



November 2020

# DEFENSE REFORM

## DOD Has Made Progress, but Needs to Further Refine and Formalize Its Reform Efforts

Accessible Version

# GAO Highlights

Highlights of [GAO-21-74](#), a report to congressional committees

## Why GAO Did This Study

DOD spends billions of dollars each year to maintain key business operations. Section 921 of the NDAA for FY 2019 established requirements for DOD to reform these operations and report on their efforts. DOD has also undertaken additional efforts to reform its operations in recent years.

Section 921 called for GAO to assess the accuracy of DOD's reported cost baselines and savings, and section 1753 of the NDAA for FY 2020 called for GAO to report on the OCMO's efficiency initiatives. This report assesses the extent to which DOD has (1) established valid and reliable baseline cost estimates for its business operations; (2) established well-documented cost savings estimates reflecting its reforms; and (3) coordinated its reform efforts.

GAO assessed documents supporting costs, savings estimates, and coordination efforts; interviewed DOD officials; observed demonstrations of DOD's reform tracking tools; and assessed DOD's efforts using selected criteria.

## What GAO Recommends

GAO is making three recommendations—specifically, that DOD establish formal processes to standardize development and documentation of cost savings; ensure that reported savings are consistent with the department's definition of reform; and formalize policies or agreements on its reform efforts. DOD concurred with GAO's recommendations.

View [GAO-21-74](#). For more information, contact Elizabeth Field at (202) 512-2775 or [fielde1@gao.gov](mailto:fielde1@gao.gov).

## Defense Reform

### DOD Has Made Progress, but Needs to Further Refine and Formalize Its Reform Efforts

#### What GAO Found

The Department of Defense (DOD) has made progress in establishing valid and reliable cost baselines for its enterprise business operations and has additional efforts ongoing. DOD's January 2020 report responding to section 921 of the John S. McCain National Defense Authorization Act (NDAA) for Fiscal Year (FY) 2019 addressed most of the key requirements from that section but also had some limitations, which DOD acknowledged. For example, the baselines included only labor and information technology costs because DOD's financial data do not attribute costs to other specific activities required under section 921. However, DOD officials told GAO they have developed and are continuing to refine baselines for all of the department's enterprise business operations, such as financial and human resource management, to enable DOD to better track the resources devoted to these operations and the progress of reform. While still in progress, this effort shows promise in addressing the weaknesses in DOD's section 921 report and in meeting the need for consistent baselines for DOD's reform efforts that GAO has previously identified.

GAO found that DOD's reported savings of \$37 billion from its reform efforts and a Defense-Wide Review to better align resources are largely reflected in its budget materials; however, the savings were not always well documented or consistent with the department's definitions of reform. Specifically:

- DOD had limited information on the analysis underlying its savings estimates, including (1) economic assumptions, (2) alternative options, and (3) any costs of taking the actions to realize savings, such as opportunity costs. Therefore, GAO was unable to determine the quality of the analysis that led to DOD's savings decisions.
- Further, some of the cost savings initiatives were not clearly aligned with DOD's definitions of reform, and thus DOD may have overstated savings that came from its reform efforts rather than other sources of savings, like cost avoidance. For example, one initiative was based on the delay of military construction projects. According to DOD officials, this was done to fund higher priorities. But if a delayed project is still planned, the costs will likely be realized in a future year.

Without processes to standardize development and documentation of savings and to consistently identify reform savings based on reform definitions, decision makers may lack reliable information on DOD's estimated reform savings.

In coordinating its reform efforts, DOD has generally followed leading practices for collaboration, but there is a risk that this collaboration may not be sustained in light of any organizational changes that Congress or DOD may make. This risk is increased because the Office of the Chief Management Officer (OCMO) and other offices have not formalized and institutionalized these efforts through written policies or agreements. Without written policies or formal agreements that define how organizations should collaborate with regard to DOD's reform and efficiency efforts, current progress may be lost, and future coordination efforts may be hindered.

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**Abbreviations**

CAPE	Cost Assessment and Program Evaluation
CMO	Chief Management Officer
DOD	Department of Defense
NDA	National Defense Authorization Act
OCMO	Office of the Chief Management Officer
RMG	Reform Management Group

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November 5, 2020

Congressional Committees

The Department of Defense (DOD) spends billions of dollars each year to maintain key business operations and defense-wide agencies and programs 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.<sup>1</sup> In addition, DOD's approach to business transformation is among the areas identified in our High-Risk report due to weaknesses that adversely affect DOD's efficiency and effectiveness and render its operations vulnerable to waste, fraud, and abuse.<sup>2</sup> DOD's approach to transforming these business operations is linked to its ability to perform its overall mission, directly affecting the readiness and capabilities of U.S. military forces.

DOD has often attempted to reform and achieve savings throughout the department to help redirect resources toward other department priorities, both under its own initiative and in response to statutory requirements. However, our prior work has found repeated shortcomings in DOD's ability to demonstrate that it has achieved its goals for savings from reform efforts.<sup>3</sup>

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<sup>1</sup>DOD, *Summary of the 2018 National Defense Strategy of the United States of America: Sharpening the American Military's Competitive Edge* (Jan. 19, 2018).

<sup>2</sup>GAO, *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas*, [GAO-19-157SP](#) (Washington, D.C.: Mar. 6, 2019).

<sup>3</sup>GAO, *Defense Headquarters: Further Efforts to Examine Resource Needs and Improve Data Could Provide Additional Opportunities for Cost Savings*, [GAO-12-345](#) (Washington, D.C.: Mar. 21, 2012); *Defense Headquarters: DOD Needs to Reevaluate Its Approach for Managing Resources Devoted to the Functional Combatant Commands*, [GAO-14-439](#) (Washington, D.C.: June 26, 2014); *Defense Headquarters: Improved Data Needed to Better Identify Streamlining and Cost Savings Opportunities by Function*, [GAO-16-286](#) (Washington, D.C.: June 30, 2016); *Defense Efficiency Initiatives: DOD Needs to Improve the Reliability of Cost Savings Estimates*, [GAO-17-724](#) (Washington, D.C.: July 24, 2017); *Defense Efficiency Initiatives: Observations on DOD's Reported Reductions to Its Headquarters and Administrative Activities*, [GAO-18-688R](#) (Washington, D.C.: Sept. 24, 2018); and *Defense Management: Observations on DOD's Business Reform Efforts and Plan*, [GAO-19-666](#) (Washington, D.C.: Sept. 3, 2019).

In recent years, DOD has undertaken and reported on three efforts to reform its enterprise business operations, some of which it conducted in response to congressional mandates:

1. **Department-wide business reforms:** This reform effort, currently led by the Chief Management Officer (CMO), has been underway since 2017 and focuses on department-wide initiatives to reform business operations.<sup>4</sup> These include business process and system improvements in both military departments and defense-wide organizations and activities, such as the department's defense agencies and DOD field activities.<sup>5</sup> To manage and oversee these efforts, the CMO established the Reform Management Group (RMG).<sup>6</sup>
2. **Section 921 reforms:** Section 921 of the John S. McCain National Defense Authorization Act (NDAA) for Fiscal Year 2019 established requirements for DOD, acting through the CMO, to reform its enterprise business operations.<sup>7</sup> DOD was required to accomplish this reform through, among other things, reductions or improvements across all organizations and elements of the department with respect to the following four covered activities: civilian resource management, logistics management, services contracting, and real estate management. DOD was also required to develop a reporting framework to establish a baseline for the cost to perform these covered activities, and to report on its cost savings from the reforms to

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<sup>4</sup>Prior to February 2018, the Deputy Chief Management Officer led DOD's department-wide reform efforts. The CMO assumed these responsibilities effective February 1, 2018, in accordance with section 910 of the NDAA for Fiscal Year 2018, which disestablished the position of the Deputy Chief Management Officer and established the CMO position as a presidentially appointed, Senate-confirmed position.

<sup>5</sup>The 20 DOD defense agencies and eight DOD field activities are separate from the military departments. These defense organizations are intended to provide a common supply or service across more than one DOD organization, including support for the department's business operations, and they include the Defense Finance and Accounting Service, Defense Human Resource Activity, Defense Information Systems Agency, and Defense Logistics Agency.

<sup>6</sup>The RMG is the governance forum for the department's business reform efforts and is responsible for implementing the National Defense Strategy's third line of effort to reform the business functions of the department. The RMG is a deliberative body with the authority to make decisions affecting the department's business functions. The RMG is chaired by the CMO and includes participation by, among others, the Under Secretary of Defense (Comptroller), Director of Cost Assessment and Program Evaluation, and Under Secretaries of the military departments.

