DEFENSE MANAGEMENT

Observations on DOD’s Business Reform Efforts and Plan

Why GAO Did This Study

DOD spends billions of dollars each year to maintain key business operations intended to support the warfighter. The John S. McCain National Defense Authorization Act for Fiscal Year 2019 established requirements for DOD to reform its enterprise business operations. Section 921 of the act required the Secretary of Defense, acting through the Chief Management Officer, to submit to the congressional defense committees by February 1, 2019, a plan, schedule, and cost estimate for reforms of DOD’s enterprise business operations to increase effectiveness and efficiency of mission execution.

Section 921 also requires GAO to provide a report assessing the feasibility of the plan. GAO’s objectives were to assess (1) DOD’s 921 plan, including its feasibility in reforming DOD’s business operations, and (2) the extent to which DOD has made progress in implementing the plan and its broader reform efforts.

What GAO Found

The Department of Defense’s (DOD) April 2019 plan for business reform identifies eight initiatives related to civilian resources management, logistics management, services contracting, and real estate management. According to the plan, these initiatives will cost at least $116 million to implement through fiscal year 2021. GAO found that the plan generally contains the elements required under section 921—a schedule and cost estimate—and that several initiatives address aspects of GAO’s prior recommendations. However, because many of the planned initiatives entail collecting information that will lay the groundwork for later reforms, assessing the feasibility of DOD’s reform effort is difficult. For example, one logistics reform initiative plans to identify opportunities to improve processes, make recommendations, and develop an implementation plan for the recommendations by the end of fiscal year 2019.

Although DOD officials told GAO that the department is making progress implementing the plan’s initiatives and achieving cost savings on its broader efforts, DOD provided limited documentation of that progress. As a result, GAO could not independently assess and verify this progress. For example:

- Office of the Chief Management Officer (OCMO) officials provided briefing charts on the status of milestones for DOD’s three human resource–related initiatives stating that those initiatives are progressing according to the schedule, but did not provide underlying documentation for each milestone.

- According to DOD, its broader reform efforts have saved or are expected to save about $18.4 billion between fiscal years 2017 and 2020. According to Under Secretary of Defense (Comptroller) officials, they have validated these savings. However, DOD did not provide any supporting documentation that would allow GAO to independently validate these savings. GAO’s prior work has found repeated shortcomings in DOD’s ability to demonstrate that it has achieved its goals for savings from reform efforts. DOD is taking steps to address these challenges, including establishing cost baselines for DOD’s major lines of business and incorporating Comptroller input into estimates of the costs and potential savings from initiatives as they are developed.

Further, according to the plan, DOD has provided funding through its annual budget process for four of the eight initiatives included in its plan. For the four remaining initiatives, OCMO has identified a source of funding but not obtained that funding for two initiatives, is awaiting a cost estimate for one initiative, and has identified only partial funding for one initiative, which is designed to review contracts and categories of goods or services on a quarterly basis to identify savings. OCMO anticipates that savings identified in earlier rounds of this initiative will fully fund later rounds. However, in January 2019, GAO reported that, according to OCMO, DOD initially planned to fund its reform initiatives in part with savings generated by other initiatives, but recognized that this approach did not work because additional funding was needed. GAO recommended that DOD establish a process to identify and prioritize funding for implementing its initiatives. OCMO has updated its processes for managing its reform efforts in part to address this issue, but the effects of this update at this time are unclear.
DOD’s Plan Generally Addresses Requirements of Section 921, but Assessing Feasibility of Reforms Is Difficult
DOD Provided Limited Documentation of Progress in Implementing Its 921 Plan and Achieving Cost Savings, and Has Not Fully Funded Some Plan Initiatives
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Changes to DOD’s Reform Teams and Processes

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Abbreviations

921 plan  Initial Plan for Reforming the Business Operations of the Department of Defense for Efficiency and Effectiveness
CMO  Chief Management Officer
DOD  Department of Defense
NDAA  National Defense Authorization Act
OCMO  Office of the Chief Management Officer
OUSD  Office of the Under Secretary of Defense

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September 3, 2019

Congressional Committees

The Department of Defense (DOD) spends billions of dollars each year to maintain key business operations intended to support the warfighter, including systems and processes related to the management of contracts, finances, the supply chain, support infrastructure, and weapon systems acquisition. DOD’s National Defense Strategy identifies reforming the department’s business practices as one of three distinct lines of effort within the strategy. In addition, DOD’s approach to business transformation is among the areas identified in our High-Risk report, which calls attention to agencies and program areas that are high risk because of their vulnerabilities to fraud, waste, abuse, and mismanagement, or are most in need of transformation.

