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September 24, 2018

Congressional Committees

**Defense Efficiency Initiatives: Observations on DOD’s Reported Reductions to Its Headquarters and Administrative Activities**

Reducing the resources devoted to headquarters activities has been a long-standing challenge for the Department of Defense (DOD). Headquarters activities include organizations such as the Office of the Secretary of Defense, the Joint Staff, military service secretariats and staff, and headquarters elements of the combatant commands, defense agencies, and DOD field activities. In 2010, the Secretary of Defense announced a department-wide efficiency initiative to reduce overhead costs and reinvest the savings in sustaining DOD’s current force structure and modernizing its weapons portfolio.<sup>1</sup> Since then, the department has pursued reductions in the size of staff within headquarters activities.

We have previously reported on the growth in DOD’s headquarters activities, the difficulties of accounting for related resources, and the department’s efforts to pursue reductions in headquarters staff. For example, in March 2012, we recommended that DOD seek further opportunities to centralize administrative and command support services, functions, and programs and improve its ability to identify headquarters personnel.<sup>2</sup> Further, in June 2014, we recommended, among other things, that DOD set clearly defined and consistently applied baselines and track management headquarters reductions against the baselines.<sup>3</sup> DOD concurred with these recommendations and, as discussed later in this report, has taken some actions to implement them.

Congress has also taken action to reduce DOD’s headquarters costs and find efficiencies related to these activities. Through section 904 of the National Defense Authorization Act for Fiscal Year 2014, for example, Congress directed DOD to develop and report on a plan to streamline headquarters by changing or reducing the size of staffs, eliminating tiers of management, cutting functions that provide little or no added value, and consolidating

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<sup>1</sup>DOD defines force structure as the composition of DOD organizations, both military and civilian, that constitute and support U.S. defense forces, as specified by the National Defense Authorization Acts of current and applicable previous years. Force structure also defines the organizational hierarchy through which leadership authorities are exercised.

<sup>2</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).

<sup>3</sup>GAO, *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).

overlapping and duplicative programs and offices.<sup>4</sup> DOD submitted the required report outlining its streamlining plan to Congress in May 2015.<sup>5</sup>

Subsequently, in section 346 of the National Defense Authorization Act for Fiscal Year 2016, Congress directed DOD to, among other things, modify the streamlining plan to ensure the department achieves savings of at least 25 percent—as measured against a specific baseline amount—by fiscal year 2020.<sup>6</sup> It also required DOD to implement a plan to ensure that the department achieves at least \$10 billion in cost savings from the headquarters, administrative, and support activities of the department, beginning with fiscal year 2015 and ending with fiscal year 2019. Further, the act directed DOD to submit a series of reports to Congress describing and assessing the department’s progress in implementing the plan and in achieving the required \$10 billion in cost savings. DOD was to submit its first such progress report along with the department’s fiscal year 2017 budget request and again with the budget requests for each subsequent fiscal year through fiscal year 2019.<sup>7</sup> In response to this requirement, DOD provided an interim update and briefing to the Senate Armed Services Committee in March 2016, and a report to Congress in May 2018 (hereinafter referred to as “DOD’s May 2018 progress report”).<sup>8</sup>

The National Defense Authorization Act for Fiscal Year 2016 included a provision that we assess these progress reports, not later than 90 days after DOD submits each report, and determine the extent to which DOD is in compliance with section 346 of the act. Our objective was to determine the extent to which the department’s reported actions on reductions in headquarters, administrative, and support activities meet the requirements of section 346 of the act.<sup>9</sup>

To address our objective, we (1) analyzed DOD’s May 2018 progress report and related documentation, including DOD budget and guidance documents; (2) analyzed other reports, including previously issued DOD updates and reports<sup>10</sup> and previously issued GAO reports<sup>11</sup> to

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<sup>4</sup>Pub. L. No. 113-66 § 904 (2013).

