, travel, better use of enterprise licensing software, a review of low bandwidth circuits, consolidation of data centers, and consolidation of the Pentagon’s information technology providers and support.</td>
<td>DOD documentation is a list of initiatives with a summary of estimated cost savings by fiscal year. However, the documentation does not include information regarding how DOD calculated the cost savings or specific actions DOD plans to take to achieve the cost savings.</td>
</tr>
<tr>
<td>Major Headquarters Activities</td>
<td>DOD directed reductions to headquarters programs and operations and realigned headquarters management to reduce manpower through attrition and reassignments.</td>
<td>DOD documentation for approximately 25 percent of the cost savings includes planned cost savings by organization, how the cost savings were identified, and an example of how the cost savings will be implemented. DOD documentation for the other cost savings is a summary table of total estimated cost savings by fiscal year. However, the documentation for the other cost savings does not include information regarding how DOD calculated the cost savings or specific actions DOD plans to take to achieve the cost savings.</td>
</tr>
<tr>
<td>Business Operations Improvements</td>
<td>DOD officials stated that the department directed reductions to Fourth Estate organizations through cuts from the military departments.</td>
<td>DOD documentation is a summary table of estimated cost savings by fiscal year. However, the documentation does not include information regarding how DOD calculated the cost savings or specific actions DOD plans to take to achieve the cost savings.</td>
</tr>
<tr>
<td>Defense Resale Optimization</td>
<td>DOD is implementing reductions through efficiency pilot programs related to new pricing methods and providing alternatives to national brand items, among others.</td>
<td>DOD documentation is a summary table of estimated cost savings by fiscal year and a description of two efficiency pilot programs and related implementation plans. However, as we found in November 2016, the department did not have specific plans for achieving all of the cost savings and the cost savings amount was not supported by data and information. The documentation does not include information regarding how DOD calculated the savings or specific actions DOD plans to take to achieve the cost savings.⁴</td>
</tr>
</tbody>
</table>

Source: GAO analysis of DOD information. | GAO-17-724

⁴GAO, DOD Commissaries and Exchanges: Plan and Additional Information Needed on Cost Savings and Metrics for DOD Efforts to Achieve Budget Neutrality, GAO-17-38 (Washington, D.C.: Nov. 9, 2016). In responding to our recommendation to develop a plan to support DOD’s efforts to ensure that DOD’s cost savings target is feasible and accurate, DOD stated that the Defense Resale Business Optimization Board, which was chartered in 2016, will be responsible for developing the plan.

Cost estimates used to make decisions or allocate resources should be reliable—well documented, comprehensive, accurate, and credible—and they should be acceptable to someone unfamiliar with the program. Without detailed documentation regarding how DOD plans to achieve
reductions, the department cannot ensure it will achieve cost savings as required by the National Defense Authorization Act for Fiscal Year 2016.

Conclusions

DOD has worked to achieve efficiency-related cost savings and reduce its activities related to headquarters, administration, and support. Congress has directed DOD to find headquarters-related efficiencies, including mandating DOD to implement and report on a plan to achieve not less than $10 billion in cost savings from headquarters, administrative, and support activities from fiscal years 2015 through 2019. Although the DCMO has been working on implementing the required plan to save $10 billion, the cost savings estimates underpinning its plans are not reliable because DCMO lacks detailed documentation. As a result, neither DOD nor Congress will be able to monitor progress and ensure the achievement of the required cost savings.

Recommendation for Executive Action

As the department seeks to report on and achieve required cost savings, we recommend that the Secretary of Defense direct the Deputy Chief Management Officer to develop reliable cost savings estimates that include detailed information and documentation to allow for clear tracking of cost savings by DOD and Congress.

Agency Comments and Our Evaluation

We provided a draft of this report to DOD for review and comment. In written comments on a draft of this report, DOD partially concurred with our recommendation. DOD also provided technical comments, which we incorporated as appropriate. DOD’s comments are summarized below and reprinted in appendix II.

DOD partially concurred with our recommendation to develop reliable cost savings estimates that include detailed information and documentation to allow for clear tracking of the cost savings by DOD and Congress. DOD noted in its response that the department will continue to manage the efficiency efforts discussed in this report as part of its broader reforms but the department’s response did not address how it would implement our recommendation that the department develop reliable, detailed, and well-
documented cost savings estimates. In its response, DOD also stated that since receiving our draft report, it had identified $938 million in additional cost savings. We noted the department’s identification of these additional savings in our report. We did not, however, modify the totals to reflect these savings because the department did not provide details about how it will achieve these cost savings, such as specific actions it will take or a timeline for completing such actions.