The John S. McCain National Defense Authorization Act (NDAA) for Fiscal Year 2019 established requirements for DOD to reform its enterprise business operations, which include, among other things, aspects of financial management, health care, acquisition and procurement, and human resources operations. Section 921 of the act requires the Secretary of Defense, acting through the Chief Management Officer (CMO), to reform DOD’s enterprise business operations to increase effectiveness and efficiency of mission execution. DOD is required to accomplish this reform through, among other things,

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2GAO, High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas, GAO-19-157SP (Washington, D.C.: Mar. 6, 2019). DOD currently manages six of the areas we have designated as high risk: (1) weapons systems acquisition, (2) contract management, (3) financial management, (4) business systems modernization, (5) support infrastructure management, and (6) approach to business transformation.

3Enterprise business operations refers to those activities that constitute the crosscutting business operations used by multiple DOD components, but not those activities that are directly tied to a single military department or DOD component. The term includes business-support functions designated by the Secretary of Defense or the Deputy Secretary of Defense for purposes of section 132a of title 10, United States Code, such as aspects of financial management, health care, acquisition and procurement, supply chain and logistics, certain information technology, real property, and human resources operations. See 10 U.S.C. § 132a(e).

reductions or improvements across all organizations and elements of the department with respect to certain covered activities: civilian resources management, logistics management, services contracting, and real estate management. These reforms are required to achieve savings of at least 25 percent of the cost of performing the covered activities in fiscal year 2019 by the end of fiscal year 2020. Further, the CMO is required to do one of the following:

- If the CMO believes achieving the required savings will create overall inefficiencies for the department, the CMO must provide notice and justification to the congressional defense committees by October 1, 2019, specifying a lesser percentage of savings the CMO determines to be necessary to achieve efficiencies in the covered activities and a description of the efficiencies to be achieved.

- If the CMO believes the required savings can be achieved in fiscal year 2020, then the CMO must certify to the defense committees by January 1, 2020, that these reforms will achieve the required savings.\(^5\)

The CMO was required to submit to the congressional defense committees a plan, schedule, and cost estimate for conducting these reforms by February 1, 2019.\(^6\) DOD submitted that plan, titled Initial Plan for Reforming the Business Operations of the Department of Defense for Efficiency and Effectiveness, referred to hereafter as the “921 plan,” on April 24, 2019.

Section 921 also includes a provision for us to provide a report assessing the feasibility of the plan within 90 days of DOD’s submission. In addition, section 921 has other provisions for us to assess DOD’s progress in implementing the reforms required by that section. In January 2019, we provided our assessment of DOD’s actions pursuant to section 921, as

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\(^5\)The CMO is also required to, no later than January 1, 2020, establish a consistent reporting framework to establish a baseline for the costs to perform all covered activities.

\(^6\)The plan required by section 921 is separate from the reform plan required from DOD by the Office of Management and Budget. In March 2017, the President issued an executive order requiring a comprehensive plan for reorganizing executive branch agencies. See Executive Order No. 13781, Comprehensive Plan for Reorganizing the Executive Branch, 82 Fed. Reg. 13959 (Mar. 13, 2017). In April 2017, the Office of Management and Budget provided guidance to federal agencies for developing reform and workforce reduction plans. See Office of Management and Budget, Comprehensive Plan for Reforming the Federal Government and Reducing the Federal Civilian Workforce, M-17-22 (Apr. 12, 2017).
required by one of these provisions. We reported that DOD’s enterprise business reform efforts were driven by nine cross-functional teams, but those teams’ progress had been uneven, in part because some teams lacked resources to fully implement their approved initiatives. We recommended, and DOD concurred, that DOD establish a process to identify and prioritize funding for implementing its cross-functional teams’ business reform initiatives. We discuss the status of DOD’s efforts to implement this recommendation later in the report. In addition, since our January 2019 report, an Office of the CMO (OCMO) official responsible for OCMO’s management of the reform efforts told us OCMO has made changes to the teams and processes related to these efforts, including changes to the composition of the teams and the framework it is using to manage the efforts. We discuss these changes further in appendix I.

