Institutional Risk

Just as we must transform America's military capability to meet changing threats, we must transform the way the Department works and what it works on. A new idea ignored may be the next threat overlooked. Every dollar squandered on waste is one denied to the warfighter.

|	
Streamline the Decision Process, Improve Financial Management, Drive Acquisition Excellence	**Manage Overhead and Direct Costs**
Improve the Readiness and Quality of Key Facilities	**Realign Support to the Warfighter**

Right now, we are taking clear, specific action to streamline our decision process — our leaders cannot act wisely unless they can get the information they need, at the right time. We must drive a better understanding of how overhead and indirect costs relate to military capability — we must build a base of facilities that are ready and able to meet the highest standards for quality and readiness. And as we transform our military force, we must re-align our support structure to embrace new ways of working, and pursue creative technology solutions.

The Secretary's performance priorities for institutional risk in FY 2003 are *Streamline DoD Processes, Optimize Intelligence Capabilities, and Enhance Interagency Process, Focus and Integration.*

STREAMLINE THE DECISION PROCESS, IMPROVE FINANCIAL MANAGEMENT, DRIVE ACQUISITION EXCELLENCE
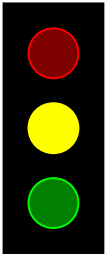
Waste drains resources from training and tanks, from infrastructure and intelligence, from helicopters and housing. Outdated systems crush ideas that could save a life. Redundant processes prevent us from adapting to evolving threats with the speed and agility that today's world demands.

Secretary Rumsfeld, September 10, 2001

The technology revolution that drove the metamorphosis of the private sector from manufacturing to a service economy has not yet fully taken hold in the defense economy.

Our financial systems are decades old and incompatible with one another, making it hard for managers to get meaningful information. The 1998 *Report of the Department of Defense on Base Realignment and Closure* concluded we are bigger than we need to be, with almost 25 percent more installation and facilities capacity than needed, unnecessarily spending some $3 billion to $4 billion of tax dollars annually. New ideas choke beneath a tangle of rules, regulations, and bureaucratic process. We seem afraid to take chances, and so miss opportunities to truly innovate.

So how are we changing?

First, everyone is involved, from Secretaries of the Military Departments meeting weekly as the Senior Executive Council to drive change from the top, to line managers charged with divesting non-core missions and re-aligning their workforce. We have undertaken a careful and thorough analysis of our bases and infrastructure, so unneeded facilities can be precisely and prudently eliminated.

Second, we are setting measurable goals and tracking our progress toward success.

Third, we have launched an agency-wide transformation program dedicated to standardizing and integrating our business processes and financial management systems. The development of the initial version of our Business Enterprise Architecture has taken us a long

way down the road to being able to provide the Department's managers with the accurate, reliable, and timely information they need to make better decisions.

The President's Management Agenda (PMA)

The President's Management Agenda highlights five government-wide initiatives to improve management and service to our citizens. We have set ambitious targets for the Department of Defense in each area, consistent with our commitment to improving accuracy and ensuring that sound management principles are in place across the organization (for more information, see www.results.gov.):

- *Human Capital*. The DoD Human Resource Strategy and Workforce Restructuring Plan describes how we intend to meet workforce needs and redirect resources from Headquarter elements to direct service.

- *Improved Financial Performance*. The Department of Defense is committed to profound and far-reaching financial management reform that will guarantee defense decision makers access to reliable, relevant, and timely financial data with which to carefully and efficiently manage and account for taxpayer funds.

- To do this, we are replacing our antiquated and standalone financial management automated systems with a robust financial management infrastructure that will revolutionize our business processes. Our newly established Business Financial Management Modernization Program Office is managing the enterprise architecture to link systems and business processes in a comprehensive and integrated fashion. We also are developing a financial management performance indicator program, targeting areas such as our financial statement material weaknesses for immediate improvement. These metrics will align our near-term efforts to reduce long-standing problems with the development of improved automated systems that will provide permanent solutions. The metrics will also track which activities in the Department should be accountable and will influence decisions about what corrective actions to take.

- *Competitive Sourcing.* We have completed competitions for 15% of our overall goal of 226,000 positions.