<sup>7</sup>Pub. L. No. 115-232, § 921 (2018).

covered activities no later than January 1, 2020. DOD used information from its department-wide business reforms to inform its response to this requirement and issued its required report in response to these requirements in January 2020.<sup>8</sup>

3. **DOD's Defense-Wide Review:** This review was conducted in 2019 and led by the Secretary and Deputy Secretary of Defense and supported by the Office of the CMO (OCMO), Office of the Under Secretary of Defense (Comptroller), and Office of Cost Assessment and Program Evaluation (CAPE). It assessed organizations within the Office of the Secretary of Defense and selected defense agencies and DOD field activities—including those that support the department's enterprise business operations—to improve the alignment of resources to National Defense Strategy priorities.<sup>9</sup>

Section 921 of the NDAA for Fiscal Year 2019 included a provision for us to report on whether the baseline and reported savings covered by that section are accurate. In addition, section 1753 of the NDAA for Fiscal Year 2020 included a provision for us to report on cost savings in DOD and the efficiency initiatives undertaken by OCMO.<sup>10</sup> This report assesses the extent to which DOD has, for its three reform efforts, (1) established valid and reliable baseline estimates of the cost of organizations and activities subject to its reform efforts; (2) established well-documented cost savings estimates that reflect its reform efforts; and (3) coordinated its reform efforts within the department.

For our first objective, we interviewed DOD officials and reviewed documentation on DOD's progress in establishing baselines for its reform efforts, including a demonstration of DOD's tools used for producing estimates of the cost of its enterprise business operations. We also assessed DOD's baseline required under section 921 using key practices

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<sup>8</sup>DOD, *Report on Section 921(b)(3) of the John S. McCain Fiscal Year 2019 National Defense Authorization Act (Public Law 115-232)* (Jan. 1, 2020).

<sup>9</sup>In January 2020, the Deputy Secretary of Defense initiated a second Defense-Wide Review. Specifically, he directed the CMO to, among other things, collaborate with the Under Secretary of Defense (Comptroller) and Director of CAPE to develop the fiscal years 2022-2026 Defense-Wide program and budget submission, and to lead, in coordination with the principal staff assistants, bottom-up reviews for selected defense agencies and DOD field activities. Because this review is ongoing it is not covered in this report.

<sup>10</sup>Pub. L. No. 116-92, § 1753 (2019).

in our cost estimating guide.<sup>11</sup> For our second objective, we selected a non-generalizable sample of 27 initiatives included in the department-wide business reforms and the Defense-Wide Review and all of the initiatives in the section 921 report. We reviewed documentation supporting DOD's claimed cost savings associated with those initiatives and assessed the extent to which the claimed savings (1) addressed key elements for economic analyses and (2) aligned with applicable DOD definitions of reform.<sup>12</sup> For our third objective, we interviewed DOD officials and obtained written responses from OCMO, the Office of the Under Secretary of Defense (Comptroller), and CAPE regarding their coordination of reform efforts. We assessed these efforts against GAO's key practices for collaboration.<sup>13</sup> We also observed a demonstration of DOD's reform portal used for tracking department-wide business reform efforts. See appendix I for additional detail on our scope and methodology.

We conducted this performance audit from January 2020 to November 2020 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.

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<sup>11</sup>GAO, *Cost Estimating and Assessment Guide: Best Practices for Developing and Managing Program Costs*, [GAO-20-195G](#) (Washington, D.C.: Mar. 12, 2020).

<sup>12</sup>Department of Defense Instruction 7041.03, *Economic Analysis for Decision-making* (Sept. 9, 2015) (change 1, Oct. 2, 2017) and GAO, *Assessment Methodology for Economic Analysis*, [GAO-18-151SP](#) (Washington, D.C.: Apr. 10, 2018).

<sup>13</sup>GAO, *Managing for Results: Key Considerations for Implementing Interagency Collaborative Mechanisms*, [GAO-12-1022](#) (Washington, D.C.: Sept. 27, 2012). To identify these practices, we conducted a literature review on interagency collaborative mechanisms, interviewed academic and practitioner experts in the field of collaboration, and reviewed their work. We also conducted an analysis of our reports that contained in-depth discussions of collaborative mechanisms.

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## DOD's Required Section 921 Baseline Had Limitations, but the Department Has Made Progress in Establishing Cost Baselines Related to Its Other Reform Efforts

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### DOD's Report on Section 921 Included Most Required Elements for Cost Baselines, and DOD Has Acknowledged Some of the Report's Limitations

DOD's January 2020 report addressed most of the key requirements of section 921. Section 921 required the CMO to establish a consistent reporting framework to establish a baseline for the cost of each covered activity (civilian resource management, logistics management, services contracting, and real estate management) including the number of (1) military, (2) civilian, and (3) contractor personnel who perform each activity; (4) the manpower requirement for each activity; (5) the systems and other resources associated with each activity; and (6) the cost of performing each activity in fiscal year 2019.<sup>14</sup> We determined that DOD's report addressed five of the six required elements, but did not include the number of contractor personnel who performed each activity, as shown in table 1.

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<sup>14</sup>DOD, *Report on Section 921(b)(3) of the John S. McCain Fiscal Year 2019 National Defense Authorization Act (Public Law 115-232)* (Jan. 1, 2020). DOD's report uses manpower authorizations to represent personnel who performed each activity and the manpower requirement for each activity. In this report, we use the term personnel to refer to these data.

**Table 1: Required Elements Addressed in the Department of Defense’s January 2020 Report on Section 921 of the National Defense Authorization Act for Fiscal Year 2019**

Required element	Included in report
Number of military personnel who performed each activity	Yes
Number of civilian personnel who performed each activity	Yes
Number of contractor personnel who performed each activity	No
Manpower requirements for each activity	Yes
Systems and other resources associated with such activity	Yes
The cost of performing each activity in fiscal year 2019	Yes

Source: GAO analysis of Department of Defense information. | GAO-21-74

Note: Covered activities under section 921 are civilian resources management, logistics management, services contracting, and real estate management.

Regarding the section 921 requirement to include contractor data, the report stated that it excluded contractors and that DOD was unable to provide verifiable contractor data by covered activity because many service contracts are broad in scope and DOD focuses on what is delivered under the contract rather than the number of contractors who complete the work.

In addition, DOD’s report identified, and DOD officials we met with acknowledged, other limitations to the personnel and cost data presented within it. Specifically:

- DOD’s estimates of the cost of performing the covered activities included only labor and information technology costs associated with each activity. DOD officials acknowledged this and stated that the department’s financial data do not attribute costs to specific covered activities. As a result, costs such as supplies and equipment, contractor support, and overhead or administrative costs were not included.
- The report also noted that data on the number of personnel and associated costs attributed to each covered activity were in some cases over- or underestimated. For example, DOD was able to incorporate data on personnel responsible for human resources and contracting into its estimates of personnel and associated costs. However, within the human resources area, the data do not specifically distinguish between those personnel responsible for civilian versus those responsible for military human resources. Similarly, within the contracting area, the data do not distinguish between personnel responsible for contracting for services and those contracting for goods. As a result, according to the report, personnel

in both the civilian resource management and services contracting covered activities are overstated. Conversely, the report notes that some occupations, such as management and program analysts, are general in nature and may support a covered activity without being specifically aligned with it, which may cause the number of personnel in some areas to be understated.

We also found one case in which a military department provided to the OCMO two estimates of the personnel associated with civilian resource management, one of which would have substantially lowered the total reported cost for that activity. Specifically, the Department of the Air Force provided an initial estimate, consistent with OCMO's requested methodology, that did not distinguish between personnel responsible for civilian versus military human resources. Air Force officials expressed concerns with this methodology and subsequently sent an estimate to the OCMO that identified the estimated number of personnel associated specifically with civilian resource management. OCMO officials told us that they understood the Department of the Air Force's concerns but were constrained by the identification of the specific covered activities in section 921 and the need for a consistent, structured, department-wide response. Using the Department of the Air Force's estimates of the number of personnel associated with civilian resource management and OCMO's methodology for estimating personnel costs, we determined that the Department of the Air Force's costs for the civilian resource management covered activity would be about \$1.1 billion lower per year than was originally included in OCMO's January 2020 report. This represents more than half (54.5 percent) of OCMO's estimate of the Air Force's costs in this area, and about 15.6 percent of OCMO's estimate of DOD's total costs in this area.