For this review, our objectives were to assess (1) DOD’s 921 plan, including its feasibility in reforming DOD’s business operations, and (2) the extent to which DOD has made progress in implementing the plan and its broader reform efforts.

To address our first objective, we reviewed DOD’s 921 plan and associated documentation and interviewed OCMO and other DOD officials regarding the development of the plan. We compared this information to the elements required under section 921. We also reviewed our past work on DOD reform efforts and the specific subject areas covered by DOD’s initiatives, and identified findings and

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recommendations from that work that are applicable to DOD’s plan and overall business reform effort.\(^8\)

To address our second objective, we reviewed documentation and interviewed OCMO officials regarding implementation of the 921 plan, including the extent to which the plan’s initiatives are proceeding according to the schedules contained in the plan and any challenges DOD is facing in implementation. We also reviewed documentation and interviewed OCMO and other DOD officials on the extent to which DOD’s reform efforts have produced documented cost savings. Further, we assessed the extent to which DOD addressed selected key questions that we identified in our June 2018 report on agency reform efforts.\(^9\) In that report, we identified key questions that decision makers should consider for assessing the development and implementation of agency reforms based on our prior work and leading practices on organizational mergers and transformations, collaboration, government streamlining, and efficiency.\(^10\) We used the term “reforms” to broadly include any organizational changes—such as major transformations, mergers, consolidations, and other reorganizations—and efforts to streamline and


improve the efficiency and effectiveness of government operations. We identified key questions across four categories related to (1) goals and outcomes; (2) the process for developing reforms; (3) implementing the reforms; and (4) strategically managing the federal workforce. Because some of the questions were not applicable to DOD’s plan, we did not compare the plan against all of the key questions, but did note when aspects of the plan related to any of the key questions.

We conducted this performance audit from May 2019 to September 2019 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.

DOD’s 921 plan identifies eight initiatives across the covered activities and generally addresses most of the elements required under section 921. Specifically, section 921 required the CMO to provide a plan, schedule, and cost estimate for conducting its reforms of the covered activities. DOD’s plan provides a schedule for all eight efforts, and provides a cost estimate for all but one, which OCMO officials indicated was still under development. The plan identifies costs of at least $116.3 million to $116.8 million to implement these initiatives through fiscal year 2021. We discuss DOD’s funding of these costs later in this report. According to DOD’s plan, the eight initiatives have the following objectives:

- **Civilian hiring improvement.** Shorten the time needed to hire civilian employees, improve the matching of enterprise needs to employee

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DOD’s Plan Generally Addresses Requirements of Section 921, but Assessing Feasibility of Reforms Is Difficult

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11We did not independently assess DOD’s cost estimates.

12DOD’s plan also includes an overview of OCMO’s plan for conducting efficiency reviews of the defense agencies and field activities, which is separate from its plan for reform of the covered activities in section 921. According to DOD’s plan, the results of these reviews will provide information critical to shifting the department toward the use of more enterprise services to conduct business operations. In the plan, OCMO estimated that its reviews of 23 of the defense agencies and field activities would cost an average of $1.6 million per review for consultant support. According to OCMO officials, they have since concluded that consultant-led reviews are not likely to produce the necessary information and analyses and are instead developing an internal review process that would make use of existing DOD resources.
competencies, and establish standard metrics and reports on performance of an improved hiring process.

- **Human resources regulatory reform.** Develop a new proposed legal authority that allows the department to simplify, streamline, and standardize civilian personnel policies. In addition, use regulatory reform to better recruit, compensate, and retain a qualified civilian workforce at DOD.

- **Human resources service delivery.** Establish a common human resources business and service delivery model, a standard set of performance measures, and a cost accountability structure that will be applied to all human resources service providers, with a focus on certain defense agencies and field activities.

- **Strategic sourcing of sustainment and commodity procurement.** Improve the buying power of the department, increasing data transparency related to sustainment and commodity procurement, and apply best-in-class cost and contract management practices with suppliers to drive higher performance and lower cost.

- **Maintenance work packages and bills of material.** Improve the accuracy of depot maintenance work packages and related bills of material and develop recommendations for process improvements.\(^\text{13}\)

- **Munitions readiness.** Produce an integrated tool capable of providing senior leaders with an effective assessment of all the variables associated with the health and readiness of the munitions inventory and the ability to assess options for correcting negative trends.

