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**DEFENSE**

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**THE DEPARTMENT OF DEFENSE  
AGENCY TEAM REPORT**

**NATIONAL PERFORMANCE REVIEW**

INTERNAL WORKING DOCUMENT -- NOT FOR DISTRIBUTION

August 6, 1993

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**Section I**  
**Introduction**

## THE DEPARTMENT OF DEFENSE

Congress established the War Department in 1789 to provide for the common defense. The Department of Defense (DoD) replaced the War Department in 1949. A cabinet-level organization, DoD is comprised of 16 Defense agencies and three military departments: the Army, Navy, and Air Force. Subordinate to these departments are the four branches of the armed services: the Army, Navy, Air Force and Marine Corps. While the military departments are responsible for recruitment, training, and logistics involving the armed services, the Goldwater-Nichols Department of Defense Reorganization Act of 1986 placed operational control over the chain of command squarely upon the shoulders of the unified and specified commanders-in-chief.

DoD is also this country's single largest employer with 1.9 million active duty military personnel, 1.8 million in the National Guard and Reserves and 1.0 million civilian employees.

DoD's fiscal 1993 budget was \$259.1 billion and accounted for 18 percent of the total national budget.

With the advent of the Gorbachev Era, the strategic and tactical missions of the Department of Defense began to change. The collapse of the Warsaw Pact, the democratization of Eastern Europe and the demise of the Communist-controlled Soviet Union have led to a radical change in the way defense missions are being analyzed. The threat of nuclear holocaust greatly diminished with the end of the Cold War. This change has necessitated a new national defense policy for the 21st century.

As the risk of a High Intensity Conflict (e.g., a global or a nuclear war) has diminished with the collapse of the Soviet Union, DoD is realigning its mission areas. Current DoD doctrine recognizes that the threats of the future will more likely consist of medium and low intensity regional conflicts (e.g., Somalia, the Balkans). In these situations, the U.S. would be only one of the world's nations called upon by the United Nations to provide military and humanitarian assistance.

The DoD budget has significantly declined in real terms since 1985. By 1997, the Defense budget will decline by more than 40 percent. The Defense budget authority is projected to decline from \$259.1 billion in fiscal 1993 to \$240.5 billion in fiscal 1998.

In fiscal 1992, DoD employed 1.8 million military personnel on active duty with another 1.1 million in the Ready and Standby Reserves. With the current cutbacks in military personnel, DoD is expected to eliminate 30 percent of its active duty personnel. By 1994, the projected decrease will reduce DoD personnel to 1.6 million active military, 1.0 million reserve and national guard and 0.9 million civilians.

In fiscal 1992, DoD had more than 560 military installations and properties. About 470 of these are located in the United States, and approximately 91 are overseas in 20 countries and eight U.S. territories. Nearly one-third of all active duty personnel are stationed outside the United States. The recommendations of the 1993 Defense Base Closure and Realignment Commission (BRAC) included the closure of 31 major bases, the realignment of 12 major bases and reductions to 122 smaller bases and activities for a savings of \$3.1 billion per year.

The current downsizing of the military emphasizes the need to develop innovative business practices that will result in a more flexible and effective DoD. A greater reliance on the private sector to perform many administrative and overhead duties would reduce the number of employees at DoD. The National Performance Review (NPR) has identified opportunities when greater use of the private sector is more cost effective or improves customer service.

DoD has also initiated a significant internal program called the "Bottom-Up" Review. This review is a comprehensive effort by DoD to identify specific military programs where DoD can achieve significant cost savings without affecting the integrity of current core mission requirements.

The Office of the Secretary of Defense is being completely restructured. More than two dozen divisions that formerly operated autonomously were pared to five basic parts. Under the new plan, four of the five Pentagon divisions--Acquisition and Technology, Policy, Comptroller and Personnel and Readiness--will be headed by under secretaries. The fifth will be headed by the Assistant Secretary of Defense for Command, Control, Communications and Intelligence.

DoD is also pursuing acquisition reform to identify improvements in acquisition practices. The DoD Acquisition Law Advisory Panel's Section 800 Report submitted to the Senate and House Armed Forces Committees represents the first step in defining a

streamlined, sensible and coherent set of acquisition laws. The submission ensures necessary levels of congressional oversight and control without significantly burdening the process with unnecessary regulation. This action, if enacted, will have a major impact on Defense's ability to follow smart business practices and outsource where it makes operational and economic sense. A key facet of this reform will be the use of commercial specifications versus military to the maximum extent possible. This should serve to lower product/service cost and, in turn, make the market place more competitive.

In conjunction with NPR, DoD initiated its own Defense Performance Review (DPR). Working in cooperation, the NPR and DPR have developed 12 initiatives which are addressed in this report. These initiatives seek to improve DoD's ability to meet its mission requirements in the most efficient and cost-effective means as possible. Along with the Bottom-Up Review, the NPR/DPR initiatives represent a comprehensive effort by DoD to manage itself in a more entrepreneurial manner.

### **Shifting from Red Tape to Results**

The weight of more than 10,000 directives and 470,000 pages of intermingled policy guidelines and highly detailed procedures has stifled innovation and efficiency within DoD. The downsizing of DoD has reduced the ability of its employees to "get the job done" as they are overburdened with a policy-guidance structure that has created an overcentralized bureaucracy where policy makers try to cover all possible situations and managers futilely attempt to prevent error by adding new levels of directives every time a mistake is found. This massive inundation of paper severely limits inventiveness and creativity within DoD.

The principle of "steer better, row less" requires centralized policy-making and decentralized policy execution as well as revision of policy directives include better guidance and fewer procedures. An initiative has been developed to replace the old paradigm of rigid bureaucracy which is resilient to change to a new paradigm of flexibility and adaptability where employees are empowered rather than shackled.

To remedy this problem, the NPR/DPR are proposing innovative programs to clarify, and where possible, reduce DoD policy directives, manuals and procedures. Through the following initiatives, DoD is seeking to "steer better and row less":

- Rewrite Policy Directives to Include Better Guidance and Fewer Procedures

- Establish a Unified Budget for the Department of Defense

### **Introducing Market Dynamics**

As its budget decreases, DoD must obtain the most value out of the funds it is given. As a buyer of supplies and services, DoD will have to carefully analyze its procurement processes in order to make them more competitive and cost effective. For example, DoD should explore the use of outside providers if quality supplies or services can be obtained faster and cheaper. Where possible, DoD will have to explore methods to generate income or obtain reimbursement. In effect, DoD must manage its business activities like a business.

The initiatives identified below provide opportunities for DoD to develop programs based upon sound business practices:

- Purchase Best Value Common Supplies and Services
- Outsource Non-core DoD Functions When It Makes Economic and Operational Sense
- Create Incentives to Find Revenues
- Establish and Promote DoD's Productivity-Enhancing Capital Investment Fund

### **Creating a Quality Management Culture**

The problem with government today is that we have a very hierarchial, bureaucratic system that is based on the needs of an industrial age government. We are in the midst of a revolution in information technology and innovative management concepts. This new information age will shape the demands of government into the 21st century. In order for DoD to respond to future challenges, it must develop a management system which serves its employees' needs and meets their expectations. These changes will make government efficient and effective in dealing with those needs. To effect those goals, DoD must embrace the principles of Total Quality Management and reform its constrained budget execution process.

To this end, two initiatives are aimed at adopting a Federal Quality Workplace within DoD to streamline the budget process:

- Create a Healthy and a Safe Environment for DoD Activities
- Establish a Defense Quality Workplace

**Now is the Time**

In light of DoD's initiative to reduce its budget, one of the goals of the NPR/DPR is to review and identify DoD programs where change can be made to promote efficiency and economy without sacrificing the military mission. Based on that review, DoD can initiate changes now to major defense programs such as installation management or DoD's support of counter drug activities while still achieving maximum efficiency and effectiveness.

The following programs were identified:

- Give DoD Installation Commanders More Authority and Responsibility Over Installation Management
- Reduce DoD Support of the Drug Interdiction Program
- Reduce National Guard and Reserve Costs
- Streamline and Reorganize the U.S. Army Corps of Engineers

**Concluding Remarks**

The NPR/DPR are recommending proposals which encourage innovative change in an environment of rapidly changing mission priorities and budgetary constraints. Along with the Bottom-Up Review, the 12 proposals emphasize a new focus on accountability, enhanced budgetary and management techniques and a renewed commitment to providing a safe, quality workplace for DoD personnel.

These recommendations are part of DoD's plan to maintain a viable and resilient military force structure capable of meeting any exigency in the future.

**Section II**  
**Issue Papers and Recommendations**

## **Shifting from Red Tape to Results**

## REWRITE POLICY DIRECTIVES TO INCLUDE BETTER GUIDANCE AND FEWER PROCEDURES

### Background

The United States has succeeded as the greatest military power in the world despite the Department of Defense's (DOD) embedded bureaucracy because of committed people and sufficient resources to resolve major problems. Times and available resources, however, are changing. The DOD is downsizing and cannot "get the job done" in the same way with half-a-million fewer people. The weight of more than 10,000 directives and 470,000 pages of intermingled policy and highly detailed procedures has stifled innovation and efficiency. The Air Force's experience in implementing its initiative proves these publications contain many unnecessary or needlessly restrictive procedures that shackle workers throughout the DOD.

DOD's resources are decreasing rapidly while the diversity and scope of its missions are increasing. As resources dwindle, DOD must focus its energy on expending its remaining resources on the right things. Better management of policy implementation will ensure that commanders can identify and concentrate on these 'right things.' When commanders and others lose sight of policy because it has become buried in procedures, they become more concerned with *how* something is done than with *what* they are supposed to do. This tendency worsens when people or units are graded on how well they dot the 'i' and cross the 't' rather than how well their end products achieve or support their original goal. If only procedures are measured, people will do the procedures very well, but they may completely miss the intent of the policy.