These limitations may in part be attributable to the fact that DOD did not consistently follow best practices for cost estimating in developing the baselines under section 921. Our *Cost Estimating and Assessment Guide* identifies characteristics of a reliable cost estimate, as well as best practices associated with each characteristic.<sup>15</sup> We assessed DOD's estimates of the cost to perform each covered activity against nine selected best practices for reliable costs estimates, and we found that

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<sup>15</sup>[GAO-20-195G](#). We did not conduct an assessment using the full set of criteria from the *Cost Estimating and Assessment Guide* because we considered the baseline estimates created by DOD to be simplified agency estimates, rather than an acquisition program life-cycle cost estimate, and therefore did not include criteria such as performing risk and uncertainty analyses and obtaining an independent cost estimate.

DOD’s estimates fully met one of the best practices, substantially met four, partially met three, and minimally met one, as shown in table 2.

**Table 2: Assessment of the Department of Defense’s (DOD) Reform Baseline Cost Estimate as Compared to Best Practices**

Best practice	Our assessment of cost estimates
The cost estimate includes all relevant costs.	Partially met
The cost estimate documents all cost-influencing ground rules and assumptions.	Minimally met
The cost estimate documentation shows the source data used, the reliability of the data, and the estimating methodology used to derive each element’s cost.	Substantially met
The cost estimate documentation provides evidence that the cost estimate was reviewed and accepted by management.	Fully met
The cost estimate is based on a model developed by estimating each work breakdown structure element using the best methodology from the data collected.	Partially met
The cost estimate is adjusted properly for inflation.	Substantially met
The cost estimate contains few, if any, minor mistakes.	Substantially met
The cost estimate is based on a historical record of cost estimating and actual experiences from other comparable programs.	Substantially met
The cost estimate employs cross-checks—or alternate methodologies—on major cost elements to validate results.	Partially met

Legend: Not met – DOD provided no evidence that satisfies any of the criterion; Minimally met – DOD provided evidence that satisfies a small portion of the criterion; Partially met – DOD provided evidence that satisfies about half of the criterion; Substantially met – DOD provided evidence that satisfies a large portion of the criterion; and Met – DOD provided complete evidence that satisfies the entire criterion.

Source: GAO analysis of DOD information. | GAO-21-74

For example, DOD provided evidence that the cost estimate was reviewed and accepted by management. However, it only partially addressed the best practices of including all relevant costs and performing cross-checks to validate its estimates—best practices that could have helped increase the reliability of DOD’s cost estimates.

DOD acknowledged many of the limitations to its methodology in its report. DOD officials stated that because section 921 was a one-time requirement, they sought to develop a methodology that was consistent across the department’s components and other organizations without requiring independent data requests, and that a lack of consistent data led to some of the methodological limitations. They also noted that the four covered activities—civilian resource management, logistics management, services contracting, and real estate management— included in section 921 did not align with the lines of business articulated

within the statutory definition of enterprise business operations.<sup>16</sup>

According to DOD officials, DOD generally uses those lines of business, rather than the covered activities from section 921, for the purposes of managing its enterprise business operations, including estimating the costs of those operations.

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## DOD Has Ongoing Efforts to Establish Baselines for Its Reform Efforts

DOD has continued its work to establish baselines for some of its other reform efforts and has ongoing efforts to develop and refine baselines for its enterprise business operations. As a part of DOD's Defense-Wide Review, which supported development of the department's fiscal year 2021 budget, DOD established baselines for the individual organizations covered by the review and the overall effort. Specifically, the department used each organization's prior funding levels as the baseline, according to DOD officials. Those officials further noted that because there has been a zero-growth policy for defense-wide organizations for the past 3 years, their budgets have remained constant. We corroborated DOD's baseline reported in its January 2020 Defense-Wide Review report with organization and function data provided by the department.

DOD also has ongoing efforts to develop baselines for all of the department's enterprise business operations—the focus of its department-wide reform efforts—that will enable it to better track the resources devoted to those operations across the department and the progress of reform. We previously reported on OCMO and Office of the Under Secretary of Defense (Comptroller)'s ongoing efforts, which began in 2016, to produce standardized estimates of the cost of each of its lines of business across the entire department.<sup>17</sup> As of July 2018, they had completed initial baselines for real property, medical, and information

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<sup>16</sup>See 10 U.S.C. § 132a(e), which defines the term “enterprise business operations” as those activities that constitute the cross-cutting business operations used by multiple components of the Department of Defense, but not those activities that are directly tied to a single military department or Department of Defense component. The term includes business-support functions designated by the Secretary of Defense or the Deputy Secretary of Defense for purposes of this section, such as aspects of financial management, healthcare, acquisition and procurement, supply chain and logistics, certain information technology, real property, and human resources operations.

<sup>17</sup>GAO, *Defense Business Operations: DOD Should Take Steps to Fully Institutionalize the Chief Management Officer Position*, [GAO-19-199](#) (Washington, D.C.: Mar. 14, 2019).

technology, and the development of baselines for other lines of business were in progress and expected to be completed in 2020.

DOD officials demonstrated to us the analytical tools they used for producing those estimates. The cost estimates in the tools included additional types of expenses not included in the section 921 baselines, such as the cost of service contracts. Officials also told us that they are continuing to refine the estimates, including the methodology for developing them, such as incorporating specific line-of-business cost data sets for certain lines of business and providing additional detail in the information provided.

Although it is still in progress, this effort shows promise in meeting the need we have previously identified, including as a part of our High-Risk report, for consistent baselines for DOD's reform efforts.<sup>18</sup> In particular, the use of a methodology that is repeatable over time and in alignment with the department's existing lines of business—something that was not feasible under the section 921 requirements—should help the department in using this information to better manage its enterprise business operations and measure the progress of DOD's reform efforts. We will continue to assess DOD's efforts to develop valid and reliable cost baselines as part of our ongoing work to monitor its progress in addressing the DOD Approach to Business Transformation High-Risk area.

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## **DOD Cost Savings Estimates Are Not Consistently Well-Documented and Do Not Always Reflect Its Definitions of Reform**

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### **DOD's Reported Savings Are Reflected in Its Budget Materials, but the Documentation Provided Does Not Consistently Reflect Best Practices for Economic Analysis**

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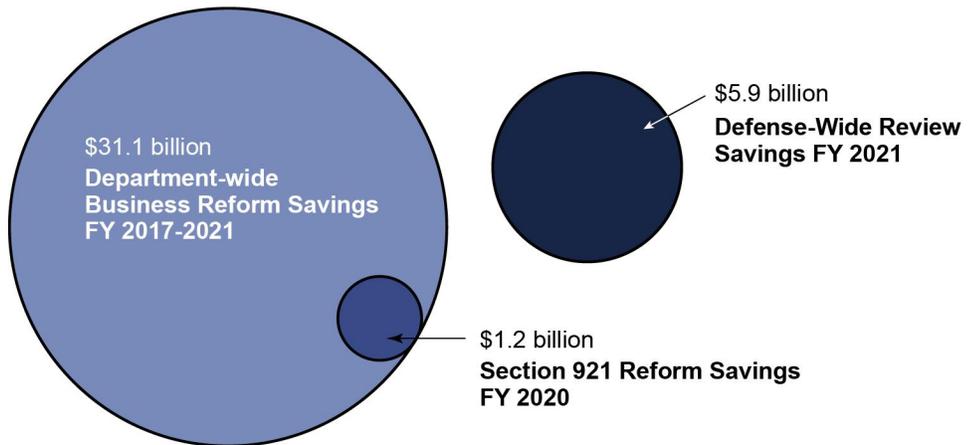
DOD claimed a total of \$37 billion in savings from fiscal year 2017 through fiscal year 2021 from the three categories of reform efforts we reviewed: (1) department-wide business reform savings, (2) savings reported under section 921, and (3) savings claimed from the first

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<sup>18</sup>See in particular DOD Approach to Business Transformation in [GAO-19-157SP](#), 163.

Defense-Wide Review. Figure 1 shows a summary of claimed savings from each of these categories.

**Figure 1: Summary of Department of Defense’s \$37 Billion in Reform Savings, by Category and Fiscal Years (FY) Covered**



Source: GAO analysis of Department of Defense information. | GAO-21-74

Notes: Department-wide business reform savings are reported savings from the Department of Defense’s (DOD) department-wide business reform efforts, which have been underway since 2017 and focus on department-wide initiatives to reform DOD’s business operations. Section 921 reform savings are savings reported by DOD in response to section 921 of the John S. McCain National Defense Authorization Act (NDAA) for Fiscal Year 2019, which established requirements for DOD, acting through the Chief Management Officer, to reform its enterprise business operations through, among other things, reductions or improvements across all organizations and elements of the department with respect to certain covered activities management. The section 921 savings constitute a subsection of the broader department-wide reform savings category. DOD’s Defense-Wide Review was conducted in 2019 in order to improve the alignment of resources to National Defense Strategy priorities.