- *Electronic-Government (e-Gov).* We are making progress on meeting the high standards set by the PMA for the submission of information technology business cases, project management, and security. We are actively involved in 18 of the 24 cross-cutting eGov initiatives and have committed $18.5 million this fiscal year to help accomplish these goals.

- *Budget and Performance Integration.* While the Department has always used tools and techniques to assess the performance outcomes of its budget plans, we are now formally documenting these performance indicators, an important step toward realizing our longstanding commitment to producing performance-based budgets. These financial performance indicators are being used throughout the Department's Planning, Programming, Budgeting, and Execution (PPBE) process as tools to assess performance against expected outcomes.

Acquisition Excellence Goals

We no longer talk about "reforming" the defense acquisition process, but about ensuring "excellence" in how we do business.

We are working toward achieving three primary outcomes:

- Leveling the playing field for all contractors, giving DoD greater exposure to new ideas.

- Invigorating the fiscal well being of the defense industry by rewarding good performance.

- Encouraging the strong competition vital to maintaining a healthy industrial base.

Our leading excellence goals are listed in the table below, along with a short description of past and planned accomplishments.
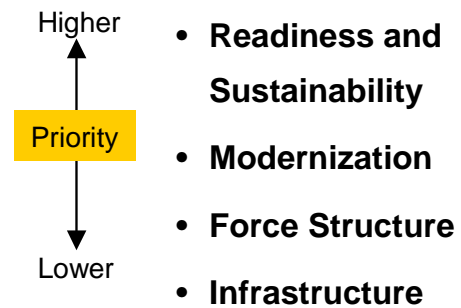
Acquisition Excellence Goals: Activity Indicators

Excellence Goal	Accomplishments		Target Performance
	FY 2002	FY 2003	FY 2004
Achieve credibility and effectiveness	Adopted a "full program funding" policy, which required all budgets to accurately represent expected costs for the life of the program. Took decisive action to address problems with programs demonstrating poor cost and schedule performance, restructuring some (e.g., SBIRS-LOW) and canceling others, such as the Navy Area Theater Ballistic Missile Defense Program.	Revised the complex and long-standing DoDD 5000.1 (The Defense Acquisition System) and DoDI 5000.2 (Operation of the Defense Acquisition System). Both were approved for immediate implementation on May 12, 2003. Funded budgets to the estimates provided by the Department's Cost Analysis Improvement Group (CAIG).	Continue to enforce funding at CAIG estimates, rewarding good program performance and holding manager accountable for poor results.
Re-vitalize the Acquisition Workforce	Continued the Congressionally mandated DoD Civilian Acquisition Workforce Personnel Demonstration (ACQDEMO) Project. ACQDEMO is designed to give employees a flexible, responsive personnel system that rewards contributions and provides line managers with greater authority over personnel actions. Key features of the demonstration project include streamline hiring, broad banding, a simplified classification system, and a personnel system that links compensation to employees' contributions to the mission through annual performance appraisals. The Department will be transitioning from the ACQDEMO Project to the Best Practices Demonstration Project during FY 2004. The history and status of ACQDEMO initiatives are available at www.acq.osd.mil/acqdemo		
Improve the Industrial Base	Established a new policy for "price-based" acquisition", in which the government pays a fair market price whenever possible to encourage smaller companies to compete for defense work.	During FY 2003, we will continue to increase competition, by stressing that the government no longer expects contractors to invest their own funds for defense research and development to cover shortfalls in government funding. This past practice hurt the ability of defense contractors to make reasonable profits, and discouraged smaller companies for bidding for defense work.	
Rationalize the Weapon Systems Infrastructure With the Defense Strategy	Submitted a legislative proposal to conduct another Base Realignment and Closure (BRAC) round to rationalize our infrastructure and eliminate excess capacity.	Analyze excess capacity, to include the effect of actions that increase the joint use of facilities and consolidation of functions, such as the integration of Navy and Marine Corps tactical aircraft squadrons.	Conduct detailed analyses to develop the Department's BRAC recommendations. Issue final recommendations in May 2005
Initiate High-Leverage Technologies	Accelerate the fielding of weapon systems using an evolutionary acquisition development process. Initiate 15 Advanced Concept Technology Demonstration (ACTD) projects, such as the GBU-118B Thermobaric weapon, and the Dragon Eye chemical and biological detector.	Initiate 14 ACTD projects, such as: Joint Blue Force Situational Awareness, Adaptive Joint C4ISR Node, High Altitude Airship, GRID LOCK, Tactical Interferometric Synthetic Aperture Radar (IFSAR) Mapping, Foliage Penetration/Synthetic Aperture Radar (SAR), Deployable Cargo Screening, Tunnel Target Defeat, Urban Recon, Midnight Stand, Theater Support Vehicle, Night Vision Cave, and Urban Assault and Overwatch.	Initiate **13** ACTD projects.