Over time, DOD policy-guidance has grown because its bureaucracy over-centralized, headquarters tended to decide what was best for the field, policy makers tried to cover all possible situations and managers futilely attempted to prevent error by adding new procedures every time an inspection or audit uncovered a mistake. DOD has buried policy in the many detailed procedures considered necessary to "get the job done." This growth of detailed procedures severely limits inventiveness and creativity in finding the best, least costly and most effective means to accomplish changing missions. Accountability decreases as errors are blamed on "procedures" or time-consuming

requests for waivers. Most important, the blurring of policy has caused a loss of focus on the end product or goal.

The renewed thrust within the federal government to encourage more business-like practices provides DOD an opportunity to change and to delegate responsibility and authority to its operating levels. The principle "steer better, row less" requires centralized policymaking and decentralized policy execution. The Office of the Secretary of Defense (OSD) and Component (those agencies internal to OSD excluding the service branches--the Army, Navy, and Air Force--and the Joint Chiefs) headquarters need to focus on providing policy guidance (*what*), while allowing people in the field enough latitude to determine *how* to carry-out that policy. To achieve a renewed, empowering environment, the DOD must clarify its written policy and strictly limit directives to state what the organization most wants to accomplish. DOD must purge these directives of unnecessary, encumbering and restrictive procedures that stifle innovation and efficiency.

The following two success stories--one from the Air Force and one from the Defense Logistics Agency (DLA)--demonstrate that progress in clarifying policy and procedures is possible.

The Air Force saw the need for change and acted to streamline the organization and reduce bureaucracy. It knew that the key to success was to empower people to be creative, accept responsibility and use initiative to seek out new, more efficient methods. It also recognized, however, that creative efforts must focus on getting the right things done. Policy became one of the Air Force's most effective tools. Policy provided the focus on the "right things" and served as the guide for accomplishing the mission. The Air Force's Policy Review Initiative served to identify and clarify the most important things the Air Force does; set clear, concise policy; fix accountability and responsibility and measure the accomplishment of policy objectives.

The Air Force has identified its most important, "overarching" policies in Air Force Policy Directives (AFPD). Written by Air Force Headquarters (HQ USAF), these directives clearly and concisely state policies, outline responsibilities and authorities and provide "CEO-level" metrics to measure performance. Senior leaders use management information based on these metrics to make "fact-based" decisions. Policy Directives are

no more than three to five pages long.

The Air Force is rescinding all old regulations while retaining only those procedures required to comply with law, health and safety issues, or to standardize Air Force systems. Field operating agencies or designated major commands are writing these mandatory procedures and HQ USAF is issuing them as Air Force Instructions.

The Air Force is replacing 1,510 regulations with 165 policy directives and 750 instructions containing essential procedural guidance. Some 55,000 pages of intermingled policy and procedures will become approximately 18,000 pages which clearly separate policy from procedures. And by mid-1994, CD-ROM disks will replace printed documents.

Commanders of the Air Force's major commands have strongly approved of the increased latitude this initiative provides and are quickly "mirror imaging" the concept within their commands. In short, they also are orienting their headquarters staffs to policy and leaving the "rowing" for local commanders.

The DLA's Defense Contract Management Command (DCMC) undertook an effort consistent with the thrust of the Policy Review Initiative. It replaced 16 manuals with *The DCMC Manual*, also known as the "One Book"--a single document organized around DCMC services. DCMC wanted to increase efficiency and effectiveness by eliminating restrictive and sometimes conflicting functional policies and procedures. The One Book contributes to the success of this initiative because it focuses only on headquarters policy and leaves procedures to field activities. It has fundamentally changed the way DCMC writes policy. The One Book has empowered the field commanders to best apply resources to achieve mission success.

As a related initiative, through the persistent efforts of the Director of the DLA Office of Publications, DLA now uses ROM technology for many large logistical and policy databases. The DLA Publishing System (DLAPS) produces and distributes all policy, procedures and administrative-support documents on CD-ROM. DLA has converted more than 800 DLA regulations, manuals and handbooks, containing 140,000 text and image pages, to CD-ROM. For a one-time capital investment of \$900,000, DLA identified an annual cost savings of \$600,000 by eliminating conventional printing of publications and reducing distribution and storage costs. Additionally, DLA avoided

\$1,370,000 in annual costs by no longer having to insert change pages in DLA publications. Users receive the most complete, up-to-date inventory of publications every three months on the DLAPS CD-ROM. The success of this DLA initiative clearly demonstrates the feasibility (and desirability) of using electronic media to distribute the revised policies and procedures advocated here.

### **Recommendations**

- 1. The DOD should clarify policy and decentralize procedures to empower people to do their jobs better.** The goal of the initiative is to provide clear, concise statements of policy for *what* is to be done and then measure its accomplishment. Further, DOD should delegate procedures (the *how*) and the accompanying responsibility and authority, to the lowest possible level, so the field can work within local constraints. In pursuit of this goal, DOD should establish procedures to ensure that existing policy guidelines are reviewed and revised, future guidelines meet specific criteria, performance of the new guidelines is tracked and all guidelines "steer more and row less."
- 2. Components must streamline their procedural guidance.** Components should write directives that include only essential procedures, e.g., those mandated procedures that might be required by law or for reasons of safety, health or standardization. Writers should link procedural publications to the overarching policy directive that require the essential guidance. Components should group families of related procedural documents into single publications. "County option" procedures should be left to field organizations.
- 3. Components should institutionalize in writing the process to revise policy and procedural documents.** They should annually certify that directive publications are current and applicable and monitor the metrics that are part of the policy directives to ensure that the institution implements policy. By evaluating progress and benefits, Components can continuously improve the process.
- 4. DOD should follow the DLA model and make policy directives available on CD-ROM.**

## **Implications**

Regulatory or legislative changes are not needed to carry out this initiative, but as each Component works through this process it will identify barriers to efficient operations. Each Component will address regulatory and legislative changes at that time.

A fundamental change in mindset is needed, however. A move is needed from the old paradigm of a rigid bureaucracy, resilient to change, to a new paradigm of flexibility and adaptability where personnel are empowered rather than shackled. Headquarters personnel must make policy (or steer). They must not mix in the daily operational issues of the field units who are rowing.

Reviewing and clarifying policy will not be easy. It requires headquarters personnel to adopt a new way of thinking--steering, not rowing. However hard it may be, we must empower DOD personnel. The DOD no longer has the level of resources it once had. It must learn and employ new methods to "get the job done."

Clarifying policy directives and limiting procedures to those which are absolutely necessary empowers people, reduces regulatory burdens and frees people to use their creative energy and talent to improve performance and increase output. Institutionalizing the process--separating policy and directing only the essential procedures--will enable quality principles to mature and DOD to improve continuously.

## **Fiscal Impact**

It is anticipated that once these recommendations are implemented there will be fiscal savings to DOD.

## ESTABLISH A UNIFIED BUDGET FOR THE DEPARTMENT OF DEFENSE (DOD)

### Background

Congress provides funds to DoD through a series of appropriations covering specific aspects of defense operations. Congress allows DoD to obligate these funds over one to five fiscal years depending on the type of funds. Congress also allows cumulative transfers of about \$4 billion among appropriations. However, DoD does not give similar unilateral flexibility to its headquarters and field commanders. Rather, it requires them to manage their varied and complex installations under budgetary controls which provide less flexibility than needed for the most efficient use of funds. Commanders must request approval from higher authorities to shift funds among appropriations or categories.

When commanders request approval to shift funds, higher authorities often take part or all of the excess funds for higher priority contingencies. As a result, former and current commanders, who wish to remain anonymous, stated that they were hesitant to seek approval to shift funds. Furthermore, they do not have incentives to hold funds in reserve to ensure that the highest priority needs are met. To avoid losing the use of the funds, commanders may use the funds for lower priority needs.

In recognition of this problem, DoD initiated a three-year unified budget test beginning in fiscal 1987. Several installation commanders were given flexibility to transfer funds among appropriations and cost categories. The test showed that more needs were met, funds were used more efficiently, and readiness was enhanced.<sup>1</sup> For example, funds were transferred under the test between maintenance and furnishing accounts to purchase new kitchen ranges rather than repair when it was cost effective.<sup>2</sup>

Despite the demonstrated effectiveness of the unified budget concept, DoD neither adopted the concept nor continued the test. The primary reason given for abandoning the unified budget concept was that greater central budgetary control was needed to handle major unbudgeted activities such as medical cost overruns, the Persian Gulf War, and emergency disaster assistance.<sup>3</sup> Higher authorities also felt that the flexibility under the unified budget concept made it more difficult to ensure compliance with reprogramming thresholds and legislated transfer authority.<sup>4</sup>

Nevertheless, the 1994 budget request to Congress for the Department of Defense

proposes consolidation of a number of categories within the operations and maintenance accounts as an initial step toward a unified budget. This proposal, while moving in the right direction, does not go far enough to provide flexibility for the commanders throughout DoD. Activity commanders will still receive funds in four or more appropriations: Operations and Maintenance, Other Procurement, Family Housing, and Military Construction.

The Department of the Navy has no problem meeting major unbudgeted needs. They prorate the required funding among their major commands, request recommended off-sets be identified, and centrally review the recommendation before transfer to fund the emergent need.<sup>5</sup> This process could be used by the entire Department of Defense to eliminate the headquarter's concern over flexibility to meet emergent requirements.

The DoD budget execution process needs to shift from a centrally controlled, red tape bound process to one that is results oriented. Central budget offices need to limit themselves to steering while the budget executing commanders do the rowing. Delegation of authority and responsibility will result in better utilization of the limited funds available. The focus of the budget can then shift to outcomes rather than categories of expenditures.

### **Recommendations**

- 1. DoD should revise its budget process to fund major unbudgeted emergencies by a process of assessing each organization an appropriate share of the shortfall.** To the extent possible and appropriate, commanders should have flexibility to determine which budget accounts under their control will be used to fund the assessment. This could be implemented in fiscal 1994.
- 2. DoD should combine Operations and Maintenance, non-weapons systems (non-centrally managed) Other Procurement, Family Housing Operations and Maintenance, and Minor Construction into a single appropriation, available for obligation for three years, for each Service and DoD agency.** If approved by Congress, this would further enhance the unified budget concept. Three years of funding availability is necessary for cost effective procurement and is consistent with the current availability of Other Procurement funds. This should be proposed for the fiscal 1995 budget. If Congress does not approve this recommendation,

recommendations 3 and 4 are alternatives that DoD could implement unilaterally.