For the 27 initiatives we selected for further review across these three categories, DOD largely indicated the specific places in the budget where the savings would be realized and, in almost all cases, the associated amounts.<sup>19</sup> For these initiatives, we were generally able to identify and corroborate DOD’s reported savings using DOD’s budget justification materials. All components of the Defense-Wide Review initiatives we reviewed were clearly labeled as such in that budget documentation, and several of the department-wide reform savings also had clear labels.

<sup>19</sup>We reviewed 10 savings initiatives from the department-wide business reform category, all eight savings initiatives from the section 921 report, and nine savings initiatives from the Defense-Wide Review. More information on how we selected these initiatives can be found in appendix I.

However, the department had limited documentation regarding the analysis underlying its savings estimates. Specifically, the department had limited documentation regarding (1) economic assumptions, such as inflation, or other factors that might affect the value of the savings claimed; (2) what alternatives to the actions taken to realize savings the department had considered and compared; and (3) any costs identified with taking the actions needed to realize the savings, such as implementation or opportunity costs. When DOD could provide details, these were usually limited to a brief sentence or two, with little to no supporting documentation. Table 3 describes the extent to which DOD provided any information.

**Table 3: Documentation Provided on Best Practices for Economic Analysis for Twenty-seven Selected Reform Initiatives**

Best Practices for Economic Analysis	DOD provided at least partial information	DOD did not provide information <sup>a</sup>
Economic assumptions	9	18
Alternatives considered	10	17
Implementation and/or opportunity costs	3	24

Source: GAO analysis of Department of Defense (DOD) information. | GAO-21-74

<sup>a</sup>This column includes all cases in which DOD said it did not consider a criterion—for example, because it did not consider it necessary to do so—and cases in which it did not provide any documentation.

DOD Instruction 7041.03, *Economic Analysis for Decision-Making*, and our *Assessment Methodology for Economic Analysis* both indicate that the consideration and documentation of assumptions, alternatives, and pertinent costs such as implementation and opportunity costs are best practices for economic analysis.<sup>20</sup> For example, based on the key element of transparency in our *Assessment Methodology for Economic Analysis*, a best practice economic analysis would describe and justify the analytic choices and assumptions made, and would describe how adjustments to these analytic choices and assumptions might affect the estimates of the economic effects and the results of the comparison of alternatives. Further, DOD Instruction 7041.03 states that a sound economic analysis recognizes that there are alternative ways to meet a given objective, and that each alternative requires certain resources and produces certain results.

<sup>20</sup>[GAO-18-151SP](#).

The instruction also acknowledges that the method of documentation may vary among the DOD components, but it encourages components to standardize format and documentation requirements when possible, to ensure consistent and complete economic analyses. However, according to DOD officials, DOD does not have a process to enable the components to standardize the development and documentation of cost savings associated with reform efforts, including considering and documenting the economic assumptions, the consideration of alternatives, and implementation and/or opportunity costs. OCMO officials acknowledged difficulties with making uniform and standardized assessments, while stating that they share the goal of improving transparency and traceability for reform savings, and that they continue to work with the Office of the Under Secretary of Defense (Comptroller) and CAPE toward improving standardization. OCMO officials further stated that some of these economic concepts are considered during deliberations about potential savings, but that consideration is not always documented. Office of the Under Secretary of Defense (Comptroller) officials noted that for the fiscal year 2022 budget cycle, they have started requesting additional information in their budget guidance for DOD components to support savings, including alternatives and economic assumptions.

Due to the lack of detailed documentation, we were unable to assess the quality of the analysis that led to DOD's savings decisions. For example, some savings came as the result of delays in spending from one fiscal year to the next, but the savings information we received from DOD focused on the budgetary savings in a single year. An analysis that takes into account the spending that may still occur in a later year could give a better sense of true savings the department may realize. In addition, for most initiatives, either DOD did not reference in its documentation or officials did not identify to us additional costs associated with each initiative. We previously found that agency reform and efficiency efforts often have up-front costs that must be identified.<sup>21</sup> These costs should be considered in assessing the amount of savings that reform efforts are expected to achieve. Without establishing a process to standardize the development and documentation of cost savings and any associated underlying analyses, DOD might not be making the most efficient and

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<sup>21</sup>See GAO, *Government Reorganization: Key Questions to Assess Agency Reform Efforts* [GAO-18-427](#), (Washington, D.C.: June 13, 2018) and GAO, *Streamlining Government: Key Practices from Select Efficiency Initiatives Should Be Shared Governmentwide* [GAO-11-908](#), (Washington, D.C.: Sept. 30, 2011).

effective reform savings decisions, and Congress, DOD leadership, and others may find it difficult to have full confidence in the reported savings.

### Some DOD Initiatives Do Not Clearly Reflect DOD’s Definitions of the Covered Activities or of Reform

Due to inconsistencies between DOD’s reform initiatives and its definitions of reform, DOD may have overstated those savings that it accrued from reform efforts, rather than other efforts, such as cost-cutting or cost avoidance efforts. Some of the cost savings initiatives we reviewed were not clearly aligned with these definitions of reform or specific types of reform. We most frequently identified this issue in DOD’s section 921 report, which according to DOD officials stemmed largely from a misalignment between the definitions of covered activities and the savings, as previously discussed. Table 4 lists the covered activities from the section 921 report and the definitions developed by DOD.

**Table 4: Section 921 Covered Activities and the Department of Defense’s (DOD) Definitions in Its Report**

Covered activity	DOD’s definition
Civilian Resource Management	The strategy, policies, and operations of civilian human resources functions. This includes talent acquisition; talent development; compensation, benefits, and retention; transition, separation, and retirement; personnel transactions, employee records, and workforce analytics; human resources communications and reporting; and labor and employee relations.
Logistics Management	The planning, coordination, or evaluation of the logistical actions required to support a specified mission, weapons system, or other designation program.
Services Contracting	The management, performance, and oversight of the procurement of services. This includes formal solicitation or contract negotiation procedures; the evaluation of contract price proposals; and the administration or termination and close out of contracts.
Real Estate Management	The oversight of acquisition, administration, utilization, and disposal of federally owned, leased, or consigned space or property.

Source: Report on Section 921(b)(3) of the John S. McCain Fiscal Year 2019 National Defense Authorization Act (Public Law 115-232). | GAO-21-74

DOD officials acknowledged that there were differences between how the covered activities were defined and what savings were claimed. For example, they acknowledged that savings reported under civilian resource management were often related to reductions in civilian labor costs overall, instead of the costs associated with civilian resource management functions that were used to establish the baseline. In part, they attributed these discrepancies to a misalignment between the section 921 covered activities, which were new terms, and the department’s previously defined lines of business.

For seven of the eight section 921 initiatives we reviewed, we identified discrepancies between the definitions of the covered activities and the savings DOD reported within those activities. For example:

- One of the section 921 initiatives listed under the civilian resource management category cites \$25 million savings from realignment of resources from engineering efforts for DOD's Space-Based Infrared System modernization, which DOD officials said directly supports effective operations of civilian human resources. However, according to an Air Force description, the system supports missile early warning, missile defense, battlespace awareness, and technical intelligence mission areas. In contrast, the civilian resource management category is defined by DOD as the strategy, policies, and operations of civilian human resource functions. It is unclear how the realignment of resources for a system designed for missile defense is directly related to civilian human resource management and its associated costs.
- Another of the section 921 initiatives, listed under the services contracting category, likely overstates the relative size of claimed savings. The category is defined as the management, performance, and oversight of the procurement of services. DOD reported these contract management costs in its baseline for this category. However, the \$441.1 million in savings it claimed for this initiative were from the reduction or elimination of the contracts themselves, rather than the contract management costs reported in the baseline.

DOD officials acknowledged that the covered activities specified in section 921 were not strictly aligned with the enterprise business operation categories that it typically tracks, even though they used those existing categories to guide the section 921 analysis.

We also found cases in which DOD's claimed savings from its department-wide business reform and Defense-Wide Review initiatives did not align with department's definitions of reform. In general, DOD defines reform as an improvement of processes, systems, policy, or procurement that increases effectiveness, efficiency, or reliability to best align department resources with the National Defense Strategy. DOD has also developed more specific definitions for categories of reform for its department-wide business reforms. Table 5 lists the categories and definitions for department-wide business reform savings.