Increase the Visibility of Trade Space

Section 113 of Title 10, U.S. Code, requires the Secretary of Defense to give military departments and defense agencies written policy guidance on how to prepare their programs and budgets. This guidance must *"… list national security objectives and policies; the priorities of military missions; and the resource levels projected to be available for the period of time for which such recommendations and proposals are to be effective."*

Too often in the past, the program priorities highlighted in the Secretary's guidance were unaffordable when taken together. Two years ago, Secretary Rumsfeld directed his senior aides to completely rethink how defense guidance was drafted. He asked them to use the document to define "trade space" that would help him balance investment—and risk—across the entire defense program.

Higher

Priority

Lower

- **Readiness and Sustainability**
- **Modernization**
- **Force Structure**
- **Infrastructure**

Last year's guidance dramatically improved the Secretary's ability to influence the investment choices made by the military departments and defense agencies by assigning specific program priorities that had to be achieved within fiscal constraints and identifying areas for divesture, as required to stay within those constraints. It also directed some 30 studies be undertaken over the next few months to gain insight into how programs must be structured to achieve synergy in joint operations. Specific, clear standards for future program performance can then be incorporated into the next update of the Secretary's guidance.

Improve the Transparency of Component Submissions

Accurate information is the keystone of good decisions. Accordingly, we are committed to making the program and budget documents prepared by the military services and defense agencies more "transparent"—that is, to clearly align manpower and dollar allocations to a specific set of related activities (called "programs"), so sen-

ior level decision makers can see how they directly support the defense strategy.

By converting to a completely paperless data collection process, we have cut the time lag between when services and agencies submit resource plans to our central clearinghouse and when it is verified and published. These data are then loaded to our Defense Program database-Data Warehouse on a website available to resource managers across the Department, along with historical data and a variety of analytical to assist in cross-functional analyses.

In the future, we will continue to standardize and reduce reporting requirements, improve data quality, and reduce workload by directly linking service and agency computers to our central database. We are also working to merging our long-term resource planning and budget databases.

We are now building a series of performance indicators that will measure improvements in data accuracy, completeness, consistency, timeliness, and reporting workload. By FY 2004, all program and budget resource and force data should flow through a single collection point.

Provide Explicit Fiscal Guidance for Program Development

Section 113 of Title 10, U.S. Code, requires the Secretary of Defense to give the heads of the components the resource levels projected to be available for the period of time for which national security objectives and policies and military missions established as priorities under the defense strategy are to be effective. In the past, the assumptions used to set these resource controls were not shared with component organizations. As a result, there was often a "strategy-resource" mismatch, requiring the Military Departments and Defense Agencies to make assumptions regarding the Secretary's priorities in order to balance their internal books.

In the future, we will improve how resources link to the Secretary's policy goals by building feedback control mechanisms. These tools will help set explicit funding targets for high-interest programs, while at the same time identifying programs where some resource risk is allowable. The long-term goal is to give service and agency

managers the information they need to make rationale resource decisions that are directly aligned with the performance goals of the defense strategy.

Provide Explicit Budget Review Guidance

One of five government-wide management initiatives, the Budget and Performance Integration Initiative builds on the Government Performance and Results Act of 1993 and earlier efforts to identify program goals and performances measures, and link them to the budget process. Accordingly, beginning in February 2003, we began reviewing how well military departments and defense agencies:

- Display the linkage of plans-outputs-resources in budget justification materials.