3. **DoD should allow field commanders flexibility to transfer funds among appropriations and cost categories, as needed, to improve mission capability, cope with unforeseen contingencies, and take advantage of opportunities that only flexibility permits.** This could be implemented immediately. Notification to central budget offices of transfers of funds may be desirable to assure compliance with reprogramming thresholds and legislated authority until such time as recommendation 2 is implemented. However, evidence from the test indicates that a very low probability of noncompliance exists even if notification is not required. If noncompliance levels are approached, the central budget offices should notify the field organizations to delay further transfers into that area until transfers out have created sufficient cushion to resume unrestricted flexibility.
4. **DoD should allow headquarters commanders flexibility to transfer headquarters' administrative and housekeeping funds among appropriations and categories.** This could be implemented immediately. This will permit more appropriate allocation among items such as travel, equipment, contractors, and civilian personnel. Notification to the central budget offices of transfers of funds may be desirable to assure compliance with reprogramming thresholds and legislated authority until such time as recommendation 2 is implemented. However, evidence from the test indicates that a very low probability of noncompliance exists even without notification. If noncompliance levels are approached, the central budget offices should notify the headquarters organizations to delay further transfers into that area until transfers out have created sufficient cushion to resume unrestricted flexibility.

### **Implications**

Based on the results of the Unified Budget Test, these recommendations will enhance mission readiness by giving commanders greater flexibility to set priorities, to solve funding problems sooner, to resolve unplanned and unprogrammed requirements, and to facilitate solutions without higher headquarters assistance. In addition, DoD will have a more orderly

process for funding major unbudgeted activities.

### **Fiscal Impact**

DoD will achieve more effective utilization of resources.

### **Endnotes**

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July 22, 1993 G:\ND-Budget

1. Interview with James E. DeWire, Deputy for Programs and Installation Assistance, Office of the Assistant Secretary of the Army (I,L & E), June 11, 1993 and Department of the Army Information Paper, "Unified Budget Execution," March 26, 1990.
2. Army Management Research and Design Activity, Briefing on Unified Budget Test, Indianapolis, IN, May 2, 1989.
3. For example, during an interview with Don Gessaman, Program Assistant Director, Office of Management and Budget, May 19, 1993, he stated that this was an argument against turning over full control to local commanders. Others did not wish to be quoted.
4. Interview with Robert Stone, Deputy Assistant Secretary (Installations), Department of Defense, May 12, 1993.
5. Memorandum from RADM W. Earner, Director of Budget and Reports, Department of the Navy, July 22, 1993.

## **Introducing Market Dynamics**

## PURCHASE BEST VALUE COMMON SUPPLIES AND SERVICES

### Background

The Department of Defense (DoD) acquires common supplies and services under guidance provided by the Federal Acquisition Regulation (FAR) and the Defense Federal Acquisition Regulation Supplement (DFARS). The FAR and DFARS incorporate laws aimed at spending appropriated dollars for many reasons other than just to acquire supplies and services. Socioeconomic goals, protection of American markets, and tailored economic legislation rather than best value have become the focus of the FAR and DFARS. Additionally, each Military Service has added unique acquisition and supply regulations on top of FAR and DFARS guidance. As problems have arisen, the Military services have revised the regulations to prevent recurrence. As a result, service regulations are lengthy to ensure that mismanagement results from a failure to follow, rather than provide guidance. The resulting regulatory environment often confuses and frustrates the customer, supplier, and procurement personnel alike. Furthermore, the bottom line is that the complexity of excessive regulation adds to the cost of doing business.

It is this complexity that has frustrated the best attempts of a Vehicle Maintenance Officer at an East Coast installation. He states that, on the average, ten percent of his vehicles are down at any given time, awaiting parts from the DoD supply system. Many of these parts are locally available, often for less than \$100. If his downtime could be reduced to five percent, he could eliminate the replacement requirement for 30 vehicles, worth over a quarter million dollars. Neither he nor his local procurement office knew that local purchase was authorized for replacement parts for his vehicles. This is an example of how best intentions run awry in this complex environment. As a result of the National Performance Review, the military service has reissued guidance, provided training, and followed-up to ensure that Vehicle Maintenance Officers can obtain vehicles parts in a timely manner.<sup>1</sup>

In order to provide best value common supplies and services, we must streamline existing acquisition guidelines and adopt commercial business practices like credit cards, electronic commerce, competition, and electronic data interchange. Ultimately, expanded numbers of employees must be and feel empowered to procure both urgently needed, critical

items and normal routine requirements. DoD has initiated many efforts in the past aimed at procurement reform and streamline acquisition practices, but caution and fear of failure have impeded rapid expansion of these practices.

### **Recommendations**

**1. DoD personnel should use the best value source of supply, as determined by the local commander or manager.** This will not eliminate the requirement to use specified items where technical guidance exists. DoD will test this at specific reinvention labs for 15 months. The tests will commence no later than 4 months after approval by the Defense Performance Review Committee. Several enabling actions will require waivers to existing law; in those cases, the testing will commence after legislation is amended to permit the test. As the reinvention labs verify the effectiveness of specific actions, the Defense Performance Review staff will coordinate exportation and institutionalization of the action.

**2. DoD should empower any properly delegated individual to buy common supplies and non-professional services.** Don't limit authorization to make small purchases to only procurement personnel. Proper delegation will include sufficient training to be aware of legal and ethical restrictions pertinent to their level of buying authority. Utilize credit cards, establish higher procurement thresholds, develop a procurement customers' Bill of Rights, and return to the basic FAR/DFARS guidance.

**3. DoD should empower internal and external suppliers to focus on meeting customer needs.** Permit variable pricing, match price concept, tailored logistics support detachments, just-in-time base supply, and competition between service providers.

### **Implications**

These recommendations will create a competitive environment in which commanders and managers can select private, public, or non-profit sources for best value common supplies and services, and suppliers similar to the private sector in which market dynamics rather than socioeconomic goals determine the choice of supplier. These recommendations

empower employees and foster excellence rather than blind adherence to procedures.

**Fiscal impact**

More effective utilization of DoD resources is expected.

**Endnotes**

**August 4, 1993\G:\Common**

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1. Defense Performance Review, "Best Value Common Supplies and Services," July 1993, p.1. (draft paper.)

## OUTSOURCE NON-CORE DEPARTMENT OF DEFENSE (DOD) FUNCTIONS WHEN IT MAKES ECONOMIC AND OPERATIONAL SENSE

### **Background**

The DoD budget is falling so rapidly (24 percent real decline since 1990) that DoD can no longer afford to do business as usual, i.e., devote significant resources to performing non-core functions when non-DoD providers are available to do them better, cheaper and faster. The President's fiscal 1994 budget of \$263 billion provides for total compensation and benefits of \$112 billion (civilian - \$40 billion; military - \$72 billion).

Outsourcing in DoD means the transfer of organizational functions, in whole or in part, to non-DoD providers. Optimally, federal civilian employees of the function being outsourced would be employed by the contractor so as to minimize mission impact and adverse personnel actions. Key to deciding whether or not to outsource functions is how to provide the best balance of cost and operational risk.

DoD core functions are those functions or competencies intimately related to the organization's basic mission and crucial to its long run success.<sup>1</sup> In general, core functions in the DoD include combat force, command of combat forces, deployable combat or combat service support, and provision of the rotational base for these functions. Non-core does not equal non-critical. The distinction between core and non-core is used only to remove from consideration certain functions which clearly are not viable outsource candidates.

Outsourcing of non-core functions has been proven in both the private and public sectors to be a sound business tool. In fact, the trend nationwide is toward more outsourcing. In the private sector, the motivation to outsource is profit and hence survival in the marketplace. In the public sector, the principal motivation to outsource stems from the need to provide essential services in the face of declining budgets. Simply put, it is purely a business decision.

The key to this sound business decision is that those functions which are non-core to one organization/company are core functions to other organizations/companies. Therefore, the critical consideration for outsourcing is defining the core business and thus, core functions of the company. For example, administrative functions such as data processing, billing and payroll, while important and necessary, often represent "no value-added" tasks

to their core business. Outsourcing these functions to specialized vendors allows management to concentrate on the company's value-added core functions. Industry has repeatedly demonstrated that this results in more efficient, cost effective operations.

Four of literally thousands of examples of successful outsourcing in the private sector are: (1) General Dynamics awarded a \$3 billion, 10-year contract to Computer Services Corporation to provide all information technology functions including applications development and maintenance, data center operations, and networking; (2) United Technologies awarded a \$100 million, 10-year contract to Integrated Systems Solutions Corporation (ISSC) for operation of United Technologies data center in Newington, Connecticut, providing data processing services, and assuming management responsibility for all existing hardware leases and system software; (3) Continental Bank awarded a \$700 million, 10-year contract to ISSC for data center and network management and operations, assuming all leases on currently installed hardware and system software;<sup>2</sup> and (4) Cummins Diesel outsourced piston design and manufacturing, concentrating instead on building leadership in electronics, ceramics, and alternative fuels.<sup>3</sup>

In the public sector, there are also many examples of successful outsourcing. Across the country, outsourcing of public services has experienced significant growth in recent years. In the last 10 years, outsourcing for refuse collection has grown 43 percent, data processing 3,664 percent, and landfill operations 129 percent. Additionally, local governments reported the following outsource operations: vehicle towing (80 percent), legal services (48 percent), street light operation (38 percent), solid waste disposal (26 percent), and street repair (26 percent).<sup>4</sup>

As a result of Proposition 13, Los Angeles County turned to outsourcing for numerous county services such as security, housekeeping, fleet maintenance, data center operations, fiscal services, printing, and workers' compensation administration. During the period 1978 through 1990, the county estimates it saved a total of \$246.6 million (\$53 million in 1990 alone) through outsourcing. Additionally, the country realized increased private sector employment and internal productivity.<sup>5</sup> Outsourcing has been so successful it is now Los Angeles county policy to do so when it is shown to be more cost effective.<sup>6</sup>

Cultural, administrative, legislative and regulatory roadblocks are preventing DoD

from taking advantage of the opportunity to outsource various non-core functions, even though it would make operational and economic sense to do so.