**Table 5: Department of Defense Department-wide Business Reform Savings Categories and Definitions**

Category of reform savings	Definition
Better Alignment of Resources	Reprioritizing or moving finances and personnel to realign from legacy capability in support of the National Defense Strategy.
Business Process Improvements	Refining actions, personnel, and timelines to increase effectiveness, efficiency, and reliability of the department's delivery of goods and services.
Business System Improvement	Modernizing and eliminating legacy business systems and processes to increase the effectiveness and reduce duplication of the department's IT business systems and deliver information at the speed of relevance.
Divestments	Selling equipment or weapon systems, or strategically discontinuing legacy acquisition programs to fund purchases in support of the department's highest priorities.
Policy Reform	Changing the department's procedures to best empower the warfighter with the knowledge, equipment, and support systems to fight and win.
Weapon System Acquisition Process	Procuring and sustaining weapon systems differently to prioritize speed of delivery, continuous adaptation, and frequent modular upgrades.

Source: GAO analysis of Department of Defense budget justification information. | GAO-21-74

For some of the initiatives we reviewed from the Defense-Wide Review and department-wide business reform efforts, DOD's reported savings did not align with its definitions. For example:

- Within its department-wide business reform savings, DOD claimed \$315 million in savings associated with contractual delays in fiscal years 2017, 2018, and 2019 that were related to the Navy's Ship-to-Shore Connector, and delivery delays of previous awards. DOD categorized this initiative as a business process improvement. While DOD documented 1-year savings, the budget documents show that the program is funded in future years. Therefore, the fact that savings are based on delays suggests that those costs will be realized in future years. Further, this initiative does not appear to meet DOD's definition of making improvements to increase efficiency and reliability.
- Within the Defense-Wide Review, the largest of the savings we reviewed, totaling \$542.8 million, is based on the delay and elimination of certain Defense Health Agency military construction projects in fiscal year 2021. DOD officials told us that the projects were delayed or eliminated to fund higher priority elements of the defense strategy. However, if a construction project is delayed but is still planned, then those costs will likely be realized in a future year. According to OCMO officials, projects that were delayed are being reevaluated, which could result in their being eliminated or reduced in scope.

When asked, DOD officials were not able to consistently distinguish between delaying programs for affordability reasons in a single year and cost savings from process improvements or reform. They pointed to an example in which the Office of the Under Secretary of Defense (Comptroller) did not allow the Department of the Army to claim reform savings based on a large portion of cost savings that were the result of shifts in funding to higher priority items due to budget constraints. At the same time, as noted in the examples above, DOD sometimes considered other shifts in funding to higher priority items, including through cost deferrals, as reform savings.

Based on these discrepancies between its savings initiative descriptions and its reform definitions, DOD has likely overstated the amount of savings from efforts that meet its own definitions for reform, rather than other efforts, such as cost-cutting and cost avoidance. The CMO agreed with this observation, noting that the department has historically equated all savings—including those from budget reductions—with reform. The CMO added that the OCMO is emphasizing to the department to that it should distinguish between savings from reform and savings from budget reductions, and that the OCMO seeks to change the department's business processes, practices, and procedures to yield long-term reform and improvements in efficiency and effectiveness.

Our previous work has shown that the use of standardized definitions is a key part of ensuring that information can be reported consistently.<sup>22</sup> However, OCMO officials acknowledged that the department has not consistently applied its definitions of reform savings when identifying potential reform savings initiatives. Without clarifying the definitions of reform savings and consistently reporting on them based on those definitions, Congress, DOD leadership, and others may not have reliable information on DOD's estimated reform savings and progress in DOD's reform efforts.

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<sup>22</sup>We have previously found that metrics should be reportable in a consistent fashion, and that a key part of consistent reporting is ensuring that standardized definitions, methodologies, and procedures are used. See GAO, *Prepositioned Stocks: Additional Information and a Consistent Definition Would Make DOD's Annual Report More Useful*, [GAO-15-570](#) (Washington, D.C.: June 16, 2015); and *Defense Inventory: Actions Underway to Implement Improvement Plan, but Steps Needed to Enhance Efforts*, [GAO-12-493](#) (Washington, D.C.: May 3, 2012).

## DOD Has Generally Followed Leading Practices in Coordinating Its Reform Efforts, but the Absence of Formal Guidance May Hinder Future Efforts

DOD has generally followed leading practices for collaboration in coordinating its reform efforts. OCMO currently functions as the primary lead over DOD reform and efficiency efforts, and it has coordinated with other relevant components, including the Office of the Under Secretary of Defense (Comptroller) and CAPE, in these efforts. All three organizations have contributed to reform and efficiency efforts, including those under the department-wide business reform efforts, section 921, and Defense-Wide Review. Our review found that DOD’s reform efforts fully met five of seven key practices for collaboration, as shown in table 4.<sup>23</sup>

**Table 6: Assessment of Department of Defense (DOD) Reform and Efficiency Coordination Efforts against Selected Leading Practices**

Leading collaboration practices	DOD actions	GAO assessment
<p>Outcomes and Accountability:</p> <ul style="list-style-type: none"> <li>Track and monitor progress toward outcomes</li> </ul>	<p>Office of the Chief Management Officer (OCMO), Office of the Under Secretary of Defense (Comptroller), and Office of Cost Assessment and Program Evaluation (CAPE) officials reported tracking and monitoring progress on reforms through several approaches, including through the Reform Management Group and the department’s budget process. OCMO’s reform portal is also used to track reform progress.</p>	Met
<p>Bridging Organizational Cultures:</p> <ul style="list-style-type: none"> <li>Develop ways for operating across agency boundaries</li> <li>Agree on common terminology and definitions</li> </ul>	<p>OCMO, Office of the Under Secretary of Defense (Comptroller), and CAPE officials reported having compatible policies and procedures and using common terminology and definitions. They also indicated that the Reform Management Group and OCMO’s reform portal facilitated the work between the three offices.</p>	Met
<p>Leadership:</p> <ul style="list-style-type: none"> <li>If leadership is shared between one or more agencies, clearly identify and agree upon roles and responsibilities</li> <li>Ensure that leadership will be sustained over the long-term</li> </ul>	<p>OCMO, Office of the Under Secretary of Defense (Comptroller), and CAPE officials identified and agreed on their respective responsibilities. However, given the CMO’s key role in reform and uncertainty about the future of the CMO position, ensuring leadership is sustained over the long term may present a challenge.</p>	Partially met

<sup>23</sup>In 2012 we reported on leading collaboration practices. We define collaboration as any joint activity that is intended to produce more public value than could be produced when the agencies act alone. See [GAO-12-1022](#).

**Appendix I: Scope and Methodology**

<b>Leading collaboration practices</b>	<b>DOD actions</b>	<b>GAO assessment</b>
<p>Clarity of Roles and Responsibilities:</p> <ul style="list-style-type: none"> <li>Clarify roles and responsibilities of participating agencies</li> <li>Articulate and agree to a process for making and enforcing decisions</li> </ul>	<p>OCMO, Office of the Under Secretary of Defense (Comptroller), and CAPE officials agreed that roles and responsibilities of their respective offices were clear, including their process for making and enforcing decisions regarding reform.</p>	Met
<p>Participants:</p> <ul style="list-style-type: none"> <li>Include all relevant participants</li> <li>Ensure that participants have the appropriate knowledge, skills, and abilities to contribute</li> </ul>	<p>DOD's reform efforts are overseen by the Reform Management Group, which includes representatives from throughout the department. When needed, officials have added to the Reform Management Group's membership or established specialized teams to support its work.</p>	Met
<p>Resources:</p> <ul style="list-style-type: none"> <li>Develop online tools or other resources that facilitate joint interactions</li> </ul>	<p>OCMO has established online tools that facilitate information sharing and interactions between the three offices, including the OCMO reform portal for department-wide reform efforts and a separate dashboard for the Defense-Wide Review process.</p>	Met
<p>Written Guidance and Agreements:</p> <ul style="list-style-type: none"> <li>Participating agencies document their agreement regarding how they will be collaborating</li> </ul>	<p>OCMO, Office of the Under Secretary of Defense (Comptroller), and CAPE have used existing authorities and department-wide guidance in coordinating their reform efforts, but they have not established formal agreements regarding these efforts.</p>	Not met

Source: GAO analysis of DOD information. | GAO-21-74

Note: We identified selected leading collaboration practices that we determined were applicable for the departments' coordination of its reform efforts, which entails coordination among relevant offices without a formal coordination mechanism. We assessed a category as "Met" if DOD addressed all of the practices within a given category, "Partially met" if DOD addressed some but not all of the practices within a given category, and "Not met" if DOD did not address any of the practices within a given category.