In its response, DOD stated that it is tracking cost savings for the Service Requirement Review Boards and Major Headquarters Activity categories—two of the five major categories in our review. For the Service Requirement Review Boards category, we agree and describe in the report DOD documentation that includes reduction targets, risk assessments, timelines, and the specific items to be reduced or eliminated. For the Major Headquarters Activities category, however, DOD-provided support was not sufficiently detailed to allow us to clearly track these savings. As a result, we continue to believe that the Major Headquarters cost savings estimate is unreliable and that DOD will not be able to monitor progress and ensure it achieves the associated savings.

DOD acknowledged in its response that it is difficult to track specific cost savings for the other three categories—Information Technology Optimization, Business Operations Improvements, and Defense Resale Optimization. The reason given by the department is that the cost savings are being taken from across multiple organizations, against their top-line budgets. We agree that adjusting programmed budgets for organizations is an important first step in planning for reductions, but we continue to be concerned that without additional details we cannot determine how DOD calculated or is implementing these reductions. DOD stated in its response that some data associated with the savings are pre-decisional and, therefore, not releasable per the Office of Management and Budget guidance set forth in Circulars A-123 and A-11. However, during the course of our work, DOD officials stated that the pre-decisional data were not sufficiently detailed to be used to track cost savings. As a result, we elected not to exercise our right of access to it pursuant to 31 U.S.C. § 716, which includes a broad right of access to information that is pre-decisional or that represents the deliberative process.

Finally, DOD stated in its comments that it is committed to additional reductions and is actively managing efficiencies across the Department and that its reform plan will become part of the Office of Management and Budget’s comprehensive plan to reform the Federal Government. DOD stated in its response that it would submit a required report to Congress
detailing its reduction plans shortly. Submitting the required report—which was due in February 2016—could help the department explain its plans. To date, however, DOD has not identified the required $10 billion cost savings, and the cost savings estimates underpinning its plans are not reliable because DOD lacks detailed information and documentation about how it is achieving the cost savings. Until DOD addresses our recommendation, we continue to believe that neither DOD nor Congress will be able to monitor progress and ensure the achievement of the required cost savings.

We are sending copies of this report to appropriate congressional committees, the Secretary of Defense, the Under Secretary of Defense for Personnel and Readiness, the Deputy Chief Management Officer, the Chairman of the Joint Chiefs of Staff, the Secretaries of the military departments, the heads of the defense agencies and DOD field activities, and other interested parties. In addition, the report is available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-3489 or pendletonj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.

John H. Pendleton
Director,
Defense Capabilities and Management
List of Committees

The Honorable John McCain
Chairman
The Honorable Jack Reed
Ranking Member
Committee on Armed Services
United States Senate

The Honorable Mac Thornberry
Chairman
The Honorable Adam Smith
Ranking Member
Committee on Armed Services
House of Representatives

The Honorable Thad Cochran
Chairman
The Honorable Richard Durbin
Ranking Member
Subcommittee on Defense
Committee on Appropriations
United States Senate

The Honorable Kay Granger
Chairman
The Honorable Peter Visclosky
Ranking Member
Subcommittee on Defense
Committee on Appropriations
House of Representatives
Appendix I: Department of Defense Categories of Efficiency-Related Initiatives

In the fiscal year 2017 Department of Defense (DOD) budget request, DOD identified five categories of efficiency initiatives with which it could reduce costs and free up resources needed for readiness and modernization. DOD also referenced the five categories of efficiency initiatives in its March 2016 interim update to Congress regarding the requirement to report on and implement a plan to ensure DOD achieves not less than $10 billion in cost savings from headquarters, administrative, and support activities for fiscal years 2015 through 2019. DOD reported that these categories of efficiency initiatives would contribute to the $10 billion reduction to the department’s headquarters, administrative, and support activities required by the National Defense Authorization Act of 2016. According to information reported to Congress in DOD’s March 2016 interim update, the five categories of efficiency initiatives will achieve approximately $7.8 billion in cost savings for fiscal years 2017 through 2021. A description of each category is below.

Service Requirement Review Boards

The office of the Deputy Chief Management Officer (DCMO) directed the Fourth Estate organizations to identify areas for savings in their service contracts—generally contracts related to a specific task rather than to a specific product—as part of a series of Service Requirement Review Boards. The organizations examined the risk posed to their ability to meet their missions with a 10-percent reduction to service contracts, and then the organizations identified contracts where they could reduce costs. The organizations presented their recommendations for cuts to a Senior Review Panel composed of the DCMO, the Principal Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics and Principal Staff Assistants. DOD officials stated that the Senior Review


Panel either approved the proposed cuts or directed alternative reductions.