<sup>5</sup>See Department of Defense, *Plan for Streamlining DOD Management Headquarters: Section 904 Initial and Status Report to Congress* (May 14, 2015).

<sup>6</sup>For the purposes of this modification, the baseline amount was defined as the amount authorized to be appropriated by the act for fiscal year 2016 for major DOD headquarters activities, adjusted by a credit for reductions in such headquarters activities that are documented, as of the date that is 90 days after the enactment of the act, as having been accomplished in earlier fiscal years in accordance with a December 2013 directive of the Secretary of Defense on headquarters reductions. Pub. L. No. 114-92, § 346(b) (2015).

<sup>7</sup>Pub. L. No. 114-92, § 346(a) (2015). Section 346 of this act also required DOD to conduct a comprehensive review of the management and operational headquarters of DOD for purposes of consolidating and streamlining headquarters functions and administrative and support activities.

<sup>8</sup>Department of Defense, *Report to Congress: Streamlining the Department of Defense Management Headquarters* (May 2018).

<sup>9</sup>According to DOD, the May 2018 report also satisfies other reporting requirements, including Pub. L. No. 113-66 § 904 (2014) and Pub. L. No. 113-291 § 905 (2015), among others. We did not assess the extent to which the May 2018 report meets any of these other reporting requirements.

<sup>10</sup>For example, DOD’s interim update and briefing to the Senate in March 2016, and Department of Defense, *Report to Congress on the Review of Headquarters and Administrative and Support Activities Report* (August 2016).

describe actions taken by the department; and (3) interviewed DOD officials about the status of the department's efficiency efforts related to section 346.

We conducted this performance audit from July 2018 to September 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Background

DOD is in the midst of significant management reorganization and reform, intended to address long-standing weaknesses in its business operations. Many of these business operations are managed by DOD major headquarters activities, which include the Office of the Secretary of Defense; the Joint Staff; the Offices of the Secretary of the Army and Army Staff; the Office of the Secretary of the Navy and Office of the Chief of Naval Operations; Headquarters, Marine Corps; and the Offices of the Secretary of the Air Force and Air Staff.<sup>12</sup> All personnel working within these headquarters organizations are considered to be performing major headquarters activities. Other headquarters organizations identified as major headquarters activities include portions of the defense agencies; DOD field activities; and the combatant commands, along with their subordinate unified commands and respective service component commands.

As the official responsible for improving the quality and productivity of the business operations of the department, DOD's Chief Management Officer (CMO) has a key role in streamlining and reducing headquarters functions.<sup>13</sup> For example, the CMO is responsible for ensuring that DOD components are accurately identifying and accounting for major DOD headquarters activities.<sup>14</sup> The CMO also has primary responsibility for improving the efficiency and effectiveness of operations across DOD's business functions and the authority to issue policy and guidance regarding the management and improvement of department business operations. The CMO's responsibilities include those related to identifying and monitoring the implementation of cost savings opportunities and efficiencies across DOD's business areas. The CMO issued DOD's May 2018 progress report as part of these responsibilities.

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<sup>11</sup>GAO, *Defense Efficiency Initiatives: DOD Needs to Improve the Reliability of Cost Savings Estimates*, GAO-17-724 (Washington, D.C.: July 24, 2017); and *Defense Headquarters: Improved Data Needed to Better Identify Streamlining and Cost Savings Opportunities by Function*, [GAO-16-286](#) (Washington, D.C.: June 30, 2016).

<sup>12</sup>Department of Defense Instruction 5100.73, *Major DOD Headquarters Activities* (Dec. 1, 2007) (incorporating change 2, June 12, 2012).

<sup>13</sup>Section 901 of the Fiscal Year 2017 National Defense Authorization Act established a CMO within DOD, effective on February 1, 2018, and the Secretary established the position, as directed, on that date.

<sup>14</sup>DOD Instruction 5100.73 identifies these responsibilities for the Office of the Director of Administration and Management, which was moved to the Deputy CMO in 2014, and the CMO in 2018.