- **Service requirements review boards.** Expand the use of service requirement review boards—which review, validate, prioritize, and approve contracted services requirements to accurately inform the budget and acquisition process.

- **Category management.** Implement best practices for purchasing goods and services, such as consolidating separate requirements into single contracts, allowing DOD to achieve savings from volume discounts and develop tools aimed at focusing spending on contracts that meet certain best practices for management.

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\(^{13}\)Work packages and bills of material define the content and scope of depot-level repairs and the associated parts required. Inaccuracies can produce significant differences between planned and actual content and scope, increase repair turnaround times, delay required spares, and increase the non-mission-capable time of the weapon systems while they are in depot-level maintenance.
Several of these initiatives address aspects of our prior recommendations related to the objectives of the initiatives. How findings and recommendations from GAO and agency inspectors general have been addressed in proposed reforms is among the key questions GAO has previously identified for assessing agency reform efforts. We found that DOD’s initiatives address aspects of our findings and recommendations, but in some cases do not fully address them. For example:

- In September 2018, we reported that at least six organizations within DOD, including three defense agencies and field activities and the three military departments, provide human resources services to other defense agencies or organizations. All perform the same types of human resources services, such as those related to civilian workforce hiring across DOD. We also reported that there is fragmentation and overlap within the defense agencies and field activities that provide human resources services to other defense agencies or organizations within DOD. This fragmentation and overlap has resulted in negative effects, such as inconsistent performance information regarding hiring, fragmented information technology systems, and inefficiencies associated with overhead costs. We recommended, and DOD concurred, that DOD collect consistent performance information and comprehensive overhead cost information as well as establish time frames and deliverables for key reform efforts. DOD’s human resource service delivery initiative is intended, in part, to address our recommendations. This initiative, however, is focused only on the defense agencies and field activities responsible for human resources service delivery, and does not include all human resources service providers we highlighted in our September 2018 report.

- In June 2016, we reported that the Defense Logistics Agency and the military services have some internal efficiency measures for supply and depot operations; however, they generally have not adopted metrics that measure the accuracy of planning factors that are necessary to plan efficient and effective support of depot

14GAO-18-427.

15GAO-18-592.
Additionally, the Defense Logistics Agency and the services do not track the potentially significant costs to supply and depot maintenance operations that are created by backorders. Further, we reported that without relevant metrics on cost and planning factors, DOD, the Defense Logistics Agency, and the services are unable to optimize supply and maintenance operations and may miss opportunities to improve the efficiency and effectiveness of depot maintenance. We recommended, and DOD concurred, that DOD, the Defense Logistics Agency, and the services develop metrics to monitor costs and accuracy of demand planning factors. DOD’s initiative on maintenance work packages and bills of material includes steps that may, in part, address these recommendations. Specifically, the initiative plans to assess the accuracy of bills of material, one of the planning factors we recommended DOD develop and implement metrics for, but does not include assessing the accuracy of other planning factors.

- In August 2017, we reported that DOD’s service requirement review boards were intended to prioritize and approve contracted services in a comprehensive portfolio-based manner to achieve efficiencies, but the military commands we reviewed did not do so. Instead, commands largely leveraged existing contract review boards that occurred throughout the year and focused on approving individual contracts. As a result, the review boards at these commands had minimal effect on supporting decisions within and across service portfolios or capturing efficiencies that could inform the commands’ programming and budgeting decisions. We recommended, and DOD concurred, that DOD clarify policies concerning the purpose and timing of the review board process. DOD’s initiative on service requirements review boards expands the use of these boards, and indicates that they are timed to inform budgets for the following fiscal year, but does not indicate whether guidance to do so has been provided. In its concurrence, DOD stated it would update the relevant

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16GAO-16-450. Planning factors for depot maintenance include (1) the number of end items to go through maintenance, (2) the schedule for inducting the end items into maintenance, (3) the bill of materials (i.e., the list and quantity of parts needed to conduct the maintenance on the end item), and (4) the replacement factors (i.e., the estimated frequency of replacement based on historical trends and engineering estimates) for the parts on the bill of materials.