Officials stated that the DCMO was tracking Service Requirement Review Boards cost savings achieved in fiscal year 2017, and that the department was conducting another iteration of reviews in which organizations would be required to review additional service contract funding.

DOD documentation related to Service Requirement Review Boards and DOD’s associated cost savings estimate includes standardized presentations the organizations presented to the Senior Review Panel. The presentations include reduction targets, risk assessments, timelines, and the specific items to be reduced or eliminated. DOD documentation also includes a summary of DCMO-directed reductions for the organizations for fiscal years 2018 through 2022.

DOD previously reported to us that Service Requirement Review Boards would aid in the management and oversight of services’ acquisitions. DOD also stated that beginning in fiscal year 2016 the department will use Service Requirement Review Boards to evaluate proposed contract services within the defense agencies and the senior staffs.

Information Technology Optimization

According to DOD officials, the DCMO and the DOD Chief Information Officer identified six information technology optimization initiatives:

1. Military Integrated Personnel and Pay System—According to DOD officials, this initiative combines the military departments’ personnel and pay systems to achieve savings from using fewer resources, simplifying financial reporting, and having more timely and accurate payroll services. Officials stated that the system will leverage commercially available human resource systems. DCMO officials also stated that the system will achieve cost savings beginning in fiscal year 2019 when the current payroll and benefit systems are retired.

2. Defense Travel Modernization— According to DOD officials, as part of the initiative to reform travel and modernize DOD’s travel system, the

\(^3\text{GAO-16-119.}\)
department is increasing the use of less expensive, non-refundable tickets for select commercial air travel, rather than purchasing the more expensive, fully-refundable tickets. According to DOD officials, in certain markets the cost savings achieved with these less expensive fares more than offset the potential fees incurred when travelers make changes to their itineraries, and as a result they expect to achieve cost savings. DCMO officials stated that facilitating the use of these fares requires changes to DOD travel software and to the Joint Travel Regulations and that DOD will achieve defense travel modernization cost savings beginning in fiscal year 2017.

3. Enterprise Licensing—According to DOD officials, this initiative involves additional monitoring to enable better use of DOD software licenses, which improves business processes. DOD officials told us that they also expect to realize cost savings by purchasing more commercially available software products rather than having software customized. DCMO reported that DOD will achieve enterprise licensing cost savings beginning in fiscal year 2017.

4. Circuit Optimization—According to DOD officials, this initiative involves using fewer and less expensive circuits to accomplish their mission. DCMO reported that DOD will achieve circuit optimization savings beginning in fiscal year 2018.

5. Data Center Infrastructure—According to DOD officials, this initiative involves reviewing data center locations and consolidating centers where services could be combined to save money.

6. National Capital Region Information Technology Consolidation—According to DOD officials, this initiative involves consolidating the 40 to 50 information technology providers for Pentagon tenants and Fourth Estate organizations in the National Capital Region to decrease duplication and improve the delivery of information technology services. DCMO reported that DOD will achieve National Capital Region information technology consolidation savings beginning in fiscal year 2017.

Officials from the office of the DOD Chief Information Officer stated that they were on track to achieve the estimated cost savings and that additional cost savings could be achieved through related information
technology commodity management activities, such as the Federal Data Center Consolidation Initiative, if necessary.\(^4\)

DOD documentation related to information technology optimization and DOD’s associated cost savings estimate is a list of initiatives with a summary of estimated cost savings by fiscal year. Officials stated that the department is tracking implementation of information technology optimization-related cost savings through Resource Management Decisions,\(^5\) but DOD documentation did not allow us to clearly track the savings.

### Major Headquarters Activities

According to DOD officials, DOD cost savings related to Major Headquarters Activities involves two types of cost savings—reductions which comprise approximately 75 percent of the savings and those associated with consolidating and reducing the layers of organizational management (i.e., delayering).\(^6\)

DCMO-provided documentation did not include specific information about the reductions related to the approximately 75 percent of the cost savings. DOD plans to achieve the other 25 percent of the cost savings by delayering and reducing staff through attrition and reassignments. The DCMO directed delayering for the Office of the Secretary of Defense and Defense Agencies and Field Activities and identified cost savings for

\(^4\)GAO, Data Center Consolidation: Agencies Making Progress, but Planned Savings Goals Need to Be Established, GAO-16-323 (Washington, D.C.: Mar. 3, 2016). Led by the Office of Management and Budget’s Federal Chief Information Officer, the Federal Data Center Consolidation Initiative is an effort to reduce the number of non-core federal data centers used by 24 federal agencies, including DOD, by 40 percent through fiscal year 2015.