- Expand the treatment of metrics in the FY 2004 congressional justification materials.

- Report on progress made towards the performance goals.

MANAGE OVERHEAD AND DIRECT COSTS
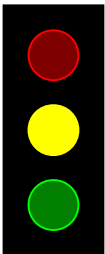
Fully half of our resources go to infrastructure and overhead, and in addition to draining resources from warfighting, these costly and outdated systems, procedures and programs stifle innovation as well.
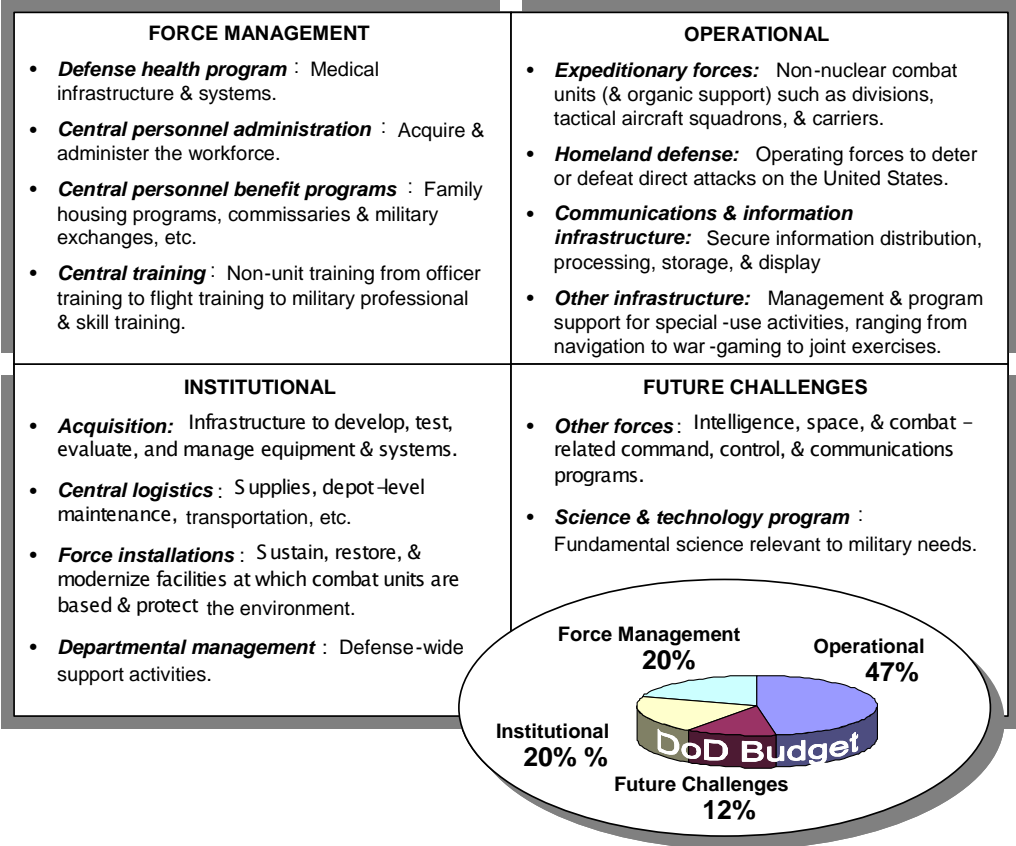
Secretary Rumsfeld, September 10, 2001.

Headquarters across the Department have shrunk by 11.1 percent from 1999 levels, and more changes are coming. We are well on our way to eliminating almost half of 72 acquisition-related advisory boards. Tasks not vital to our "core" military missions are being turned over to more appropriate organizations or eliminated, and military personnel returned to operational units. For example, this year we agreed to transfer 1,800 agents from the Defense Security Service to the Office of Personnel Management (OPM), and will begin purchasing services from OPM in FY 2004. By combining the information technology and management systems of both organizations into a single structure, we will cut down on duplicative costs associated with the more than 1 million security checks requested by defense organizations each year—and take a long step
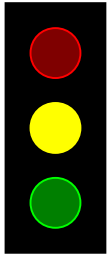
toward shrinking the months-long backlog of pending cases. Similarly, major initiatives are underway to see if private firms can manage military housing and utility systems for less cost while delivering higher customer satisfaction and performance (white-house.gov/omb/budget). We are monitoring these projects carefully, to ensure they not only save money, but also substantially improve the quality of life conditions for our service members.