17GAO-17-482.
DOD instruction to include this guidance, but, as of June 2019, DOD has not issued an updated instruction that includes this guidance.\textsuperscript{18}

Although these initiatives intend to address aspects of our prior recommendations, assessing the feasibility of DOD’s reform effort is difficult because many of the planned initiatives entail collecting information that will lay the groundwork for later reforms. For example, the human resources service delivery initiative tasks the reform team to draft a project charter, collect and analyze information on human resources service providers within DOD, and eventually develop recommended courses of action for reform by fiscal year 2020. Similarly, the initiative on maintenance work packages and bills of material tasks the reform team to identify opportunities to improve processes, make recommendations to address deficiencies, improve efficiency, and improve material availability and then to develop an implementation plan for the recommendations by the end of fiscal year 2019, with implementation beginning in fiscal year 2020.

OCMO officials told us that DOD is making progress in implementing the 921 plan’s initiatives according to the schedules contained in the plan, and they provided summary documentation stating that progress has been made on five of the eight initiatives. However, OCMO did not provide sufficiently detailed documentation for us to independently assess

\textsuperscript{18}Department of Defense Instruction 5000.74, \textit{Defense Acquisition of Services} (Jan. 5, 2016) (incorporating change 2, Aug. 31, 2018).
progress on any of the initiatives. Specifically, OCMO provided us some documentation on the progress of the eight initiatives, but this information varied by initiative and was limited. As a result, we were unable to independently assess and verify DOD’s progress in implementing its initiatives. Specifically:

- For the human resources regulatory reform, civilian hiring improvement, and human resources service delivery initiatives, OCMO provided briefing materials on the status of each milestone under the initiatives, indicating that those initiatives are progressing according to the schedule in the plan. However, DOD did not provide separate underlying documentation for each milestone. For example, under the plan, the teams conducting these initiatives were to have established by June 2019 a common DOD process and metrics for civilian hiring, prepared drafts of updated DOD policies and fiscal year 2020–2021 talent management guidance, and collected and mapped different human resources service delivery models. However, OCMO did not provide documentation of the common DOD process and metrics for civilian hiring, drafts of updated policies and guidance, or human resources service delivery model maps.

- For the service requirements review boards initiative, OCMO provided documentation stating that the service requirements review boards had largely been completed on schedule, but did not provide information on the outcomes of these boards. OCMO officials told us that delays in completing 3 of 69 boards had prevented them from fully meeting planned deadlines.

- For the category management initiative, OCMO officials told us that the first two quarterly “sprints”—reviews of different contracts or categories of goods or services to identify savings—for fiscal year 2019 had been completed and the third was in progress, but did not provide documentation to support this assertion. For example, OCMO did not provide information on the outcomes of the sprints.

- For the strategic sourcing of sustainment and commodity resources, maintenance work packages and bills of material, and munition readiness initiatives, DOD did not provide any documentation on the progress of the initiatives.

While most of DOD’s initiatives included in its plan identify either performance metrics or targets, five of the eight initiatives also state that part of the work of the initiatives will be to establish such metrics or
Among our key questions for assessing agency reform efforts is the extent to which the agency has established clear outcome-oriented goals and performance measures for the proposed reforms, and whether the agency has put processes in place to collect the needed data and evidence that will effectively measure the reform’s goals. Identifying and collecting this information can lay the groundwork for further reform efforts.

Moreover, we found that objectives for some of the initiatives in DOD’s plan are similar to those presented in prior plans with deadlines that have already passed, suggesting that progress on some initiatives is going more slowly than the department originally anticipated. For example, DOD’s August 2017 report to Congress on restructuring the CMO organization included an initiative to create a single civilian personnel system and rating system for certain employees by the middle of fiscal year 2018. DOD’s 921 plan contains a similar initiative on human resources regulatory reform, which aims to develop standardized civilian personnel policies and processes. Development of the initiative is not scheduled to be completed until the end of fiscal year 2019, and implementation would not occur until fiscal year 2020, at the earliest, compared to the original fiscal year 2018 deadline for the initiative.

DOD has stated that its business operations reform efforts—which are not limited to the covered activities under section 921—will produce cost savings; however, DOD did not provide underlying documentation to allow us to independently validate the savings. Specifically, in its budget materials for fiscal year 2020, released in March 2019, DOD reported that its reform efforts had saved $4.7 billion in fiscal years 2017 and 2018, and are expected to save $6.0 billion in fiscal year 2019 and $7.7 billion in fiscal year 2020.