\(^5\)A Resource Management Decision is a budget document that reflects the decisions of the Secretary of Defense regarding appropriate program and funding to be included in the annual defense budget request.

\(^6\)DOD Major Headquarters Activities include the Office of the Secretary of Defense; the Joint Staff; the Offices of the Secretary of the Army and Army Staff; the Office of the Secretary of the Navy and Office of the Chief of Naval Operations; Headquarters, Marine Corps; and the Offices of the Secretary of the Air Force and Air Staff, among other organizations.
Appendix I: Department of Defense Categories of Efficiency-Related Initiatives

As part of delayering, organizations used DCMO’s guidance, which recommended that there be no more than five organizational layers within the Office of the Secretary of Defense, among other things. DCMO’s guidance also recommended that organizations pursue cross-organizational partnerships and shared work activities when possible. Officials stated that DOD recorded the resulting personnel changes in the Fourth Estate Manpower Tracking System.8

DOD documentation related to overall Major Headquarters Activities reductions, including delayering, and DOD’s associated cost savings estimate include a summary of reductions for fiscal years 2017 through 2021. DOD also provided a summary of planned delayering cost savings by organization for fiscal years 2017 through 2020 as well as an example of an implementation plan that describes specific actions to be taken and how those actions would affect the organization’s mission. DOD-provided documentation did not identify how DOD plans to achieve the cost savings not related to delayering and was not sufficiently detailed to allow us to clearly track these savings. However, officials stated that they have created more than 200 new Program Elements in the FYDP that they expect will improve tracking of major headquarters-related savings in the future by improving visibility of headquarters resources.

Business Operations Improvements

DOD officials stated that the department directed reductions to DOD’s Fourth Estate organizations through cuts from the military departments. A DCMO official stated that the department achieved cost savings in fiscal

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8 The Fourth Estate Manpower Tracking System is the manpower system of record for the Office of the Secretary of Defense, the non-intelligence defense agencies, the DOD field activities, and the Joint Community. The system is designed to improve the quality of force structure data, provide needed efficiencies, and eliminate manual management and reporting processes.
year 2017 by reducing the rates that the Defense Finance and Accounting Service charged to the military departments.\textsuperscript{9}

DOD documentation related to business operations and DOD’s associated cost savings estimate is a summary of estimated cost savings by fiscal year. This documentation was not sufficiently detailed to allow us to clearly track the savings. Officials stated that the business operations reductions are documented in Resource Management Decisions. Additional savings from return on investment are tracked as part of the annual review of business systems certification requests through the investment management review process. However, officials stated that they could not attribute business operations cost savings to specific Fourth Estate organizations or Program Elements in the Future Years Defense Program (FYDP). Officials stated that the cuts would be taken and, if necessary, Fourth Estate organizations would repurpose old business operations systems or cut back programs.

Defense Resale Optimization

We found in November 2016 that the Defense Commissary Agency\textsuperscript{10} planned to achieve cost savings through pilot programs at the Defense Commissary Agency’s commissaries, including different pricing methods.\textsuperscript{11} However, this plan did not include statements about assumptions, its methods, or specific time frames related to cost savings. DOD responded to our recommendation to develop a plan to support its efforts by stating that the department chartered the Defense Resale

\textsuperscript{9}The Defense Finance and Accounting Service is responsible for paying all DOD military and civilian personnel, retirees, annuitants, and major DOD contractors and bills its customers (e.g., the military departments) for the costs required to provide them such services.

\textsuperscript{10}DOD’s commissary and exchange systems are made up of the Defense Commissary Agency (which manages DOD’s commissaries), the Army and Air Force Exchange Service, the Navy Exchange, and the Marine Corps Exchange. The commissaries provide reduced-price groceries and household goods to military personnel, retirees, and their families at over 200 stores worldwide. The exchanges also provide retail goods and services as well as some groceries similar to the commissaries at over 2,500 locations worldwide. Exchanges manage stores that sell clothing, furniture, military uniforms, packaged food, household goods, and appliances, as well as manage barber and beauty shops, florists, and provision of financial services.

Business Optimization Board in 2016 to develop a plan and approve initiatives for piloting the plan.

An official stated that the department would achieve fiscal year 2017 cost savings by returning unobligated funds from the Defense Commissary Agency’s working capital fund to the military services, implementing previously-planned store closures, and sourcing locally-produced goods at DOD’s commissaries and exchanges. The Defense Commissary Agency began implementing pilot programs related to pricing and providing alternatives to national brands in fiscal year 2017. An official stated that DOD tracks defense resale-related cost savings in the FYDP using “Commissary Retail Sales” Program Elements; however Defense Commissary Agency documentation did not include sufficient detail to allow us to clearly track the cost savings.
Note: DOD’s comment letter refers to a sensitive version of this report that is being issued concurrently (GAO 17-535SU). Because the recommendation in this report is the same as the sensitive report, we did not send this version of the report out for agency comment.