Despite general adherence to many of the leading practices, there is a risk that this collaboration on reform efforts may not be sustained in light of any organizational changes that Congress or DOD may make. The status of the CMO position currently faces significant uncertainty. Section 904 of the NDAA for Fiscal Year 2020 required DOD to conduct two assessments of the CMO position, including one by an independent entity such as the Defense Business Board. The conference report accompanying the bill also stated that it was the conferees' intention to disestablish the CMO position pending the assessments required by section 904.<sup>24</sup> In response, the Defense Business Board assessed that the CMO has been mostly ineffective in executing its mission to transform business operations in DOD, and in exercising its statutory responsibilities and authorities, in part because the position was not set

<sup>24</sup>Pub. L. No. 116-92, § 904 (2019); H.R. Rep. No. 116-333 at 1333 (2019) (Conf. Rep.).

up for success.<sup>25</sup> Specifically, the Defense Business Board determined that there were (1) misalignment between the functions assigned by the congressional statutes and the functions actually assigned to the CMO organization; (2) difficulties in exercising authorities over military services and defense agencies and DOD field activities; (3) chronic vacancies in the CMO and/or DCMO position since 2008; and (4) assignment of additional duties that have nothing to do with business transformation. The Board also presented alternatives for disestablishing and for replacing the CMO position.<sup>26</sup> Both the Senate's and the House of Representatives' bills for the NDAA for Fiscal Year 2021, as passed by each chamber, would terminate the CMO position and reassign statutory responsibilities and duties to other DOD officials.<sup>27</sup>

Our prior reports have identified cases in which leadership changed—or was briefly absent—and, accordingly, an interagency collaborative mechanism either disappeared or became less useful.<sup>28</sup> Our prior work has also found that organizational changes can occur over several years, and must be carefully and closely managed.<sup>29</sup> The risk that collaborative mechanisms would become less useful for DOD's reform efforts is increased by the fact that OCMO, Office of the Under Secretary of Defense (Comptroller), and CAPE have not formalized and institutionalized these efforts. Specifically, there are no written policies or formal agreements that define how organizations should collaborate with regard to DOD's reform and efficiency efforts. As a result, there is also a risk that leadership for reform efforts will not be sustained in light of any organizational changes that may occur.

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<sup>25</sup>Defense Business Board, *The Chief Management Officer of the Department of Defense: An Assessment* (June 1, 2020).

<sup>26</sup>Given the complexity and magnitude of the challenges facing DOD in improving its business operations, in 2005 we identified the need for a Chief Management Officer (CMO) with significant authority and experience to sustain progress on these issues. See GAO, *High Risk Series: An Update*, [GAO-05-207](#) (Washington, D.C.: January 2005). In March 2019, we found that DOD had not fully addressed several key issues related to the CMO's authorities and responsibilities, and we recommended that DOD address these issues and issue guidance such as a chartering directive that addresses how the CMO's authorities should be operationalized. See [GAO-19-199](#).

<sup>27</sup>S. 4049, 116th Cong. §§ 911-918 (2020); H.R. 6395, 116th Cong. § 901 (2020).

<sup>28</sup>[GAO-12-1022](#).

<sup>29</sup>[GAO-18-427](#).

We previously reported that key practices for interagency collaboration include clearly defining the roles and responsibilities of stakeholders in formalized guidance. Further, our prior work has found that agencies that articulate their agreements in formal documents can strengthen their commitment to working collaboratively.<sup>30</sup> According to OCMO, Office of the Under Secretary of Defense (Comptroller), and CAPE officials, they use the department's existing guidance and processes, such as guidance on the Planning, Programming, Budgeting, and Execution process and the charter of the department's Reform Management Group, to coordinate these efforts. These officials also told us that they have identified areas in which more specific agreements are needed, but that they do not have overarching guidance on how their offices coordinate reform efforts. The Chief Management Officer also told us that having a formal, clear, documented agreement that is aligned with each office's authorities would be beneficial for sustaining their collaborative efforts. Given the importance of leadership to any collaborative effort, transitions and inconsistent leadership may weaken the effectiveness of any collaborative mechanism. Without written policies or formal agreements that define how organizations should collaborate with regard to DOD's reform and efficiency efforts, current progress may be lost, and future coordination efforts may be hindered.

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## Conclusions

Both DOD and Congress have established ambitious goals to reform the department and its business operations for greater efficiency and effectiveness. Our work has shown that in conducting these reforms, DOD has made progress in a number of areas, including establishing baselines for many of its reform efforts and ensuring that reform savings are clearly reflected in DOD's budget materials. In addition, the offices with key roles in these reform efforts appear to be collaborating effectively to manage these efforts. However, the department has not refined its reform efforts in certain respects, nor has it institutionalized them. DOD's estimates of cost savings for reform were not always supported by analysis that adhered to best practices for economic analysis, including DOD guidance. DOD also did not consistently apply its definitions of reform savings when identifying potential reform savings initiatives. Further, DOD would be better positioned to ensure that its reform efforts, including the collaboration that supports them, could be sustained through

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<sup>30</sup>[GAO-12-1022](#) and [GAO-06-15](#).

organizational uncertainty and change by formalizing guidance or agreements between key offices involved in these efforts.

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## Recommendations

We are making the following three recommendations to DOD:

The Secretary of Defense should ensure that the CMO, Under Secretary of Defense (Comptroller), and Director of CAPE establish a formal process that standardizes the development and documentation of cost savings, including any underlying analyses, associated with reform efforts. This process should incorporate department-wide guidance and best practices for economic analysis, such as considering and documenting economic assumptions, alternatives considered, and implementation and/or opportunity costs. (Recommendation 1)

The Secretary of Defense should ensure that the CMO, Under Secretary of Defense (Comptroller), and Director of CAPE clarify the department's definitions of reform and consistently report reform savings based on those definitions. (Recommendation 2)

The Secretary of Defense should ensure that the CMO, Under Secretary of Defense (Comptroller), and Director of CAPE develop and institutionalize formal policies or agreements as they relate to DOD reform and efficiency collaboration efforts, in order for these efforts to be sustained beyond any leadership and organizational changes. (Recommendation 3)

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## Agency Comments

We provided a draft of this report to DOD for review and comment. In its written comments, which are reproduced in Appendix II, DOD concurred with our recommendations and described ongoing and planned efforts to address them.

We are sending copies of this report to the appropriate congressional committees and to the Secretary of Defense and Chief Management Officer. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

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If you or your staff have any questions about this report, please contact me at (202) 512-2775 or [fielde1@gao.gov](mailto: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.

A handwritten signature in black ink, appearing to read "Elizabeth Field". The signature is stylized with a large, sweeping initial "E" and a long, horizontal flourish extending to the right.

Elizabeth Field  
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 C. 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

# Appendix I: Scope and Methodology

To assess the extent to which the Department of Defense (DOD) has established valid and reliable baseline estimates of the cost of organizations and activities subject to its reform efforts, we assessed DOD's baseline required under section 921 using key practices in our Cost Estimating Guide.<sup>1</sup> For this assessment, we identified select key practices for cost estimates that were appropriate for assessing simplified agency estimates, such as the one used by DOD for its section 921 baseline estimates.<sup>2</sup> We compared the evidence provided by DOD with those selected key practices. We also assessed the reliability of the personnel and cost data included in its section 921 report by interviewing DOD officials, reviewing documentation related to those data, and replicating DOD's analysis using raw data provided by the department. We found these data to be reliable for the purpose of reporting any amounts DOD reported in its baseline and further assessing the baseline estimates contained in DOD's report using our *Cost Estimating Guide*. We also interviewed DOD officials and reviewed documentation on DOD's progress in establishing baselines for its reform efforts, and observed a demonstration of DOD's tools used for producing estimates of the cost of its enterprise business operations

To assess the extent to which DOD has established well-documented estimates of cost savings from its reforms, we selected a non-generalizable sample of the initiatives and assessed selected claimed savings using DOD Instruction 7041.03, *Economic Analysis for Decision-*

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<sup>1</sup>GAO, *Cost Estimating and Assessment Guide: Best Practices for Developing and Managing Program Costs*, [GAO-20-195G](#) (Washington, D.C.: Mar. 12, 2020).