In some cases, initiatives included performance metrics or targets, but also indicated that developing additional metrics or targets would be part of the work of the initiative.

fiscal year 2020, the first year of required savings under section 921. Of those $7.7 billion in expected savings for fiscal year 2020, about $2.6 billion were in business process and systems improvements.\textsuperscript{22}

According to OCMO and Office of the Under Secretary of Defense (OUSD) (Comptroller) officials, the OUSD (Comptroller) has validated these savings and the savings have been programmed or budgeted in the fiscal years reported. Specifically, according to OUSD (Comptroller) officials, all of the savings reported in DOD’s budget materials have been validated against OUSD Comptroller’s own systems that record budget information and decisions that are incorporated into DOD’s programming and budgeting process. OUSD (Comptroller) provided a spreadsheet detailing the various reforms and savings DOD cited in its budget materials, but did not provide the underlying support to allow us to independently validate the savings, such as documentation of budgetary decisions that reflect the savings.

Our prior work over the past 7 years has found repeated shortcomings in DOD’s ability to demonstrate that it has achieved its goal for savings from reform efforts.\textsuperscript{23} Most recently, in September 2018, we reported that DOD could not demonstrate that it met several cost savings requirements mandated by the NDAA for Fiscal Year 2016, in part because there were no baseline costs established to measure any reductions against and documentation supporting cost savings estimates from other efficiencies was not detailed enough.\textsuperscript{24}

DOD is taking steps to address this challenge and report on its cost baseline to perform all covered activities by January 1, 2020, as required by section 921. Specifically, in March 2019, we reported that OCMO is taking steps to establish cost baselines for DOD’s major lines of business through the fiscal year 2019–2020 timeframe.\textsuperscript{25} According to OCMO officials, they are also regularly adjusting the fiscal year 2019 baseline to reflect savings identified during the fiscal year. As of June 2019, OCMO is

\textsuperscript{22}DOD has not provided specific information on the amount of savings in the activities covered by section 921.

\textsuperscript{23}GAO-12-345, GAO-14-439, GAO-16-286, GAO-17-724, GAO-18-688R.

\textsuperscript{24}GAO-18-688R.

reviewing its approach for reporting the savings required by section 921 and plans to complete the review by October 2019. OCMO is coordinating with OUSD (Comptroller) on both establishment of the baseline and reporting of savings.

DOD Has Not Fully Funded Some of the Initiatives in Its 921 Plan

While DOD has already funded some of the initiatives included in its plan through its annual budget request process, it continues to face challenges obtaining funding for others. According to DOD’s plan, four of the eight initiatives had no costs associated with them or the initiative has been funded to date using existing resources through the regular budget process, and DOD does not anticipate any additional costs for the initiatives. Funding needs for the remaining four initiatives have not been fully determined or met. Specifically:

1. **Funding needs for the human resources service delivery initiative have not yet been determined.** OCMO expects to fund the cost of this initiative as a part of the initial stand-up costs for OCMO’s Office of Fourth Estate Management in fiscal year 2020. OCMO officials told us they are reviewing baseline needs for the office and anticipate realigning resources to support the new office.

2. **Funding needs for the human resources regulatory reform initiative have been determined, but OCMO has not confirmed that funding has been obtained.** DOD’s plan states that future costs for the initiative may include approximately $500,000 for research and studies. To the extent possible, the plan states, DOD will use funds from the OUSD for Personnel and Readiness for studies, but DOD has not indicated that those funds have been obtained.

3. **Funding needs for the strategic sourcing of sustainment and commodity procurement initiative have not been determined.** According to OCMO, the Defense Logistics Agency and the military services are developing a detailed cost estimate for this initiative. However, neither the plan nor OCMO officials we spoke with identified where any funding that may be needed will come from once the costs are determined.

4. **Funding needs for the plan’s category management initiative to conduct reviews of contracts and categories of goods and services have not been fully met.** The initiative includes quarterly

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26These initiatives are civilian hiring improvement, maintenance work packages and bills of material, munitions readiness, and service requirements review boards.
“sprints” reviewing different contracts or categories of goods or services to identify savings. According to DOD’s plan, each sprint is assisted by consulting firms and industry analyses and is estimated to cost about $11 million. DOD plans to complete a total of 10 sprints, at a total cost of $110 million. According to OCMO, limited funding has hindered execution of two of the sprints so far. OCMO has requested $12 million in its budget request for fiscal year 2020 to support this effort and expects the remaining sprints to be funded by savings identified through earlier sprints. However, in January 2019, we reported on problems associated with this approach.27 Specifically, we reported that OCMO officials told us the department initially planned to use available funding from OCMO or the savings generated by reform initiatives to fund development of other initiatives, but has since recognized that additional funding is needed.