Appendix II: Comments from the Department of Defense

DEPUTY CHIEF MANAGEMENT OFFICER
9010 DEFENSE PENTAGON
WASHINGTON, DC 20301-5010

June 27, 2017

Mr. John H. Pendleton
Director, Defense Capabilities and Management
United States Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Pendleton:


The 2016 National Defense Authorization Act, Section 346, required the Department to achieve $10 billion in cost savings between Fiscal Year (FY) 2015 and FY 2019. At the time of the GAO report, the Department had documented $8.25 billion in cost savings. Since that report, we have identified additional savings that were not included in this report. The additional savings are $350 million for efficiencies under the More Disciplined Use of Resources effort and $548 million during the second round of reviews of the Service Requirements Review Board for a cumulative total of $9.2 billion. As we indicated, the Department’s efficiency efforts will be ongoing and we are confident we will achieve the $10 billion by the FY 2019 requirement. The Department will submit the report required by Section 346(a) shortly.

The Department appreciates the opportunity to respond to your draft report. We look forward to your continued cooperation and dialog toward our common goal of finding efficiencies and savings within the Department of Defense business operations. Should you have any questions, please contact Mr. Andrew Haeuptle, 571-372-2861 or andrew.s.haeuptle.civ@mail.mil.

TILLOTSON,DAVID
DJII.1109966815
David Tillotson III
Acting

Attachment:
As stated
RECOMMENDATION 1: That the Secretary of Defense direct the DCMO to develop reliable cost savings estimates that include detailed information and documentation to allow for clear tracking of the cost savings by DoD and Congress.

DoD RESPONSE: Partially concur. Since 2015, the Department has made considerable strides in identifying, maintaining and tracking efficiency opportunities across all levels of the Department. The Department partially concurs with the recommendation cited in this report as many of the noted efficiencies do have formal means of tracking savings. For example, the Service Contract Requirements Review Boards (SRRBs) and the Major DoD Headquarters Activities (MHA) have a disciplined approach to managing and tracking the cost savings in the budget. These initiatives use specific budget program element (PE) codes and will be cited in the Budget Justification Books (e.g., “J” Books). The approach to managing these efforts is specific and deliberate, and will continue to be monitored as part of the yearly budget cycle.

Other efficiencies outlined in this report are harder to track to specific budgetary actions. The reason for this is two-fold: (1) the budgetary changes associated with the savings were taken across multiple organizations, against their top-line budgets, and/or (2) the savings data for beyond budget year are pre-decisional, and not releasable per the Office of Management and Budget guidance set forth in Circulars A-123 and A-11. Even though the Department’s out-year discretionary budget data must remain confidential, the Department’s efforts and accomplishments should not be understated.

Lastly, DoD leadership is actively managing efficiencies and reforms across the Department. The Department will continue to manage the efficiency efforts discussed in this report as part of the broader Defense Reform initiatives. These activities include pursuing cross-enterprise elimination and consolidation of business capabilities to achieve greater savings across the Department, including the Military Departments. Moreover, the Department is exploring horizontal consolidations and other efficiencies across all lines of business, which may identify even more opportunities for savings. The Department’s Reform Plan will become part of the Office of Management and Budget’s comprehensive plan to reform the Federal Government.
Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

John H. Pendleton, (202) 512-3489 or pendletonj@gao.gov

Staff Acknowledgments

In addition to the contact named above, Margaret A. Best (Assistant Director), Michele Fejfar, Alexandra Gonzalez, Jana Hopkins, Mae Jones, Edward Malone, Amanda Manning, Brendan K. Orino, Carol Petersen, and John Van Schaik made major contributions to this report.
Appendix IV: Accessible Data

Agency Comment Letter

Text of Appendix II: Comments from the Department of Defense

Page 1

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Director, Defense Capabilities and Management United States Government Accountability Office 441 G Street, NW

Washington, DC 201548

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The Department appreciates the opportunity to respond to your draft report. We look forward to your continued cooperation and dialog toward our common goal of finding efficiencies and savings within the Department of Defense business operations. Should you have any questions, please contact Mr. Andrew Haeuptle, 571-372-2861 or andrew.s.haeuptle.civ@mail.mil.

David Tillotson III Acting

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Page 2

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