Cultural roadblocks exist because well-entrenched communities within DoD ranks strongly object to letting go of "non-core competencies." Although these are functions DoD has traditionally performed well, a rigorous review may show DoD does not need to perform them in-house. Achieving this needed cultural change will take an institutional commitment to begin outsourcing.

An administrative roadblock is that DoD senior leadership does not give commanders/managers the latitude to design the mix of sources needed to accomplish their mission. Further, DoD has not developed a simple approach for deciding which specific functions are non-core and which non-core functions to outsource.

Section 312 of the fiscal 1993 DoD Authorization Act is the greatest roadblock to the sourcing process. By prohibiting the funding of contracts in fiscal 1993 as a result of OMB Circular A-76 reviews, Congress has prevented DoD from conducting business in the most effective and efficient manner.

The Acquisition Law Advisory Panel was directed by Congress in the fiscal 1992 Authorization Act, to review all laws affecting DoD procurement actions. During their review of laws regulating DoD contracting for commercial services under OMB Circular A-76, the Panel found that the statutory provisions in Chapter 146 of Title 10 "present a confusing and contradictory set of rules regarding the DoD's contracting out process." In its report, the Panel proposed to consolidate and streamline the existing rules into two sections which provide DoD managerial flexibility while at the same time preserving meaningful congressional oversight and effective community input.

For example, the Panel identified the following sections for amendment or repeal:

Section 2462 which requires procurement of supplies necessary for DoD functions from a private sector source if such a source can provide the supply or service at a real cost lower than the comparable, in-house cost. The Panel recommended an amendment to include a new requirement that the private sector source must be able to provide the supply or service "adequate to meet defined performance standards."

Section 2465 prohibits contracting of fire fighting and security guard functions. The

Panel recommended repeal of this statute in its entirety. They noted numerous examples where this had impeded management flexibility, increased costs, and in some cases hampered meeting mission requirements.

Section 2466 prohibits DoD from contracting out more than 40 percent of its depot level maintenance. The 60 percent in-house requirement was found to be somewhat arbitrary. The Panel believed DoD should have the flexibility to determine core requirements.

Agencies are also required by 10 USC 2851 to obtain construction and design services from Corps of Engineers or Naval Facilities Engineering Command. These organizations are not required to warrant (guarantee) their work. This legislation limits the commander's ability to outsource construction and design services.

Additionally, interviews with commanders/managers disclosed that enabling legislation is needed to allow installation commanders and municipalities to achieve cost savings by negotiating agreements to permit exchange of services. For instance, municipalities could provide trash removal services if the installation provided snow removal and grass cutting services on public roads adjoining the installation.

The final roadblock is regulatory. In the first place, the study goals and budget reductions contained in Executive Order 12615 (Performance of Commercial Activities) have served as disincentives rather than incentives to outsourcing.

The process contained in OMB Circular A-76 is complex and inflexible. However, the basic, fundamental policy outlined in the circular, that government should rely on the private sector for services when analysis determines it is more economical, is sound business. Added flexibility in making this economic comparison would enhance the government's ability to meet this policy goal.

While current federal, DoD, military service and DoD agency regulations may have served a useful purpose, many restrictions placed on commanders/managers at all levels are not warranted. For example, DoDI 4100.33 and OMB Circular A-76 require local authorities to get Assistant Secretarial level waivers for deviations in severance pay and contract administration factors. This requirement can substantially add to the time it takes to complete the cost comparison process, one of the major complaints about the process.

## **Recommendations**

**DoD senior leadership should implement a comprehensive program for outsourcing non-core functions when it makes economic and operational sense.** Before the program can be implemented, senior leadership must overcome roadblocks to outsourcing, give commanders/managers incentives to outsource when appropriate, and test the viability of outsourcing in DoD.

To overcome the cultural roadblocks, DoD senior leadership needs to emphasize the need for a cultural change within the Department regarding outsourcing. Achieving this needed cultural change will take an institutional commitment to implement the proposed sourcing decision process. The advantages are clear--the ability to concentrate DoD resources on its primary mission, while reducing overhead and evolving into a more flexible, leaner organization. By seizing the outsourcing opportunity, DoD can focus on its core competence--protecting the country in wartime.

To overcome the cultural roadblocks, DoD senior leadership should give commanders/managers the latitude to design the mix of sources needed to accomplish their mission. The following five steps would be useful to commanders/managers for helping them to decide which of their functions are non-core and when outsourcing makes economic and operational sense: (1) clearly describe the function in objective terms of what gets done and how it gets done, but not who does it; (2) categorize the function as either core or non-core; (3) establish detailed, specific performance requirements for each function based on the commander/manager's mission and customer requirements; (4) analyze legality, sources available, and performance requirements for each function to determine the source which best balances economic benefits with operational risk--the commander/manager makes this call; and (5) produce a detailed performance agreement and associated documents for function (e.g., performance work statement and request for proposal if function is to be outsourced).

Each performance agreement is like a contract between the commander/manager and the specified source, whether that source is an in-house workforce supervised by a subordinate commander/manager, some other DoD or government source, or a commercial source. Each includes the identification of required performance levels, in terms of relevant

performance metrics.

After the process has been defined, it must be managed. Metrics should be used to monitor the state of the process and provide commanders/managers with appropriate information and accountability to enable them to reduce costs while providing objective measures of levels of performance. As a basic approach, efficiency and effectiveness characteristics should be used to establish a plan, assess performance and establish and award incentives.

Section 312 of the fiscal 1993 DoD Authorization Act is the greatest roadblock to overcome. By prohibiting the funding of contracts in fiscal 1993 as a result of OMB Circular A-76 reviews, Congress has prevented DoD from conducting business in the most effective and efficient manner. This provision should not be extended or codified as a permanent restriction.

Action should be taken to implement the recommendations made by the Acquisition Law Advisory Panel's Section 800 Report. During the Panel's review of laws regulating DoD contracting for commercial services under OMB Circular A-76, they found that the statutory provisions in Chapter 146 of Title 10 "present a confusing and contradictory set of rules regarding the DoD's contracting out process." In its report, the Panel proposed to consolidate and streamline the existing rules into two sections which provide DoD managerial flexibility while at the same time preserving meaningful congressional oversight and effective community input. For example, sections 2462, 2465, 2466 were identified for amendment or repeal.

Agencies are also required by 10 USC 2851 to obtain construction and design services from Corps of Engineers or Naval Facilities Engineering Command. These organizations are not required to warrant (guarantee) their work. This legislation limits the commander's ability to outsource construction and design services.

Additionally, interviews with commanders/managers disclosed that enabling legislation is needed to allow installation commanders and municipalities to achieve cost savings by negotiating agreements to permit exchange of services.

To overcome the regulatory roadblocks, Executive Order 12615 (Performance of Commercial Activities) should be rescinded and a new Executive Order issued. The new

order should highlight the government's policy of acquiring goods and services in the most economical and efficient manner without directing study goals or identifying projected savings. The study goals and budget reductions have served as disincentives rather than incentives to outsourcing.

In the very near term, OMB Circular A-76 should be reviewed for potential change to simplify the process and increase its flexibility by allowing varying levels of detail based on the size and scope of the study. Added flexibility in how economic comparisons are made will enhance the government's ability to meet this policy goal. For the long term, the federal government needs to evolve beyond the limited scope of OMB Circular A-76 to ensure the sourcing decision for all government functions is based on a logical, systematic, and accepted process.

Current federal, DoD, military service and DoD agency regulations must be reviewed to ensure unnecessary hindrances to the outsourcing decision are removed. While many of these regulations may have served a useful purpose, the federal government must ensure the regulatory restrictions placed on commanders/managers at all levels are warranted.

In the absence of a profit motive, DoD must provide tangible incentives for commanders/managers to seek new and better ways of doing business. Outsourcing has win potential for both DoD and the private sector. It's a win for DoD in terms of overhead savings -- manpower and dollars. It's a win for corporate America for profit and market share. But one thing is for sure: incentives must be there for both.

From a macro perspective, DoD's incentive clearly comes from reducing overhead and the ability and flexibility to shift its limited and ever decreasing resources from non-core to core functions. Additionally, and just as importantly, commanders/managers who initiate outsourcing must be permitted to retain a portion of the resulting savings. This is the only way to provide a positive, real incentive to outsource. The President's Council on Management Improvement study of OMB Circular A-76 found that "the absence of retained savings is seen as a disincentive and a major reason why agencies do not aggressively use A-76." DoD and Agency/Service regulations should be changed, where necessary, to clearly provide for retained savings at the installation/local level.

Further, and with regard to incentivizing industry, government (DoD in this case) must move more toward the practice of specifying from contractors "what is wanted, rather than how it is to be done." That, of course, is an over-simplification, but the underlying benefit is reduced cost. DoD should give contractors flexibility to use standard commercial business practices and material specifications, rather than demanding more costly and often unnecessary military/government specifications.

Moreover, DoD should test the viability of outsourcing non-core functions. DoD has identified 50 broad area candidates for outsourcing such as base operations support, housing, health services, maintenance and repair, training, labs, security and transportation. Further, the military services and DoD agencies have identified nine specific functions for immediate outsourcing consideration. The specific outsourcing candidates are Navy-Defense Printing Service-formally Navy Publishing and Printing Service; Defense Nuclear Agency-Technical Library Division; Air Force-304 conference Switch & Associated Command Display System consoles and maintenance; Defense Finance and Accounting System-DoD travel reimbursements; Defense Logistics Agency-Defense Reutilization and Marketing Service; Defense Mapping Agency-security guard functions; AETC Training Base-Base operating support functions; Defense Information System Network-switched services; and Army-morale, welfare, recreation business programs.