## DOD Has Not Fully Met Statutory Requirements Related to Headquarters Reductions

### DOD Has Not Fully Met Requirements for a Plan to Achieve Cost Savings

Subsection 346(a) of the National Defense Authorization Act for Fiscal Year 2016 required DOD, among other things, to implement a plan to achieve not less than \$10 billion in cost savings from headquarters, administrative, and support activities from fiscal year 2015 through fiscal year 2019. Further, the subsection required DOD to program at least half of the cost savings, or \$5 billion, before fiscal year 2018. The subsection also required DOD to submit reports describing and assessing its progress in implementing the required \$10 billion savings plan and achieving the required cost savings with the budgets for fiscal years 2017, 2018, and 2019.<sup>15</sup>

DOD's May 2018 progress report describes several actions it has taken to meet these statutory requirements. However, we found that the department's actions do not fully meet the requirements, and the actions taken have shortcomings. Specifically,

- DOD has not fully met the requirement to save \$10 billion by fiscal year 2019. DOD's May 2018 progress report states that DOD has identified a total of \$9.2 billion of the required \$10 billion in cost savings from fiscal year 2015 through fiscal year 2019. Not only did DOD not meet this statutory requirement, but we previously reported in 2017 that DOD does not have a reliable cost estimate to support these estimated savings.<sup>16</sup> We reported that DOD's cost-estimating approach does not follow best practices—such as identifying specific plans to achieve the reductions or specific programs or personnel to be reduced—to allow for clear identification of the efficiency-related cost savings.<sup>17</sup> Specifically, according to DOD's internal assessment, \$5.3 billion of these cost savings were “not auditable” because the baseline for reductions had not been established, among other reasons. Further, documentation supporting cost savings estimates from other efficiencies was not sufficiently detailed. We recommended that DOD develop reliable cost savings estimates that include detailed information and documentation. At the time, DOD partially concurred with this recommendation but did not address how it intended to implement it. More recently, officials said they saw limited value in trying to improve past savings estimates, and said such an effort would be fraught with challenges. Instead, they said they are focusing on accounting for efficiency efforts moving forward.

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<sup>15</sup>The subsection also states that documented savings achieved pursuant to the headquarters reduction requirement in subsection 346(b), other than savings achieved in fiscal year 2020, shall be counted toward the \$10 billion cost savings; documented savings from management activities, such as human-resources management, and information-technology infrastructure and management, may also be counted toward the effort to save \$10 billion; but savings or reductions to military force structure or military operating units of the Armed forces may not be counted toward the \$10 billion.

<sup>16</sup>[GAO-17-724](#).

<sup>17</sup>These best practices are described in our Cost Estimating and Assessment Guide. See GAO, *Cost Estimating and Assessment Guide: Best Practices for Developing and Managing Capital Program Costs* (Supersedes GAO-07-1134SP), [GAO-09-3SP](#) (Washington, D.C.: Mar. 2, 2009). The methodology outlined in this guide is a compilation of best practices that federal cost-estimating organizations and industry use to develop and maintain reliable cost estimates throughout the life of a government program.

- DOD has also not fully met the statutory requirement to program half of the savings before fiscal year 2018. This was also a concern we reported in 2017. At that time, we found that DOD planned to program approximately \$2.8 billion of the required \$5 billion in cost savings before fiscal year 2018. But we were not able to verify DOD's programming actions because the department did not provide sufficiently detailed information for us to do so.
- DOD did not meet the statutory deadline to submit its first progress report. DOD was required to submit its first report on progress toward implementing the plan to achieve \$10 billion cost savings when it submitted its fiscal year 2017 budget request in February 2016. However, DOD did not submit its first required progress report until May 2018.<sup>18</sup>

According to DOD officials, the department is working to identify and track all reform initiatives and savings. However, DOD's May 2018 progress report did not contain the level of detailed information on each of the specific savings identified in the report that would allow us to independently validate them. Further, when we asked DOD officials for any additional analyses used to develop the May 2018 progress report, the officials did not provide any information.<sup>19</sup>