Linking the Defense Resources to Key Performance Goals

The share of the defense budget devoted to forces and infrastructure is one of many ways DoD monitors how funding is distributed across almost 4,000 separate mission areas. However, as we modernize and consolidate activities, the traditional lines between tooth (deployable operational units) and tail (non-deploying units and central support) merge and blur. As the following example illustrates, we are building various ways to map our programming data structure to make it easier to crosswalk performance results to resource investments.

FORCE MANAGEMENT

- **Defense health program**：Medical infrastructure & systems.
- **Central personnel administration**：Acquire & administer the workforce.
- **Central personnel benefit programs**：Family housing programs, commissaries & military exchanges, etc.
- **Central training**：Non-unit training from officer training to flight training to military professional & skill training.

OPERATIONAL

- **Expeditionary forces:** Non-nuclear combat units (& organic support) such as divisions, tactical aircraft squadrons, & carriers.
- **Homeland defense:** Operating forces to deter or defeat direct attacks on the United States.
- **Communications & information infrastructure:** Secure information distribution, processing, storage, & display
- **Other infrastructure:** Management & program support for special-use activities, ranging from navigation to war-gaming to joint exercises.

INSTITUTIONAL

- **Acquisition:** Infrastructure to develop, test, evaluate, and manage equipment & systems.
- **Central logistics**：Supplies, depot-level maintenance, transportation, etc.
- **Force installations**：Sustain, restore, & modernize facilities at which combat units are based & protect the environment.
- **Departmental management**：Defense-wide support activities.

FUTURE CHALLENGES

- **Other forces**：Intelligence, space, & combat –related command, control, & communications programs.
- **Science & technology program**： Fundamental science relevant to military needs.

Force Management 20%
Operational 47%
Institutional 20% %
Future Challenges 12%
DoD Budget

57

IMPROVE THE READINESS AND QUALITY OF KEY FACILITIES

For too long, we neglected our facilities, postponing all but the most urgent repairs and upgrades until the long-term health of our entire support infrastructure was in jeopardy. Therefore, over the past two years, we've invested substantial sums in sustaining, restoring, and modernizing—cutting the previous recapitalization rate of 192 years by almost a third and improving our sustainment rate.

Fund to a 67-Year Recapitalization Rate by 2007

The Facilities Recapitalization Metric (FRM) measures the rate at which an inventory of facilities is being "recapitalized"—that is, modernized or restored. Recapitalization may mean a facility has been totally replaced—or recapitalization can occur in increments over time, until the facility is upgraded sufficiently to meet acceptable standards.

Our recapitalization performance goal equals the average expected service life (ESL) of the overall facilities inventory, estimated to be 67 years. ESL in turn is a function of how well a facility is sustained, including routine repairs. A "normal" ESL assumes full sustainment that is benchmarked to a commercial per unit cost. (For example, it costs $1.94 per square foot annually to properly sustain a typical aircraft maintenance hanger for a 50-year life cycle.) If a facility is not funded to levels needed to keep it repaired and maintained, its ESL is reduced. Thus, the metrics for sustainment and recapitalization are linked.

We are on a sharp downward slope from our 200+ year average in 1999. This year's budget proposal brings the rate down to 136 years, on a glide path to achieve our goal of 67 years by 2007. Despite this improvement, many facilities still report deficiencies serious enough to affect mission performance.

Eliminate Inadequate Family Housing by 2007

During FY 2002, more than 26,000 family housing units were revitalized, demolished, or placed in the hand of private-sector firms for refurbishment and management. Still more than half of all family housing units lived in by service members during this year rate as "inadequate" because they needed a major repair, a key component (like a furnace or kitchen) replaced, or were so rundown they needed complete renovation. As part of our social compact with our service members, the Army, Navy, and Marine Corps are committed to eliminating inadequate family housing by the end of FY 2007; the Air Force will reach that goal within the continental United States in 2008 and overseas by 2009.