### **Implications**

By outsourcing non-core functions when it makes economic and operational sense, DoD will be better able to focus on its core functions and to absorb current and future budget cuts. Many roadblocks both inside and outside DoD must be overcome before DoD commanders/managers are routinely allowed to make sound business decisions on whether to outsource non-core functions or continue to perform them with federal employees.

### **Fiscal Impact**

Outsourcing, when it makes economic and operational sense, will produce significant savings for DoD. After selected tests, DoD will be able to estimate future savings.

## Endnotes

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1. Venkatesan, Ravi. "Strategic Sourcing - To Make or Not to Make." Harvard Business review. November-December 1992.
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3. Venkatesan, Ravi, "Strategic Sourcing - To Make or Not to Make." Harvard Business Review. November-December 1992.
4. Garsombke, Diane J., "Privatization - New Challenges for Strategic Planning", Business, January-March 1990, pp 3-12.
5. Thompson, Stephanie, "Privatization - Possibly Positive Politics", American City & County, January 1992, pp 45-47.
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## CREATE INCENTIVES FOR THE DEPARTMENT OF DEFENSE (DOD) TO GENERATE REVENUES

### **Background**

By giving commanders/managers incentives to take advantage of opportunities to generate revenue, DoD can increase funds available for mission-related activities, help improve the environment, improve customer service, and/or provide more complete cost information for decisionmakers. Appropriate incentives would include allowing them to retain a portion of the new revenue for mission-related use. DoD has opportunities to generate new revenue by eliminating or reducing subsidies, obtaining reimbursements from other government agencies for services performed, and increasing sales of recyclable materials.

*Eliminating or reducing subsidies.* DoD does not consistently charge customers either the incremental or full costs of services. In effect, DoD is providing a subsidy to some customers. When subsidies are included, neither the provider nor the recipient of services has an incentive to seek the most cost-effective way of doing business from the taxpayers' perspective.

DoD subsidizes commercial customers about \$12 million annually because fees are insufficient to recover costs incurred by the Corps of Engineers for processing applications for discharges of dredged or fill materials into the waters of the United States (see recommendation 1).<sup>1</sup> Increasing commercial fees could generate revenue which could be used to improve customer service by decreasing the delays in processing applications. DoD subsidizes other federal agencies about \$150 million annually because the reimbursement for the incremental cost of their use of DoD airlift (transportation of materials or passengers in military aircraft) is waived in many cases (see recommendation 2).<sup>2</sup> The airlift may be requested by the non-DoD agencies and non-government users or may be White House-directed.<sup>3</sup> Airlift directed by the White House includes airlift for humanitarian reasons and airlift utilizing the 89th Airlift Wing at Andrews Air Force Base, Maryland.<sup>4</sup>

*Obtaining reimbursements from government agencies.* DoD has opportunities to be reimbursed for the costs of services provided to other government agencies. When goods

and services are provided from one agency to another without full cost reimbursement, the receiving agency lacks the incentive to search for the most cost-effective source from the taxpayers' perspective. Rather, without a full buyer/seller relationship, the receiving agency has an incentive to select the source that minimizes the use of their funds. In addition, both DoD and the receiving agencies are unable to report actual costs of their operations, thus denying decisionmakers full information.

DoD provides airlift annually costing about \$150 million free to other agencies (see recommendation 2).<sup>5</sup> DoD provides medical services free to Medicare-eligible retirees and dependents, but is prohibited by law from recovering an estimated \$868 million annually from Health Care Financing Agency (HCFA) (see recommendation 3)<sup>6</sup>. Further, although allowed to by current law, DoD does not charge the retirees and dependents a co-payment to discourage unnecessary use of medical facilities and to recover a portion of the costs of treating them. Recommendations regarding the co-payment issue will not be presented in this report as the issue is within the scope of the Health Care Task Force.

The Economy Act (31 U.S.C. 1535 and 1536) allows one Federal agency to provide another goods and services under certain conditions. Certain other laws prohibit the receiving agency from fully reimbursing the providing agency for some services.

*Increasing sales of recyclable materials.*<sup>7</sup> Proceeds from sales of recyclables grossed \$37 million in fiscal 1992. DoD's waste disposal costs can be as high \$200 a ton, and total costs may exceed \$500 million a year. More and more communities are prohibiting the disposal of certain materials (such as yard wastes, newspapers, mattresses and tires) in their landfills which forces DoD to look to recycling or alternate uses of these materials. These could increase disposal costs if they are not effectively addressed.

DoD estimates that solid waste reduction goals of 50 percent are achievable over the next five years.<sup>8</sup> This can equate to significant reductions in solid waste disposal costs, even if DoD must pay companies to take the recyclables. (See recommendation 4.)

## **Recommendations**

- 1. The Corps of Engineers should request Congress to amend the Energy and Water Development Appropriation Act of 1993 to increase the Corps' commercial regulatory**

**fees to more closely approximate the costs of evaluating applications and allow the Corps to retain, in a special regulatory account, all revenues generated through the collection of fees.** These funds would then be used by Corps districts solely to increase the efficiency of the regulatory program by reducing delays associated with permit evaluations and wetlands delineations.<sup>9</sup> This fund would be independent from the Corps' normal regulatory operating budget and should be available without appropriation. DoD must provide accountability over the use of the new revenue.<sup>10</sup>

Since 1890, the Corps of Engineers has been involved in regulating certain activities in the Nation's waters.<sup>11</sup> More recently, Section 404 of the Clean Water Act authorizes the Corps to issue permits for discharges of dredged or fill materials into the waters of the United States providing that such discharges are in compliance with environmental regulations.

In 1993, the taxpayers funded this effort at \$86 million to evaluate about 15,000 individual applications, 20,000 activities under the Corps' regional permit program, and over 60,000 activities through the Corps' nationwide permit program.<sup>12</sup> For many years, the Corps of Engineers has been charging token permit fees of \$10 for noncommercial projects and \$100 for commercial projects which resulted in revenues of less than \$400,000 per year.<sup>13</sup> Funds received for permits historically have been conveyed to the U.S. Treasury rather than used as a reduction of costs.<sup>14</sup>

Following a study and recommendation from the DoD Inspector General, a Corps Task Force developed a more elaborate fee schedule based on the costs to the Government for work done on the regulatory program.<sup>15</sup> In October 1990, the Corps formally proposed significantly higher permit fees designed to recover about \$17 million annually.<sup>16</sup> The proposal would have increased application fees to \$2,000 for commercial projects and to \$500 for noncommercial projects.<sup>17</sup> The proposed increase in fees was very controversial and in the 1992 and 1993 Energy and Water Development Appropriations Acts, Congress expressly prohibited the Corps from expending any funds to finalize its proposed fee regulations.<sup>18</sup> As a result no action has been taken on the proposed fee increases.<sup>19</sup>

DoD is still interested in recovering at least some of the costs of the regulatory program. Specifically, the program could be improved by using the fees collected to reduce

regulatory delays.<sup>20</sup>

**2. The Office of Management and Budget should draft an Executive Order reemphasizing that DoD airlift provided to non-DoD agencies is reimbursable and waiver of the reimbursement is appropriate only in the most extraordinary circumstances and only with DoD approval in advance.** DoD must provide accountability over the use of these funds. Federal agencies should record the airlift costs as travel or transportation in order to provide accurate information to decisionmakers.

DoD military airlift is often treated as a free good by non-DoD federal government agencies and non-government users.<sup>21</sup> The airlift may be requested by the non-DoD agencies and non-government users or may be White House directed.<sup>22</sup> Airlift directed by the White House includes airlift for humanitarian reasons and airlift utilizing the 89th Airlift Wing at Andrews Air Force Base, Maryland.<sup>23</sup>

Various laws restrict the use of DoD aircraft to official purposes.<sup>24</sup> The Economy Act (31 U.S.C. 1535 and 1536) allows one Federal agency to provide another goods and services under certain conditions. While other laws provide guidance for the use of DoD airlift for humanitarian assistance (the McCollum Amendment and the Denton Amendment are the primary ones), the Economy Act is most frequently used.

For various reasons, reimbursement is waived for many non-DoD Agencies who use DoD cargo and passenger aircraft, thereby making DoD airlift a free good. Users are required to justify the use of DoD airlift. Even when they reimburse DoD for these services, federal agencies do not record the costs as travel or transportation, thereby avoiding travel budget limitations.

DoD is reimbursed by non-DoD agencies for about \$10-12 million annually.<sup>25</sup> In fiscal 1992, because of the extent that the reimbursement requirement was waived, DoD lost about \$150 million because airlift was provided without reimbursement to other federal agencies, such as the State Department, which impacted readiness training.<sup>26</sup>

**3. Health Affairs should draft legislation to amend 42 U.S.C. 1395 to require Medicare to reimburse DoD at HCFA's predetermined rates for medical services provided to Medicare eligible individuals.** These funds would be used to offset DOD's cost of providing the medical services. The total expenditures of DoD for Medicare-eligible

patients should not exceed the HCFA reimbursement and the HCFA authorized co-payment amount. DoD must also provide accountability for these funds.

Regardless of whether or not DoD is allowed in the future to receive reimbursements from HCFA, we believe that DoD should use the HCFA rates as well as treatment costs at private treatment facilities as benchmarks to determine if costs of treatment at military facilities are reasonable.

About 200 thousand Medicare-eligible military retirees and dependents receive free medical services at military treatment facilities. DoD provides the medical treatment at an estimated annual cost of \$1.2 billion.<sup>27</sup> 42 U.S.C. 1395 prohibits DoD from obtaining reimbursement from HCFA for Medicare recipients who are treated at military treatment facilities. Therefore, an estimated \$868 million of Medicare costs annually are included, but not identified, in the DoD budget.<sup>28</sup>

DoD has authority under 10 U.S.C. 1078(b) to charge retirees and dependents a co-payment for medical services which would result in the recovery of a portion of the costs of treatment and would help discourage unnecessary use of the treatment facilities. However, DoD has chosen not to charge co-payments. Recommendations concerning co-payments are not addressed in this report as the issue is within the scope of the National Health Care Task Force.