In addition, we found inconsistencies within DOD's May 2018 progress report that raise additional questions about the accuracy of DOD's cost savings estimates. Specifically:

- In some sections of the May 2018 progress report, DOD refers to \$5.3 billion in savings between fiscal years 2015 and 2019, while in another section it refers to \$8.25 billion in savings for the same period. The department's report offers no explanation as to why the figures differ.
- DOD states in the May 2018 progress report that the department will eliminate \$7.3 billion in management headquarters activities across fiscal years 2015 and 2021, as a result of reductions directed by former Secretary of Defense Hagel in 2013. The \$7.3 billion amount is inconsistent with other information provided in the report.
  - First, the table offered in the report to support this \$7.3 billion estimate covers a different range of fiscal years—fiscal years 2016 to 2023. In addition, we were unable to calculate the \$7.3 billion from the data provided in the table.
  - Second, DOD indicates that the \$7.3 billion estimate consists of \$5.3 billion in reductions from fiscal years 2015 to 2019, and an additional \$1.39 billion in reductions from fiscal years 2019 to 2021. However, these two figures add up to \$6.7 billion, the department does not account for the remaining \$0.6 billion, and the department's report offers no detail to support the \$1.39 billion figure.<sup>20</sup>

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<sup>18</sup>In March 2016, DOD provided an interim update and a briefing to Congress regarding its progress in implementing its plan to save \$10 billion.

<sup>19</sup>Our ongoing work regarding DOD's efficiency initiatives will continue to assess DOD's progress in implementing the statutory requirements.

<sup>20</sup>In a previous report, DOD claimed \$0.6 billion in cost savings as part of the Secretary Hagel reductions. However, we found that the \$0.6 billion did not reflect actual savings because it was based on Congress appropriating \$0.6 billion less than the department's budget request.

DOD officials acknowledged these inconsistencies. As stated above, officials said they are focusing on accounting for efficiency efforts moving forward. For example, DOD's May 2018 progress report states that DOD has established an authoritative management headquarters manpower and operating-cost baseline to report and track future estimated savings. These steps would be consistent with our prior recommendations.<sup>21</sup>

### DOD Has Not Fully Met the Requirements for Headquarters Reductions

Subsection 346(b) of the National Defense Authorization Act for Fiscal Year 2016 required DOD to:

- modify an existing headquarters-reduction plan to ensure savings for major DOD headquarters activities are not less than 25 percent of a defined baseline amount, by fiscal year 2020;<sup>22</sup> and
- revise applicable guidance on DOD's major headquarters activities as needed, including to incorporate the definition of the term "major DOD headquarters activities" to reflect language in subsection 346(b), among other things.

However, we found that DOD has not fully met these requirements. First, DOD has not fully met the requirement to ensure that it modifies its existing plan to achieve savings of not less than 25 percent of a defined baseline amount. Although DOD's May 2018 progress report includes a table that shows more than a 25 percent reduction of a baselined amount by fiscal year 2020, DOD has previously stated that part of these estimated cost savings are not auditable. We have also reported that DOD's cost savings estimate was unreliable, and we continue to be concerned that without a reliable cost savings estimate, DOD will not be able to ensure that it achieves the required savings.<sup>23</sup>

Second, DOD has made progress in revising its applicable guidance on DOD's major headquarters activities, but has not fully met the requirement of subsection 346(b). Specifically, in August 2015, DOD published a framework in response to subsection 346(b) describing the major headquarters activities and stated that it had established a new definition for its DOD headquarters. However, the department has not yet revised one of its instructions that specifically relates to major headquarters activities to reflect this new definition.<sup>24</sup>

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<sup>21</sup>[GAO-14-439](#).