<sup>2</sup>We selected nine of 18 best practices for cost estimating. We did not conduct an assessment using the full set of criteria from the *Cost Estimating and Assessment Guide* because we considered the baseline estimates created by DOD to be simplified agency estimates, rather than an acquisition program life-cycle cost estimate, and therefore did not include criteria such as performing risk and uncertainty analyses and obtaining an independent cost estimate.

*making*; our *Assessment Methodology for Economic Analysis*; budget justification documentation; and applicable DOD definitions of reform.<sup>3</sup>

We selected the sample of initiatives using the following approach for each category:

- We selected 10 initiatives from DOD’s list of all department-wide business reform initiatives from fiscal years 2017 to 2021 that were reported in DOD’s budget justification materials. The selected initiatives (1) realized savings in fiscal years 2020 or 2021; (2) were captured under either of the two business-related categories of reform—namely, business process improvements or business system improvement; and (3) reflected the largest cost savings in each category for fiscal years 2020 and 2021.<sup>4</sup>
- We included all eight initiatives from the section 921 report.
- We selected nine initiatives from the Defense-Wide Review. We identified initiatives that (1) affected DOD organizations with a business-support function based on our review of the list of business-support functions included in 10 U.S.C. § 132a, and (2) met our selected savings minimum of \$10 million.<sup>5</sup> From that list, we selected the initiatives with the largest savings values from a range of organizations to ensure that we were not over-selecting from a particular organization.

See table 7 for a list of the selected initiatives.

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<sup>3</sup>Department of Defense Instruction 7041.03, *Economic Analysis for Decision-making* (Sep. 9, 2015) (change 1, Oct. 2, 2017) and GAO, *Assessment Methodology for Economic Analysis*, [GAO-18-151SP](#) (Washington, D.C.: April 10, 2018).

<sup>4</sup>We made two exceptions related to scoping concerns. We judged one initiative to clearly have a mission basis unrelated to business reform and another to be very similar to one of the section 921 savings initiatives we were also planning to review. These initiatives were excluded from our sample.

<sup>5</sup>See 10 U.S.C. § 132a(e). These functions include aspects of financial management, healthcare, acquisition and procurement, supply chain and logistics, certain information technology, real property, and human resources operations.

Appendix I: Scope and Methodology

**Table 7: Savings Initiatives Selected for Further Review**

Category of savings	Initiative owner	Initiative title
Department-wide business reform savings	Navy	Process to Improve Expenditure Efficiency - Ship to Shore Connector
	Army	Contract Efficiencies
	Air Force	Military Personnel Modeling and Pricing
	Multiple	Permanent Change of Station Moves
	Navy	Navy Under-execution Reviews
	Navy	Marine Corps Under-execution Reviews
	Navy	Retirement Rate for Foreign Military Sales Personnel in Foreign Military Sales Administrative Fund
	Army	Depot Maintenance Life Cycle Software
	Navy	Navy Maritime Maintenance Solution
	Navy	Automation & Equipment Improvements
Section 921 savings	Multiple	Management Headquarters Reduction
	Army	Civilian Reduction/Realignment
	Multiple	Military Health System Major Headquarters Reduction
	Air Force	Space-Based Infrared System
	Navy	Business Process Improvements
	Multiple	Service Requirements Review Board and Contractor Courts
	Army	Depot Maintenance
	Multiple	Data Center Infrastructure
Defense-Wide Review	Chief Management Officer	Delay Raven Rock Construction Projects
	Chief Management Officer	Cyber Defense Tools
	Under Secretary of Defense for Acquisition and Sustainment	Contract Management Reduction
	Under Secretary of Defense for Acquisition and Sustainment	Reduce the Defense Acquisition Workforce Development Fund
	Under Secretary of Defense for Acquisition and Sustainment	Full Supply, Storage, and Distribution Implementation
	Under Secretary of Defense (Comptroller)	Transfer the Defense Military Pay Offices, Lead Defense Travel Administrators, and Miscellaneous Payments to Services and other Defense Finance and Accounting Service Nominated Efficiencies
	Under Secretary of Defense for Personnel and Readiness	Delay and Eliminate Select Military Construction Projects
	Under Secretary of Defense for Personnel and Readiness	Defense Human Resources Activity Reductions
	Under Secretary of Defense for Personnel and Readiness	Fiscal Year 2021 Transfer Payment Reduction

Source: GAO analysis of Department of Defense information. | GAO-21-74

To assess these savings initiatives, we requested documentation on (1) economic assumptions, such as inflation, or other factors that might affect the value of the savings claimed; (2) any alternatives to the actions taken to realize savings that the department may have considered and compared; and (3) any identified costs that were incurred by taking the actions needed to realize the savings, such as implementation or opportunity costs. To develop this information request, we reviewed DOD Instruction 7041.03 and our assessment methodology. Our assessment methodology consists of five key elements: objective and scope, methodology, analysis of effects, transparency, and documentation. Each element has economic concepts underlying it, some of which informed our information requests. These same concepts were also reflected in DOD Instruction 7041.03.

To determine whether the information provided by DOD addressed these concepts, one analyst reviewed the evidence and assessed the extent to which DOD addressed a given concept, and a second analyst independently reviewed those assessments. The analysts then resolved any initial disagreements between their assessments. To assess the extent to which DOD reflected reform savings in its budget justification materials and the reliability of the data DOD provided, we traced the department's reported savings for each of the initiatives to its fiscal year 2020 and 2021 budget justification materials, when possible. We found DOD's reported savings to be reliable for the purpose of including the amounts of those savings for each category and in total in our report. Further, to assess the consistency of DOD's application of reform definitions, we reviewed DOD's descriptions of the 27 initiatives and compared them with DOD's definitions of reform. Finally, we interviewed officials from OCMO, the Office of the Under Secretary of Defense (Comptroller), and the Office of Cost Assessment and Program Evaluation (CAPE) about the reported savings and documentation provided.

To assess the extent to which DOD coordinated its reform efforts, we interviewed DOD officials and obtained written responses and documentation from OCMO, the Office of the Under Secretary of Defense (Comptroller), and CAPE regarding their coordination of reform efforts. We also observed a demonstration of DOD's reform portal used for tracking department-wide business reform efforts. We reviewed the evidence collected and assessed these efforts against our key practices for collaboration. To assess DOD's efforts, we identified selected leading collaboration practices that we determined were applicable for the departments' coordination of its reform efforts and assessed the

information collected against those practices.<sup>6</sup> Specifically, one analyst reviewed the evidence and made an assessment of the extent to which DOD addressed a given practice. A second analyst independently reviewed those assessments and the analysts resolved any initial disagreements between their assessments.

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<sup>6</sup>GAO, *Managing for Results: Key Considerations for Implementing Interagency Collaborative Mechanisms*, [GAO-12-1022](#) (Washington, D.C.: Sept. 27, 2012). We identified 11 of 23 leading collaboration practices that were applicable for the departments' coordination of its reform efforts, which entails coordination among relevant offices without a formal collaborative mechanism.

# Appendix II: Comments from the Department of Defense



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

Ms. Elizabeth Field  
Director, Defense Capabilities and Management  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

2 2 OCT 2020

Dear Ms. Field:

The Department of Defense (DoD) reviewed the Government Accountability Office (GAO) Draft Report GAO-21-74, "DEFENSE REFORM: DoD Has Made Progress, but Needs to Further Refine and Formalize Its Reform Efforts," dated November 2020 (GAO Code 104068), and concurs with the recommendations for the Department to: 1) Establish formal processes to standardize development and documentation of its cost savings; 2) Ensure reported savings are consistent with its definitions of reform; and, 3) Formalize policies or agreements on its reform efforts. The DoD has made significant progress in addressing the issues highlighted therein.

It is important to clarify that DoD did not overstate its **total** amount of savings, but rather needs to further refine its allocation between reforms and cuts, which cumulatively lead to a total savings figure that is validated by our Comptroller prior to release. We agree that while reform has been defined only since the establishment of the Office of the Chief Management Officer (OCMO), the definitions will be expanded to include (but not limited to) cost avoidance, program reductions, realignment, transfers, and delays. For example, we agree that delays resulting in a future cost are not necessarily a reform. However, if a delay results in the elimination or reduction of a contract, it could result in savings. Therefore, the refinement of the definitions is an area that requires attention.

DoD is shifting toward a culture where budget cuts/cost avoidance are a subset of reform, not equivalent to reform. Business Process Improvement represents a new or refined business process to increase effectiveness, efficiency, and/or reliability. As an example, through a newly designed vendor management process, the Department of the Navy identifies under executing or underperforming contractors. Through this review process, the Navy assessed the Ship-to-Shore Connector (SSC) program resulting in re-phasing of \$315M to allow for the contractor to improve its processes and performance. The Navy's review process is a method of vendor management that results in future efficiencies and improved contractor performance, thus the action on the SSC program was characterized as a Business Process Improvement.