About 1 million military retirees and dependents are Medicare-eligible, but about 800 thousand receive their primary medical services from private treatment facilities.<sup>29</sup> A private treatment facility receives from HCFA partial reimbursement of the costs of treating these persons and additional reimbursement from the patients as co-payment.

If DoD were reimbursed by HCFA at HCFA's predetermined rates for treatment of Medicare-eligible retirees and dependents, they would receive an estimated 70 percent (about \$868 million) of the costs incurred.<sup>30</sup> The remaining 30 percent includes the amounts normally charged by private treatment facilities to individuals as a co-payment and the amount by which DoD's costs exceed HCFA rates.<sup>31</sup>

The reasons why DoD's incurred costs appear to exceed HCFA's reimbursement rates have not been covered by this review due to time constraints. However, according to the General Accounting Office there is no evidence that civilian and military medical care

costs are different.<sup>32</sup> Differences are generally the result of different methods used to account for costs.

**4. The Deputy Under Secretary of Defense (Environmental Security) should draft legislation to amend PL 97-214 to allow managers/commanders mission-related use of all net revenue from sales of recyclable materials.** DoD should continue the same level of funding from sales of recyclables for pollution abatement, energy conservation, occupational safety and health activities, and morale and welfare activities. However, commanders/managers should be allowed to use end-of-year unobligated funds in excess of \$2 million rather than convey them to the U.S. Treasury. In addition, commanders/managers should be allowed to use for mission-related purposes any savings from reducing waste disposal costs.

Public Law 97-214 restricts the use of revenue from sales of recyclable materials as follows: Funds shall cover the costs of operations, maintenance, and overhead for processing recyclable materials at the installation (including the cost of any equipment purchased for recycling purposes). Up to 50 percent of the remaining funds can be used for pollution abatement, energy conservation, and occupational safety and health activities. All remaining funds may be used for morale and welfare activities. However, at the end of each fiscal year, unobligated funds in excess of \$2 million must be conveyed to the U.S. Treasury.

In fiscal 1992, DoD's proceeds from sales of recyclable materials grossed \$37 million, down from a high of \$50 million in a previous year.<sup>33</sup> Proceeds from sales of recyclables are declining even though the quantity of materials is increasing.<sup>34</sup> This is due in part to declining markets for recyclables because more materials are being recycled and demand for products containing these materials has not sufficiently increased.<sup>35</sup> Additional efforts to increase purchases of products containing recycled materials and development of "close-loop" recycling ventures where DoD-provided recycled materials are manufactured into products it gets back will further help save funds for DoD.<sup>36</sup>

More and more communities are prohibiting the disposal of certain materials (such as yard wastes, newspapers, mattresses and tires) in their landfills which forces DoD to look to recycling or alternate uses of these materials.<sup>37</sup> These could increase disposal costs

if they are not effectively addressed.<sup>38</sup>

DoD is in the process of determining the total costs of its solid waste disposal.<sup>39</sup> The disposal costs may exceed \$500 million a year.<sup>40</sup> By establishing aggressive goals, these costs can be reduced thus saving operation and maintenance account funds for mission support.<sup>41</sup> Therefore, in some cases, it may be advantageous for DoD to pay for the recycling of materials.<sup>42</sup> Since disposal costs can be as high as \$200 a ton, paying companies to take the recyclable material will still save DoD funds if the payments are less than its normal disposal costs.<sup>43</sup>

The additional incentives proposed in this recommendation are necessary to encourage the managers/commanders to recycle waste materials. DoD must provide accountability over the use of the new revenue and savings from decreased disposal costs.

### **Implications**

*Recommendation 1:* If accepted by Congress, 404 permit fees would be increased for certain projects that require extensive, detailed review. In addition, fees could be charged for jurisdiction determinations, public hearings and environmental impact studies. The costs of evaluating applications would be defrayed partially by the fees. Since only a small portion of the taxpayers benefit directly from permits, it should be more equitable for the direct users to bear the costs of the permits. However, it is recognized that many users would be against the increased fees because they own the land and all taxpayers benefit from the protection of the environment through the regulatory process. Most objections would probably diminish if the increased fees were for large projects only (e.g., not "Mom and Pop" projects) and if the fees were used to further reduce regulatory delays which would improve customer service.<sup>44</sup>

*Recommendation 2:* Accounting for reimbursement by the benefiting organization as travel or transportation would ensure that decisionmakers can consider the total costs to the taxpayer. If all users of the DoD airlift system were required to reimburse DoD, there would be a clear incentive to use government air only when cost effective or absolutely necessary. The DoD airlift system is sized to satisfy requirements during mobilization, not non-DoD user traffic.<sup>45</sup> Lack of reimbursement from non-DoD users detracts from wartime

readiness.<sup>46</sup>

*Recommendation 3:* The costs of treatment of Medicare-eligible persons would be charged to the correct appropriation and provide more complete information for decisionmakers.

*Recommendation 4:* If commanders/managers had more funding flexibility, they would have more incentive to expand their recycling programs as revenue-producing activities and reduce their disposal costs. By establishing aggressive goals, commanders/managers can reduce disposal costs, thus saving operation and maintenance account funds for mission support.<sup>47</sup> Important, but lower priority, mission-related activities would be funded. Increased recycling will reduce pollution, conserve limited disposal space, and conserve natural resources by using recycled materials in the manufacture of products.<sup>48</sup>

### **Fiscal Impact**

*Recommendation 1:* Revenues of more than \$12 million annually would likely be realized beginning upon Congressional approval.<sup>49</sup> Estimated annual costs of implementing the recommendations would be minimal.<sup>50</sup>

*Recommendation 2:* Based on fiscal 1992 estimated usage of military airlift, reimbursements of more than \$150 million would be received annually beginning in 1994.<sup>51</sup> The funds should be used to offset operations costs of airlift provided to the user. The reimbursements themselves would generate no new revenue to the federal government; however, having to pay for services received would make the using agencies more cost conscious and could result in more efficient use of non-DoD government funding for transportation and travel. Reduction of the Federal deficit will occur to the extent that demand for higher cost DoD airlift declines. The estimated annual costs of generating the revenue is considered insignificant.<sup>52</sup>

*Recommendation 3:* DoD states that imprecise estimates adjusted for inflation for recoverable amounts from HCFA are \$868 million in fiscal 1994, \$894 million in fiscal 1995 and \$920 million in fiscal 1996; however, there would be no direct impact on the

taxpayer.<sup>53</sup> The reimbursements would be used to cover medical treatment facilities costs. Assuming central interdepartmental reimbursement, the cost of implementing the recommendation is not expected to be significant.<sup>54</sup>

*Recommendation 4:* Proceeds from sales of recyclables grossed \$37 million in fiscal 1992. DoD's waste disposal costs can be as high \$200 a ton, and total costs may exceed \$500 million a year.<sup>55</sup> DoD estimates that solid waste reduction goals of 50 percent are achievable over the next five years.<sup>56</sup> This can equate to significant reductions in solid disposal costs, even if DoD must pay companies to take the recyclables.

Preferably, DoD will be able to sell recyclable waste materials for a profit; however, DoD could afford to pay up to \$200 a ton (or its normal disposal costs) to companies to recycle waste materials. As an example, if DoD paid an average of \$100 a ton for one-half of the solid waste, DoD would annually save about \$125 million in waste disposal costs. However, if DoD did not have to pay companies to take the recyclable materials, the annual savings would increase to about \$250 million.

	1994	1995	1996	1997	1998	1999
Budget Authority	\$125	\$125	\$125	\$125	\$125	\$125
Outlays	\$125	\$125	\$125	\$125	\$125	\$125
Revenue		\$ 12	\$ 12	\$ 12	\$ 12	\$ 12
Change in FTEs	0	0	0	0	0	0

## Endnotes

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1. Memorandum from Michael L. Davis, Assistant for Regulatory affairs, Office of the Assistant Secretary, Department of the Army to Gerald Kauvar, Deputy Director, Defense Performance Review, July 6, 1993.

2. Memorandum from Robert H. Moore, Assistant Deputy Under Secretary of Defense, Transportation Policy to Deputy Director Defense Performance Review, July 23, 1993.

3. Telephone interview with Colonel Richard W. Bonnell, Sr., Assistant for Air Transportation, Office of the Secretary of Defense, August 4, 1993.

4. Ibid.

5. Memorandum from Robert H. Moore, Assistant Deputy Under Secretary of Defense, Transportation Policy to Deputy Director Defense Performance Review, July 23, 1993.

6. Memorandum from John L. Maddy, Acting Deputy Assistant Secretary of Defense (Health Budgets and Programs) to Major Al Giambone, Health Affairs, July 27, 1993.

7. Telephone interview with Blake T. Velde, Office of the Deputy Under Secretary of Defense (Environmental Security), July 28, 1993.

8. Ibid.

9. Memorandum from Michael L. Davis, Assistant for Regulatory Affairs, Office of the Assistant Secretary, Department of the Army to Gerald Kauvar, Deputy Director, Defense Performance Review, July 6, 1993.

10. Ibid.

11. Ibid.

12. Ibid.

13. Ibid.

14. Ibid.

15. Ibid.

16. Ibid.

17. Ibid.

18. Ibid.

19. Ibid.

20. Ibid.

21. Memorandum from Robert H. Moore, Assistant Deputy Under Secretary of Defense, Transportation Policy to Deputy Director Defense Performance Review, July 23, 1993.
22. Telephone interview with Colonel Richard W. Bonnell, Sr., Assistant for Air Transportation, Office of the Secretary of Defense, August 4, 1993.
23. Ibid.
24. Memorandum from Robert H. Moore, Assistant Deputy Under Secretary of Defense, Transportation Policy to Deputy Director Defense Performance Review, July 23, 1993.
25. Telephone interview with John McClelland, Office of Management and Budget, August 2, 1993.
26. Telephone interview with Colonel Richard W. Bonnell, Sr., Assistant for Air Transportation, Office of the Secretary of Defense, August 4, 1993.
27. Memorandum from Alfred V. Giambone, Military Assistant to the Assistant Secretary of Defense (Health Affairs), July 9, 1993.
28. Ibid
29. Ibid
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31. Ibid.
32. General Accounting Office, Analysis of Grace Commission Report, p.366
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35. Ibid.
36. Ibid.
37. Ibid.
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44. Memorandum from Michael L. Davis, Assistant for Regulatory Affairs, Office of the Assistant Secretary, Department of the Army to Gerald Kauvar, Deputy Director, Defense Performance Review, July 6, 1993.