Each military department has developed a Family Housing Master Plan that outlines, by year, what needs to happen to achieve the FY 2007 goal within the Department's $4 billion annual budget for military housing.

Number of Inadequate Units
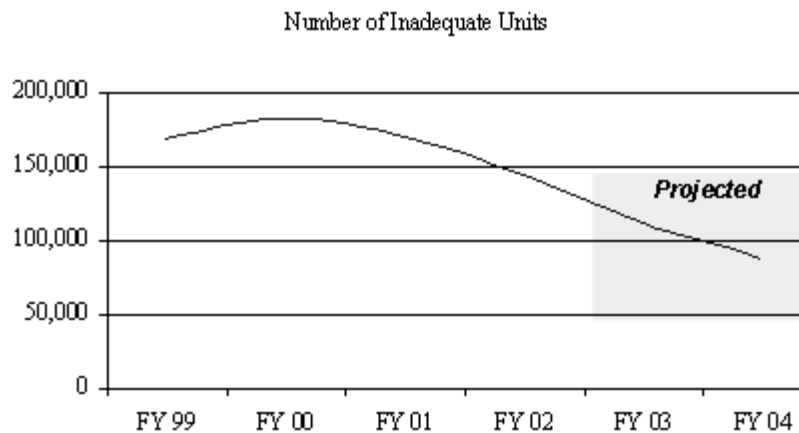
Restore Readiness of Key Facilities by 2010

Rundown facilities are not just uncomfortable places to work, they generate real military risk if their deficiencies prevent the delivery of important operational services, such as unit training, logistics support, or medical care. The Secretary had directed that all key facilities across the Department be restored to a high state of military readiness before the end of FY 2010. Yet, how do we measure facility readiness?

In the past, we've used the Installation Readiness Report (IRR) as an indicator of general conditions. But the current IRR cannot be crosswalked to real property inventories, thus it cannot be used to target investments needed to sustain improvements over the long term.

We need a better set of measures for facility readiness, and have chartered a Department-wide effort under the auspices of the Installations Policy Board to standardize individual facility records in real property inventories, and improve the quality of data underpinning IRR summaries. The first round of improved IRR data is scheduled for receipt in October 2004.

Base Realignment and Closure (BRAC) in FY 2005

The Secretary's mandate to transform America's defense for the 21st Century will be impossible unless we quickly shed unneeded infrastructure now on our books, and streamline operations at the remaining facilities. Therefore, on 15 November 2002, Secretary Rumsfeld signed a memorandum officially establishing the process for recommending base closures and realignments in 2005. This year we are developing rules for the many investigative tasks necessary to make informed BRAC decisions. We will also begin to conduct the detailed analyses to reshape the Department's infrastructure to better match its future force structure requirements. Our goal is to present transformational closure and realignment recommendations to Congress by May 2005.

REALIGN SUPPORT TO THE WARFIGHTER
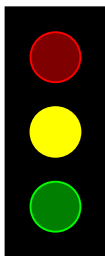
Transformation of our military forces hinges on being able to reduce redundancy, focus organizations on executive goals, flatten hierarchies, and cut cycle times in the decision process. If we can find ways to make real progress in these areas, small changes will yield huge gains in technology transfer, which in turn will help drive more effective operational performance.

Major Defense Acquisition Program (MDAP) Cycle Time

Acquisition cycle time is the elapsed time, in months, from program initiation until the system attains initial operational capability—that

is, when the product works as designed and is fielded to operational units. A number of years ago, we began measuring the average cycle time across all major defense acquisition programs, or MDAPs (new equipment or material systems that cost more than $365 million in FY 2000 constant dollars to research and develop, and more than $2 billion to procure and field). Since more than a third of the annual defense budget goes to buying and operating major weapons systems, we wanted to understand how quickly new technologies were moving from the drawing board to the field. This performance measure is a leading indicator of technology transfer—typically, the faster a program moves toward fielding, the quicker associated operational improvements can be introduced to the force, and the easier it is to control overall program costs.