The covered activities in the 921 Report that were stipulated unfortunately did not align to the 10 USC 132a definitions of enterprise business operations nor the way DoD tracks and reports our data. For example, our contracting officers manage both service as well as product/commodity contracts and they don't track them separately. Therefore, we acknowledged a broader scope was included in our statement of savings. The specific savings attributed solely to Service Contracts – through our Service Requirements Review Board (SRRB) process – which was reported, would have grossly under-represented our service contracts savings. So rather than under report, we chose to acknowledge the broader scope of savings, which was interpreted as closer to meeting the intent of the report request.

Another example of challenges with matching internal practices and definitions with the covered activities in the Section 921 Report, was in the area of Civilian Resource Management. Internally, we created a definition of reform to include Better Alignment of Resources. As an example, the Air Force

**Appendix II: Comments from the Department  
of Defense**

shifted civilian personnel to a support program garnering a validated savings of \$25M. Considering the definition developed for the covered activity of Civilian Resource Management included the provision for operations, the team's interpretation was that this was an appropriate fit.

DoD is working to establish reasonable and reliable baseline performance metrics relative to enterprise business operations, costs, and personnel management through capabilities such as Advanced Analytics (known as ADVANA), while leveraging its Enterprise Cost Management Cost Decision Framework to track business activities and delineate business operations costs. This requires a significant amount of work surrounding the collection and management of our data.

In general, the OCMO agrees with the issues identified by the GAO concerning our evaluating reform savings or cuts from the Defense Wide 1.0 review approach introduced by Secretary Esper in late 2019. Given the accelerated timeline established for implementing the new approach within OSD, it was conducted outside of our normal reform processes and infrastructure. Our established framework typically includes the identification of implementation costs, opportunity costs, economic conditions, and other analysis that we regularly leverage as part of the Reform Management Group. We are now working on integrating the Defense Wide approach into our established reform system.

Progress in this space is a byproduct of statutory authorities and cooperation among DoD's components, including the OCMO, Comptroller, OSD—Cost Assessment and Program Evaluation, and the Military Departments in driving continuous improvement in the management of enterprise business operations. However, additional improvement could be garnered by ensuring that the OCMO has proper funding, adequate organizational resources/structure, and a fully implemented charter that includes the clear authorities over the Defense Wide organization, as established and directed by Secretary Esper.

Enclosed is the DoD response to the draft report's recommendations. My point of contact is Mr. Robert Williamson, Acting Director, Defense-Wide Program Office, who can be reached by email at robert.w.williamson.civ@mail.mil and by phone at (703) 692-9658.

Sincerely,



Lisa W. Hershman

Enclosure:  
As stated

**GAO DRAFT REPORT DATED SEPTEMBER 23, 2020  
GAO-21-74 (GAO CODE 104068)**

**“DEFENSE REFORM: DOD Has Made Progress, but Needs to Further Refine and  
Formalize Its Reform Efforts”**

**DEPARTMENT OF DEFENSE COMMENTS TO THE GAO RECOMMENDATIONS**

**RECOMMENDATION 1:** “The Secretary of Defense should ensure that the Chief Management Officer, Under Secretary of Defense (Comptroller), and Director of CAPE, establish a formal process that standardizes the development and documentation of cost savings, including any underlying analyses, associated with reform efforts. This process should incorporate department wide guidance and best practices for economic analysis, such as considering and documenting economic assumptions, alternatives considered, and implementation and/or opportunity costs.”

**DoD RESPONSE:** Concur. Continuous refinement of existing processes and guidance to better document assumptions, alternatives, implementation and opportunity costs will improve future reporting of cost savings.

DoD has achieved new levels of impact in the reform space since 2017. Those accomplishments include a high level of reform savings, business practices for collaboration, business processes that include greater fidelity and transparency, the use of standardized DoD-wide costs and analytics, and the adoption of Balanced Score Cards and Key Performance Indicators.

The Department has also taken significant steps by establishing data tags within business management functions and Headquarters activities as well as incorporating reform guidance into annual fiscal guidance. Additionally, savings from the Defense Wide Review were reflected in decision documents supporting the President’s Budget.

The Office of the Chief Management Officer of the DoD (OCMO), Office of the Under Secretary of Defense (Comptroller, OUSD(C)), and Office of the Secretary of Defense—Cost Assessment and Program Evaluation (OSD-CAPE) continue to develop, formalize, and codify the reform development and documentation process. This includes the yearly reform review and adjudication process and the Reform Management Group review process to validate reforms. Going forward, OCMO, OUSD(C), and OSD-CAPE will provide Department-wide guidance and best practices for submitting entities to incorporate economic analysis including assumptions, alternatives considered, and implementation and/or opportunity costs.

**RECOMMENDATION 2:** “The Secretary of Defense should ensure that the Chief Management Officer, Under Secretary of Defense (Comptroller), and Director of CAPE, clarify the department’s definitions of reform and consistently report reform savings based on those definitions.”

**DoD RESPONSE:** Concur. The Department acknowledges the need to include cost avoidance as part of its definitions of reform. The Department’s reform definitions – first established in

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**Appendix II: Comments from the Department of Defense**

Fiscal Year (FY) 2019 – continue to evolve. OCMO, in partnership with OUSD(C), OSD-CAPE, and the Military Departments are working to ensure reform savings are aligned to, and comport with, the Department’s reform definitions. To this end, the Department is codifying and generating additional reform definitions as in the case with cost avoidance.

OCMO, OUSD(C), and OSD-CAPE have set forth reform definitions for valid reform initiatives, which must fall into one of 6 business areas. These approved areas and definitions are provided in the FY 2022 Budget Estimate Submission (BES) guidance. These include: better alignment of resources, business process improvement, business system improvement, divestments, policy reform, and weapon system acquisition process.

The “better alignment of resources” category supports realignment of funding and resources to National Defense Strategy (NDS) priorities. To that end, the Department continues to aggressively execute reforms to free up time, money, and manpower. Each of the Department’s components are responsible for ensuring appropriated dollars are spent with the aim to build readiness and lethality across the force. Examining and reprioritizing funding to higher priority programs supporting the NDS are key functions of reform. The Department will continue to work across all its components to support definitions of reform that enable increased efficiencies across the enterprise.

The Department stands by its reported reform savings – some of the savings captured in GAO’s draft report occurred outside of the Department’s established reform definitions. The Department is shifting toward a culture where budget cuts/cost avoidance are a subset of reform, not equivalent to reform. This involves transforming its business processes, practices, and procedures to yield enduring reform improvements in efficiency and effectiveness. Sometimes, reform does not necessarily result in monetary savings but rather increased productivity and improved results.

The Department exceeded its FY 2019 reform savings goals and is on target to achieve its FY 2020 goals. The Department is committed to reforming itself for greater performance and affordability as a means to invest in NDS priorities and ensure our men and women in uniform are ready and have the resources they need to preserve our nation's security.

**RECOMMENDATION 3:** “The Secretary of Defense should ensure that the Chief Management Officer, Under Secretary of Defense (Comptroller), and Director of CAPE, develop and institutionalize formal policies or agreements as they relate to DOD reform and efficiency collaboration efforts, in order for these efforts to be sustained beyond any leadership and organizational changes.”

**DoD RESPONSE:** Concur. OCMO, OUSD(C), and OSD-CAPE will continue to evolve and improve formal reform processes. Recent key policies and documents include: the FY 2022-2026 BES guidance and addendum #1, reform review and justification quad charts and justification papers that accompany each reform, the Defense Working Capital Funds Savings Capture Mechanism or Tool Functional Requirements guide, and the establishment of the Reform Portal database.

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Text of Appendix II: Comments from the Department of  
Defense

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

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Defense Capabilities and Management  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548 Dear Ms. Field:

22 OCT 2020

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# Appendix III: GAO Contact and Staff Acknowledgments

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## GAO Contact

Elizabeth Field, (202) 512-2775 or [fielde1@gao.gov](mailto:fielde1@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, Margaret Best (Assistant Director), Daniel Ramsey (Analyst-in-Charge), Jennifer Echard, David Jones, Leigh Ann Sheffield, Cheryl Weissman, and Madeline Welter made key contributions to this report. Other contributors included Tracy Barnes, Arkelga Braxton, Timothy Guinane, Michael Holland, Richard Larsen, Michael Silver, Nathan Tranquilli, and Sarah Veale.

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