45. Memorandum from Robert H. Moore, Assistant Deputy Under Secretary of Defense, Transportation Policy to Deputy Director Defense Performance review, July 23, 1993.

46. Ibid.

47. Telephone interview with Blake T. Velde, Office of the Deputy Under Secretary of Defense (Environmental Security), July 28, 1993.

48. Ibid.

49. Memorandum from Michael L. Davis, Assistant for Regulatory Affairs, Office of the Assistant Secretary, Department of the Army to Gerald Kauvar, Deputy Director, Defense Performance Review, July 6, 1993.

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51. Memorandum from Robert H. Moore, Assistant Deputy Under Secretary of Defense, Transportation Policy to Deputy Director Defense Performance Review, July 23, 1993.

52. Ibid.

53. Memorandum from John L. Maddy, Acting Deputy Assistant Secretary of Defense (Health budgets and Programs) to Major Al Giambone, Health Affairs, July 27, 1993.

54. Ibid.

55. Telephone interview with Blake T. Velde, Office of the Deputy Under Secretary of Defense (Environmental Security), July 28, 1993.

56. Ibid.

## ESTABLISH AND PROMOTE A PRODUCTIVITY ENHANCING CAPITAL INVESTMENT FUND

### Background

Currently, DoD receives approximately \$12 million annually for investing in equipment that will, over a period of years of increased productivity, save more money than the investment.<sup>1</sup> Presently more opportunities exist than can be funded. For example, forklifts and shrink wrap machines have been requested in the past because they save significant labor costs.<sup>2</sup> In order to increase long-term savings, more investments need to be made.

A central organization for each Military Department controls the allocation of funds for investing in equipment that will increase productivity. Users of the funds are required to submit proposals demonstrating that enhanced productivity would result in recovery of the cost in three years. While users benefit from the enhanced productivity, they are not required to track or report on these savings.

Previously, more funds were allocated to productivity enhancing investments; however, as the DoD budget declined, these funds were cut by approximately 70 percent.<sup>3</sup> This cut was disproportionate to the total Defense budget reduction. It appears that the central organizations lacked the incentive to oppose the disproportionate reductions because they did not benefit from the savings or the increased productivity. In addition, some DoD leaders believed that the funds were given to the organizations that could write the best justifications rather than the organizations with the most productive investments.

Market mechanisms could be used to increase the available resources for productivity enhancing equipment as well as to regulate the allocation of the scarce investment funds. From the perspective of the operating organization, funding the purchase of productivity enhancing equipment could be similar to a business decision to borrow funds from a bank and repay the loan with the resulting savings.

### Recommendation

To increase the available resources for worthy investments, DoD should obtain Congressional approval to establish a fund that would loan money to DoD organizations

for **productivity-enhancing capital investments**. The organizations would be required to repay the loan in equal installments over three years, pay an annual fee to cover administrative costs, and pay a fee of 25 percent of the estimated annual savings during the first three years. If more loans are requested than can be funded, a bidding system should be established by the organization controlling the investment funds (Industrial Engineering and Quality, Office of the Assistant Secretary of Defense, Production and Logistics<sup>4</sup> or the Military Department counterparts). The bidding system could include the pay-back period, the amount of the loan, and the highest projected savings. This would provide a self-regulating method of ensuring that the most productivity-enhancing investments were funded.

After the loan fund is sufficient to meet the need for capital, profits could be used to reduce the deficit. Based on informal agreements with Congress, budget approval is required; however, this fund can be established under the current revolving fund authorization. The organization controlling the investment funds will evaluate project proposals, ensure that loans are repaid and fees are paid, and in effect, becoming the banker.

### **Implications**

The pay-back provision would make DoD more business-like and discourage or prevent requests for loans which are not likely to achieve savings. Borrowers will make trade-offs similar to private companies. Only if the Office of Management and Budget waived payment would a borrower be able to avoid repayment of the loan. After several years, the fund will grow to the point of being adequate, self-sustaining and return a profit to the Treasury. In fiscal 1995 the borrowers will return \$5 million to the bank thereby increasing the funds available to loan from the \$12 million appropriation to \$17 million. By 1998, the first year without an appropriation, \$31 million will be available for loans<sup>5</sup>. Equipment needed to enhance productivity will be purchased that, without this program, might not be purchased.

### **Fiscal Impact**

An annual appropriation will continue to be necessary only for the first four years.

After fiscal 1997, the \$12 million annual appropriation will be discontinued. Total savings through 1999 will be approximately \$110 million based on a baseline of \$12 million currently budgeted for productivity equipment. 1994-1997 appropriations would be used to provide initial capital for the Fund. Initial borrowers will begin repaying loans in 1995. Administrative costs will be covered by a separate fee. Savings computation assumes that funds will be loaned only for projects that return \$2 for each \$1 invested i.e. that will return the \$1 invested and an additional \$1 in savings. Savings computation assumes that savings occur at the same time as repayment; however, the timing of actual savings can be either faster or slower.

	Savings					
	In Millions of Dollars					
	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Budget Authority	0	\$4	\$9.7	\$17.7	\$37.1	\$41.8
Outlay	0	\$4	\$9.7	\$17.7	\$37.1	\$41.8
Change in FTEs	0	0	0	0	0	0

**Endnotes**

**G:\ND-BANK-August 2, 1993**

1. Interview with Don Gessaman, Program Assistant Director, Office of Management and Budget, May 19, 1993.
2. Interview with Gerald Kauvar, Deputy Director, Installations and Logistics, Department of Defense May 18, 1993.
3. Interview with Ronald A. Davidson, Assistant Deputy Comptroller (Program/Budget), Office of the Secretary of Defense, June 8, 1993.
4. Telephone interview with John Binford, Industrial Engineering and Quality Office, Office of the Assistant Secretary of Defense, Production and Logistics, July 16, 1993.
5. By 1998, the loan fund would grow to \$37 million. At that time it would be appropriate for DoD to return additional profits to the Treasury.

## **Creating a Quality Management Culture**

## CREATE A HEALTHY AND A SAFE ENVIRONMENT FOR DEPARTMENT OF DEFENSE ACTIVITIES

### **Background**

The Department of Defense (DoD) has a clear mandate from the people of the United States and Congress to improve its environmental stewardship. This means that DoD has a responsibility to clean up its facilities and Formerly Used Defense Sites (FUDS), comply with existing environmental regulations, conserve natural resources and prevent pollution. In this respect, DoD senior leadership has made a strong commitment to fulfill its responsibility by redirecting both budget and personnel resources. The DoD environmental program covers over 5,500 properties containing approximately 27 million acres and more than 400,000 buildings. In fiscal 1992, the program cost the American taxpayer \$4.2 billion. Good progress has been made (e.g., "The Paperwork Reduction Act" and the phasing out of ozone depleting chemicals). DoD must now speed up the process, demonstrate significant near term progress and lay the foundation for long term improvements.

The challenges inherent in the clean-up of DoD facilities and FUDS often result in adversarial relationships among stakeholders (i.e., groups with an interest in the project such as installation commanders, government regulators, the surrounding community, contractors and public interest groups). For example, state and federal officials have been in litigation since 1988 to determine who will be in charge of clean-up at Rocky Mountain Arsenal. This lengthy battle has led to mistrust, increased clean-up expenses and unnecessary delay. Where stakeholders have worked together to mutually solve their problems, the results have been quite different. The US Air Force has developed a highly successful program at McClellan Air Force Base through innovative management, education, communication and partnering with the Environmental Protection Agency (EPA) and the State of California to obtain consensus on clean-up strategy from all parties.

DoD's environmental vision is to create a responsive DoD Environmental Program which balances the needs of the individual services, is fully integrated into all DoD business processes and provides the tools and authority to installation commanders so that

they can create a healthy and safe environment for DoD activities.

To achieve this goal, five issues are recommended for action: partnering, clean-up, environmental technology, pollution prevention and environmental regional offices. These five areas offer the opportunity to fundamentally change the DoD environmental program to accomplish significant improvement.

Partnering, the first issue, involves commitment between stakeholders to work together to ensure that all concerns are addressed. Where employed, it has significantly reduced project time, cost and litigation. Although the potential value of partnering is appreciated in some DoD locations, it is not widely practiced throughout DoD, nor is it universally understood and accepted as a business practice. This can be improved by educating and training managers in how to commit to and maintain partnering relationships and by adapting partnering concepts more closely to DoD business practices. This practice of partnering should be expanded throughout DoD to foster cooperative relationships with stakeholders.

The adversarial nature of the relationships of employees at many DoD facilities with their regulators are serious impediments to successful compliance and clean-up programs. Partnering replaces adversarial relationships with teamwork. Of approximately 150 Army Corps of Engineers construction projects that use partnering, none have resulted in litigation. Clearly, cooperation through partnering promotes positive results.

The second targeted area, clean-up, has much room for improvement. In many cases, the excessively lengthy and costly study process causes "paralysis by analysis." With experience, many of DoD's clean-up activities are becoming almost routine. Clean-up can be expedited by using successful remedies developed elsewhere. However, the field does not often have sufficient access to information about clean-up technologies and their successful application.

Moreover, project officers need better data on which to base decisions regarding the use of competing technologies. For example, on a project concerning disposal of hazardous waste (e.g., oil or paint), an officer may need more information to determine which disposal method would most efficiently minimize environmental harm. This could be solved by maintaining cost and performance data on various methods and technologies and making the data widely available.

Furthermore, a disproportionate amount of money allocated for clean-up is expended for analysis rather than for the clean-up itself. Presumptive solutions, based on experience, will help. Regulators often require unrealistic future land use projections to determine health risk and clean-up levels, which increases restoration costs.

DoD must better involve the community in clean-up initiatives. Even though the community is a significant stakeholder in clean-up programs, DoD frequently excludes community representation in clean-up planning or activities.