During the 1960s, a typical acquisition took 7 years (84 months) from initiating research and development activities to achieving initial operating capability. By 1996 a similar acquisition required 11 years (132 months) from program start to initial operating capability. To reverse this trend, we have set a goal for reducing the average acquisition cycle time for major defense acquisition programs started since 1992 by 25 percent—to less than 99 months or about 8 years. Over the long term, we want to cut average cycle time to less than 5-1/2 years (66 months) for all MDAPs started after FY 2001. To achieve that objective, the Department is introducing improvements to development and production schedules similar to those it initiated for managing system performance and cost.
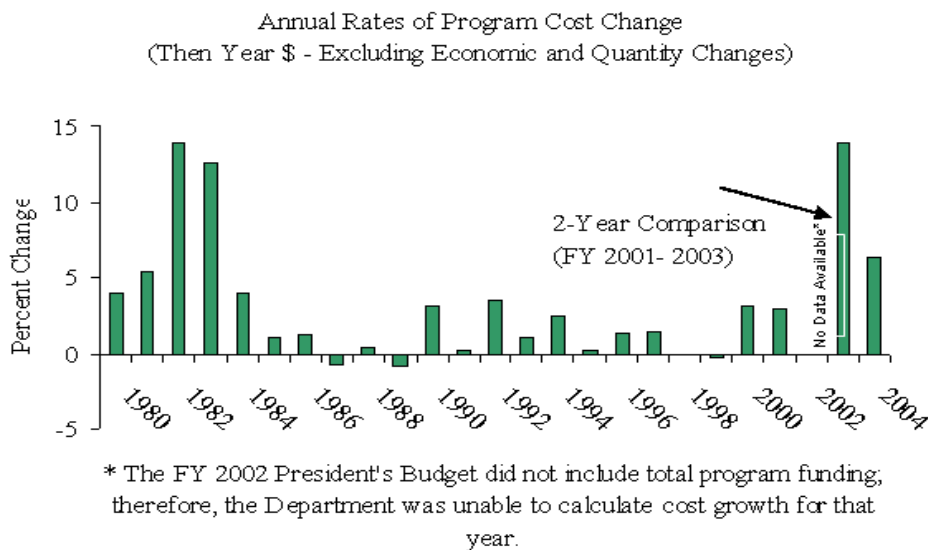
MDAP Acquisition Cost Growth

Like cycle times, the pace at which acquisition cost increases over time is an indicator of program performance. Acquisition cost growth measures the difference, in percentage, between total acquisition costs estimated in the current-year President's Budget and those actually incurred during the execution of the past-year's budget. The population of programs included in this comparison is all MDAPs common to both budgets—common programs are dollar-weighted.

Although costs can grow for various reasons, including technical changes, schedule slips, programmatic changes, or overly optimistic cost estimates, a steady or downward trend line is a solid indicator

of how efficiently acquisition activities are being managed across the Department. Our near-term objective is to be on a downward trend by the end of FY 2003, toward an ultimate goal of no acquisition cost growth.

MDAP Operating and Support (O&S) Cost Growth

We are developing a similar measure to monitor O&S cost growth. This new measure will monitor the growth in O&S costs—that is, the costs of people and material required to operate and maintain systems. It will compare the difference, in percentage, between estimates of O&S costs associated with the current-year President's Budget and those estimates done for the past-year's budget. This measure will be an indicator of how effective our efforts are at designing systems that cost less to support and operate. This indicator, when combined with the performance indicator for acquisition cost growth, will represent the entire life-cycle cost of a typical new defense acquisition, like a new tactical jet fighter.

Annual Rates of Program Cost Change
(Then Year $ - Excluding Economic and Quantity Changes)

* The FY 2002 President's Budget did not include total program funding; therefore, the Department was unable to calculate cost growth for that year.

Our goal is to be on a downward trend for O&S cost growth by the end of FY 2003, toward an ultimate goal of no cost growth. This is a developmental performance measure—the first data will be ready for analysis soon.