Among the key questions we previously identified for assessing agency reform efforts is the extent to which the agency has considered how the upfront costs of proposed reforms will be funded.28 In January 2019, we reported that some reform teams lacked resources to fully implement approved initiatives.29 We recommended, and DOD concurred, that DOD establish a process to identify and prioritize funding for implementing its cross-functional teams’ business reform initiatives. An OCMO official told us OCMO updated its reform management framework—the process it uses for managing its business reform efforts—in part to address this recommendation. However, in light of the continued challenges related to funding that we identified as part of this review, the effectiveness of changes to this framework at this time is unclear. As a result, we will continue to monitor the extent to which OCMO’s adjustments to its processes have addressed this recommendation as OCMO continues to implement its business reforms.

27GAO-19-165.
29GAO-19-165.
We provided a draft of this report to DOD for review and comment. In response, DOD officials told us they concurred and had no comments on the report.

We are sending copies of this report to the appropriate congressional committees and to the Secretary of Defense and Deputy Chief Management Officer. 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) 512-2775 or fielde1@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 are listed in appendix III.

Elizabeth Field
Acting Director
Defense Capabilities and Management
List of Committees

The Honorable James M. Inhofe
Chairman
The Honorable Jack Reed
Ranking Member
Committee on Armed Services
United States Senate

The Honorable Richard Shelby
Chairman
The Honorable Dick Durbin
Ranking Member
Subcommittee on Defense
Committee on Appropriations
United States Senate

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

The Honorable Pete Visclosky
Chairman
The Honorable Ken Calvert
Ranking Member
Subcommittee on Defense
Committee on Appropriations
House of Representatives
Since we last reported on the Department of Defense’s (DOD) business reform efforts in January 2019, the Office of the Chief Management Officer (OCMO) has, among other things, changed the composition of the teams and the framework it is using to manage the efforts. Specifically, OCMO has disestablished the teams on real property management, human resources, and testing and evaluation, split the team on information technology and business systems into two separate teams for information technology and business systems, and made changes to the leadership or composition of each of the remaining teams. See table 1 for a summary of these changes.

Appendix I: Changes to DOD’s Reform Teams and Processes

Table 1: Changes to Department of Defense (DOD) Business Reform Teams, September 2018 to June 2019

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<th>Reform team</th>
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<th>New team leader</th>
<th>Change in team composition</th>
<th>Disestablished&lt;sup&gt;a&lt;/sup&gt;</th>
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<tbody>
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<td>Category Management&lt;sup&gt;b&lt;/sup&gt;</td>
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<td>Real Property Management&lt;sup&gt;e&lt;/sup&gt;</td>
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<tr>
<td>Supply Chain and Logistics</td>
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<tr>
<td>Testing and Evaluation&lt;sup&gt;f&lt;/sup&gt;</td>
<td>-</td>
<td>-</td>
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<td>X</td>
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</tbody>
</table>

Legend: X = Change occurred for team
Source: GAO analysis of DOD information. | GAO-19-666

<sup>a</sup>According to an Office of the Chief Management Officer (OCMO) official, OCMO has not removed any initiatives from the business reform efforts as a result of the changes to these teams, including the disestablishment of some teams, but teams’ initiatives were absorbed into other business reform teams or organizations that OCMO believed were more appropriate for leading the initiatives.

<sup>b</sup>According to OCMO, the category management reform team is developing a cross-agency contract and category management procurement methodology aimed at driving efficiencies and savings throughout DOD.

<sup>c</sup>According to OCMO, the community services reform team focuses on reforming the defense resale system and other community services, and has conducted a business-case analysis to address the potential savings and increased efficiency by consolidating the back-office functions of the commissaries and exchanges.

<sup>d</sup>OCMO has split the team on information technology and business systems into two separate teams for information technology and business systems.

<sup>e</sup>According to OCMO, the real property management team was responsible for lease process standardization, footprint consolidation, space utilization, and contract optimization.

<sup>f</sup>According to OCMO, the testing and evaluation reform team was responsible for developing implementation plans for a portfolio of testing and evaluation reform projects and oversees the transition of projects to the appropriate office of primary responsibility, including examining multi-service and multi-range contracts, identifying opportunities to drive standardization to lower the cost of operation.