<sup>22</sup>DOD's existing plan was required by section 904 of the National Defense Authorization Act for Fiscal Year 2014. Pub. L. No. 113-66 (2013). The baseline amount is the amount authorized to be appropriated by the National Defense Authorization Act for Fiscal Year 2016 for major DOD headquarters activities, adjusted by a credit for reductions in such headquarters activities that are documented as having been accomplished in earlier fiscal years in accordance with DOD guidance. The modified plan is required to establish a specific savings objective for each major headquarters activity in each fiscal year through fiscal year 2020. Beginning in fiscal year 2017, DOD's budget shall reflect the savings required by the modified plan. The modified plan shall also include an overall baseline amount for all of the major DOD headquarters activities that credits reductions accomplished in earlier fiscal years in accordance with DOD guidance, and a specific baseline amount for each such headquarters activity that credits such reductions. Pub. L. No. 114-92, § 346(b)(2) (2015).

<sup>23</sup>[GAO-17-724](#).

<sup>24</sup>DOD Instruction 5100.73.

## DOD Has Reported on Elements Required for a Comprehensive Review to Consolidate Headquarters Functions and Administrative Support Activities

Subsection 346(c) of the National Defense Authorization Act for Fiscal Year 2016 required DOD to conduct a comprehensive review of DOD's management and operational headquarters for the purposes of consolidating and streamlining headquarters functions and administrative support activities. This review must include a number of elements, including an assessment of the extent to which the staff of the Secretaries of the military departments and the Chiefs of Staff of the Armed Forces have duplicative staff functions and services and could be consolidated into a single service staff, among other things. The subsection also requires DOD to submit a report no later than March 1, 2016, to the congressional defense committees on the results of DOD's comprehensive review described above.

DOD submitted a report in August 2016 to address subsection 346(c).<sup>25</sup> Our review of this report found that DOD addressed all of the elements of subsection 346(c). Specifically, the report describes DOD's comprehensive review of its organization and of management and operational headquarters. Further, it provides the department's views on the specific issues that the act required to be considered, including overlap and fragmentation within DOD's organization. More recently, as DOD states in its May 2018 progress report, the department has been undertaking reform initiatives in which DOD is pursuing consolidation of business activities to achieve greater efficiencies.<sup>26</sup> We have both recent and ongoing work related to these activities.<sup>27</sup>

### **Agency Comments**

We provided a draft of this report to DOD for review and comment. DOD told us it had no comments on the report.

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

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<sup>25</sup>DOD, *Report to Congress on the Review of Headquarters and Administrative and Support Activities Report*. We reviewed DOD's report to determine the extent to which the report included a discussion of the required elements.

<sup>26</sup>See Pub. L. No. 114-328, § 911 (2016), and Office of Management and Budget, *Comprehensive Plan for Reforming the Federal Government and Reducing the Federal Civilian Workforce*, M-17-22 (Washington, D.C.: Apr. 12, 2017).

<sup>27</sup>In June 2018, for example, we reported on the status of nine reform teams established to implement these reform initiatives. The reform teams are intended to improve the quality and productivity of the department's business operations, including moving toward more use of enterprise services. See GAO, *Defense Management: DOD Senior Leadership Has Not Fully Implemented Statutory Requirements to Promote Department-Wide Collaboration*, [GAO-18-513](#) (June 25, 2018). Another report, issued in September 2018, describes DOD's actions to address inefficiencies and overlap and fragmentation within DOD's organizations, including its defense agencies and DOD field activities. See *Defense Management: DOD Needs to Address Inefficiencies and Implement Reform across Its Defense Agencies and DOD Field Activities*, [GAO-18-592](#) (Sept. 6, 2018).

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 report include Margaret A. Best (Assistant Director),Carolynn Cavanaugh, Alexandra Gonzalez, Edward Malone, Amanda Manning, and John Van Schaik.

A handwritten signature in black ink, appearing to read "Elizabeth Field". The signature is fluid and cursive, with a large loop at the end.

Elizabeth Field,  
Acting Director, Defense Capabilities and Management



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