Customer Wait Time (CWT)

Response time is a commonly used business measure for evaluating whether an organization's logistics operations are organized to deliver effective, efficient performance. DoD adapted this best-practice to military logistics in FY 2001, when we began measuring the elapsed time from a customer's order to receipt. The metric-Customer Wait Time, or CWT, tracks orders filled from assets on hand at the customer's military installation or naval vessel or through the DoD wholesale logistics system.

Last year, the average DoD-wide CWT was 16 days—the goal for FY 2004 is to reduce wait time to 15 days on average. CWT is a transformational approach to evaluating performance. In the past, good logistics meant holding large inventories—today, all the military services have agreed on a common set of business rules for monitoring the performance of the entire logistics enterprise.

Customer Wait Time
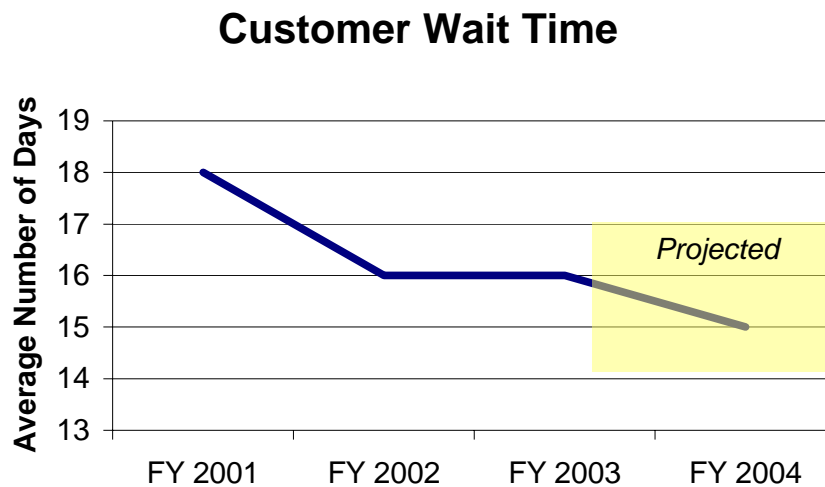
Implement Realignment Recommendations Approved by the Senior Executive Council

Secretary Rumsfeld has created a Senior Executive Council to serve as the Department's senior business council. Members include the Secretary, the Deputy Secretary, the three secretaries of the military departments, and the Under Secretary of Defense for Acquisition,

Technology and Logistics. The idea was to bring senior civilian resource managers to work together on the integrated economy of defense—to build a common agenda and drive change.

Over the past 12 months, this Senior Executive Council has provided a roadmap to improving how we manage resources, systems, and people.

FY 2003 Actions to Drive Excellence in Core Processes

- **Institutionalize performance management** by aligning management activities with the President's Management Agenda and the DoD balanced scorecard for risk management; associate performance metrics with at least 20 percent of the resources requested each year.

- **Improve business practices** by pooling unused cell phone minutes, recovery auditing, web-based invoicing, and improving financial practices and management of the Defense Working Capital Fund.

- **Implement net-centric business transformation and e-government** by transitioning from a primary stovepiped, platform-based information technology (IT) environment to a more customer-focused, web-enabled, net-centric environment. (The FY 2004 budget invests $3 million in IT education and training; $10 million in initiatives to accelerate implementation of net centricity.)

- **Pursue commercial activities and competitive sourcing programs** via the continued review non-core functions for competitive sourcing. The FY 2004 budget supports studying 10,000 full-time equivalents (FTEs). The Department will study 226,000 FTEs over the FY 2004-2009 timeframe.

- **Reengineer the personnel security program** by seeking statutory authority to transfer the personnel security investigation function currently performed by the Defense Security Service to the Office of Personnel Management, thus streamlining activities and eliminate redundancy. Projected savings are approximately $160 million over the FY 2004-FY 2009 timeframe.

- **Divest document automation and production service** in the Defense Logistics Agency beginning in FY 2004, allowing the private sector to compete these services. Projected savings are approximately $80 million over the FY 2004-2009 timeframe.