According to an OCMO official responsible for OCMO’s management of the reform efforts, OCMO has not removed any initiatives from the business reform efforts as a result of the changes to these teams, but some teams’ initiatives were absorbed into other business reform teams or organizations that OCMO believed were more appropriate for leading
the initiatives, such as the relevant DOD principal staff assistant.\(^2\) For example, the category management team assumed responsibility for the real property management team’s initiatives.\(^3\) According to the same official, OCMO’s new Fourth Estate Management Office and components of the Office of the Under Secretary of Defense (OUSD) for Personnel and Readiness assumed responsibility for some of the human resources team’s initiatives.\(^4\)

In addition, an OCMO official told us OCMO revised its business reform management framework—the process it uses for managing its business reform efforts. According to an overview of the new framework provided by OCMO, the new process is designed to establish a simplified, standardized, and repeatable process for managing these reforms and identifying and prioritizing funding for reform initiatives. An OCMO official told us that one of the goals of the updated process is to improve the uniformity of documentation across business reform teams and initiatives. That official told us the updated process also reduced the number of decision points—through which reform teams receive approval from DOD’s Reform Management Group to proceed with an initiative—from five to two.\(^5\)

Further, OCMO introduced new processes for estimating and tracking the costs and potential savings resulting from reform initiatives. Among other

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2Principal staff assistants are the Under Secretaries of Defense, the Chief Management Officer, the General Counsel of DOD, the Inspector General of DOD, and those Assistant Secretaries of Defense, Assistants to the Secretary of Defense, and Office of the Secretary of Defense Directors, and equivalents, who report directly to the Secretary or Deputy Secretary of Defense.

3Category management is an approach based on industry leading practices to streamline and manage entire categories of spending across government like a single enterprise to leverage the government’s buying power. For additional information, see GAO, Federal Procurement; Smarter Buying Initiatives Can Achieve Additional Savings, but Improved Oversight and Accountability Needed, GAO-17-164 (Washington, D.C.: Oct. 26, 2016).

4According to OCMO, its Fourth Estate Management Office will strengthen business process management throughout DOD’s fourth estate, specifically defense agencies and DOD field activities. DOD’s defense agencies and field activities are intended to perform consolidated supply and service functions on a department-wide basis. The office will support planning, performance management, and strategy to optimize fourth estate reform and support the CMO in the management of the fourth estate.

5The Reform Management Group is a governance forum for DOD’s business reform efforts that oversees the business reform teams. The Chief Management Officer (CMO) chairs the Reform Management Group, and OCMO facilitates regular meetings of the group.
things, the updated framework includes input from the OUSD (Comptroller). Specifically, according to OCMO documentation and OUSD (Comptroller) officials, OUSD (Comptroller) officials review estimates of the costs and potential savings recorded in OCMO’s reform management portal—a database OCMO uses to monitor business reform initiatives. OUSD (Comptroller) assigns a confidence score based on the degree to which each initiative has been developed. According to an OUSD (Comptroller) official, initiatives that are less developed will have a lower confidence score because they are further from full implementation and subject to more unknowns than those that are closer to implementation. OUSD (Comptroller) officials told us OUSD (Comptroller) uses confidence scores to adjust estimates of potential savings, and to lower potential savings associated with newer initiatives. According to OUSD (Comptroller) officials, these estimates of potential savings are not included in any savings amounts the department reports externally, such as in DOD budget materials, until they are actually programmed or budgeted.
Appendix II: GAO Contact and Staff Acknowledgments

<table>
<thead>
<tr>
<th>GAO Contact</th>
<th>Elizabeth Field at (202) 512-2775 or <a href="mailto:fielde1@gao.gov">fielde1@gao.gov</a></th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff Acknowledgments</td>
<td>In addition to the contact named above, Margaret Best (Assistant Director), Daniel Ramsey (Analyst-in-Charge), Sierra Hicks, Alexa Kelly, and Richard Powelson made key contributions to this report. Other contributors included Bonnie Anderson, Tracy Barnes, Arkelga Braxton, Timothy J. DiNapoli, Michael Holland, Richard Larsen, Ned Malone, Ron Schwenn, Anne Stevens, John Van Schaik, and Sarah Veale.</td>
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