Environmental technology, the third issue, can assist in both clean-up of existing contaminated sites and prevention of pollution during future Department operations. A DoD environmental technology program is needed to solve the most pressing environmental problems as rapidly as possible at minimum cost. This can be achieved through cooperative actions in program planning, budgeting, execution and by leveraging each service's funding, expertise and facilities.

Currently, no systematic method exists by which user (i.e., the installation commanders) needs are identified, quantified, validated, prioritized and integrated. Also, the time from the identification of an environmental problem to the fielding of a solution (an average of six to seven years) is too long. This delay increases costs for environmental compliance. Additionally, no process integrates all DoD environmental technology demonstration programs nor is there an effective method to prioritize technology based on a potential return on investment.

Pollution prevention, the fourth area, can also be improved. While DoD strives to meet certain environmental requirements which mandate that ozone depleting chemicals be phased out, few resources are left to meet other needs. Another hinderance is that commanders lack the budgetary resources to make the business decisions necessary for successful, cost effective pollution prevention. Federal and DoD procurement policies also impede cost effective pollution prevention by limiting flexibility and inhibiting decisionmaking ability. Also, current procurement regulations require the assignment of short shelf-lives on many products for which the actual life is many times greater. Environmental regulations often require this material to be classified as hazardous waste once the shelf-life has expired, which greatly increases disposal costs. In short, DoD investment strategies discourage pollution prevention.

The final issue, environmental regional offices, involves the development of a unified program for dealing with the regulatory community. Currently each installation, including local reserve components, deals directly with the various regulatory agencies.

Commanders need support from DoD for their interests with state and local regulators, particularly during the rule-making process. Installations and reserve centers need regional offices to help them interpret and understand the large number of local environmental laws and regulations; to provide early notice of emerging legislation; and to assist in environmental compliance and clean-up. DoD and service staffs can accomplish this function at the national level, working primarily with the EPA, but the corresponding function with each of the states needs to be improved.

The DoD Environmental program is in its infancy. Some progress has been made, but DoD needs to do more, faster, now. The five recommendations are designed to impact significantly on the execution of the environmental mission.

### **Recommendations**

**1. DoD should develop partnering relationships with environmental stakeholders.**

This involves the development of a DoD partnering training program that includes all stakeholders; reaching consensus of all stakeholders in the technical direction, magnitude and process of clean-up projects from "cradle to grave"; the creation of a formal partners between the customers and technology developers to ensure that technology development and the strategy used to transfer technology from development to production to users are designed to solve DoD's most pressing environmental problems in a timely, cost effective manner; the encouragement of EPA and the States to partner oversight; and an increased emphasis on the development of project specific partnering on environmental projects.

**2. DoD should streamline the clean-up process to clean up sites quickly without prolonged periods of study.**

This involves partnering with regulators; encouragement generic clean-up approaches; provisions that grant installation commanders authority to contract for clean-up of contaminated sites; and development of a "risk management" approach which requires the categorization of sites, puts highest priority on risk to human health.

health and the environment, mandates funding allocations based upon these priorities and monitors progress in reducing overall risk.

**3. DoD should establish an environmental technology policy that is based on service users' environmental requirements and embodies the DoD environmental strategy.** To do this, it is necessary to ensure active participation by users in the technology development process and adequate resource allocation. Moreover, DoD should identify those areas within environmental technology where a joint development approach is most desirable and encourage early identification of emerging technologies in other federal agencies and the private sector. DoD should also establish a method to determine the potential return on investment for DoD environmental technology. DoD's goal is to field new technology that meets users' requirements in a timely manner.

**4. DoD should develop a more effective DoD pollution prevention program.** This can be accomplished with the creation of incentives to use pollution prevention as a primary means to achieve compliance; a review of military specifications to eliminate the use of hazardous materials; adequate funding of the services' pollution prevention program; and development of a model pollution prevention program to serve as a prototype.

**5. DoD should establish regional offices to work directly with EPA regions and local state environmental organizations to develop joint policy.** These offices can assist installations and reserve centers in environmental compliance and clean-up and support commanders' interests with state and local regulators.

### **Implications**

The American public has shown great interest in DoD's management of environmental security issues. Adequate funding must be appropriated for training, clean-up of existing sites and pollution prevention during current and future military operations. DoD must apprise Congress of fiscal 1995 funding required to implement significant long-term recommendations. The environmental regional offices should open during fiscal 1995. They will significantly help installation commanders in fulfilling their environmental

security mission and facilitate improved relations with government regulators. Many of the initiatives are long range in nature and will require changes in regulations and policies. For some of these proposals, the Services will have to staff and coordinate with the Office of the Secretary of Defense.

**Fiscal Impact**

It is anticipated that once these initiatives are implemented there will be cost savings to the department. The amounts saved will vary from installation to installation.

## ESTABLISH A DEFENSE QUALITY WORKPLACE

### **Background**

The environment in which the Department of Defense (DoD) must conduct its mission has fundamentally changed. The factor characterizing this new environment--perceived long term decrease in national threat, and therefore, substantially reduced budgets--requires that DoD change the way it conducts its business. The military services and several DoD components have adopted the Total Quality (TQ) philosophy as the means to accomplish their missions in spite of the constraints imposed by the changed environment. Many have achieved success, and several DoD activities are nationally recognized quality award winners. In addition, private sector companies such as Xerox, Federal Express, Harley-Davidson and Motorola, when faced with similarly changed environments that threatened their existence, have risen to their former world class preeminence through adoption of a customer driven focus and total quality philosophy of management. The key factor underpinning each success is top leadership commitment and strategic quality management of the quality improvement effort. The same type of commitment and strategic quality management of DoD's most senior leadership is required if DoD is to maintain an effective national defense in this new environment.

Corporations who recognized that their survival was at stake had to transform themselves to be successful. They adopted the philosophy known as "Total Quality Management" (TQM) as their framework for improvement. Guiding principles, strategic planning, focus, empowerment and continual process improvement are characteristic of TQM and victorious armies.

Many units and entire components in DoD have followed the principles of quality. They have achieved many breakthroughs, saving resources and at times preventing potential life threatening situations. Unfortunately, since these efforts have not been ingrained across the entire department, the successes have been limited and innovations have not been shared among organizations.

The quality revolution that has profoundly changed management practice rests on an industrial engineering foundation, but its leverage comes from the leadership principles of Dr. W. Edwards Deming. When the US was experiencing a severe recession in 1980, an

NBC TV White Paper entitled "If Japan Can Why Can't We?" awakened American industry to the power of Deming's principles. Individual industrial and government leaders reexamined their management practices and concluded that these practices, not their employees, were the problem. A managerial breakthrough was required to reverse the country's economic fortunes. Those who saw the possibilities of a total quality approach to management initiated the changes and ultimately created world class companies.

The most important characteristic of a total quality organization is *committed leadership*. Its central task is to create an environment in which the knowledge and expertise of every person can be expressed and is welcomed. A *shared vision* based on core principles must be deployed so that all-members will have a compass for their direction. *Employees* must be *empowered* to surface problems and fix those for which they have the resources. Responsible *initiative* is required throughout DoD where resources are limited, but success in the nation's defense is not negotiable. Any impediment that inhibits the Department's components from solving problems they confront must be eliminated. *Mutual trust* between the organization and its employees must be fostered so that everyone is *committed to the organization's mission*.

The hierarchical structure of the DoD organization might be satisfactory when resources are plentiful, but industry has proven that this type of architecture and narrow span of control becomes a millstone when budgets shrink and market demand changes dramatically. Hierarchical type structures foster centralized decision making, powerful staffs who tamper, turf battles and avoidance of risk. These behaviors prevent any long term organization efficiencies and constrain the ability to alter direction when required.

The best of the commercial industry has eliminated many layers of management and flattened their organizations in order to be competitive and agile. It is not uncommon for 20 to 50 employees to report to one person. This structure demands that everyone contribute and add value to the process. The supervisor becomes a coach, a mentor, and is not expected to know instantly every detail in the organization. The employee is accountable for specific assignments and responsible for his or her own contribution to the team. To be successful, this type of organization demands mutual trust.

The ultimate goal is that TQM ceases to have its own identity as continuous improvement principles and practices become the normal way DoD accomplishes its

mission. To achieve this goal, everyone in the department must understand and employ TQ principles.

## **Recommendations**

**1. DoD should establish a top leadership and management structure that furthers TQ principles.** This structure provides DoD with a senior level corporate forum to define the future direction of the Department and is established by instituting the following:

- A DoD Executive Steering Board (ESB), composed of the Department's senior leaders, that guides implementation of TQ within DoD.
- A DoD Quality Advisor to provide an independent source of advice to the SECDEF and the DoD ESB on matters of quality management.

**2. DoD should implement a strategic planning process that encompasses TQ principles and establishes direction.** A strategic planning process and implementation plan is necessary to communicate direction and guide work efforts across DoD towards the Department's vision. The plan provides a vehicle for corporate alignment and integration of actions, programs and process improvement endeavors across all organizational components. The actions required to implement this are the following:

- Determine customer needs and assess the external and internal environment to identify the critical issues upon which to base the strategic plan.
- Develop the Department's strategic quality plan to include the following:
  - mission statement
  - vision (corporate direction)
  - major focus areas (MFAs) to guide process improvement efforts
  - critical objectives within each MFA
  - an action plan with milestones and measurements
- Identify DoD core processes and designate process owners.
- Develop methodology for alignment and coordination of all DoD processes among major DoD components.

**3. DoD should ensure that the entire department has a comprehensive knowledge of TQ principles and practices to bring about and sustain the TQ transformation. The following actions are necessary to accomplish this:**

- Establish a TQ education and training plan for OSD personnel.
- Issue policy that requires incorporation of TQ principles in the curricula of all DoD professional and service schools.
- Establish measures to determine the impact of TQ education and training on mission outcomes.

**4. DoD should create an environment that promotes TQ principles and practices to foster continuous process improvement, encourage creativity and innovation and nurture the professional and personal growth of all employees.** The Department's most critical resource is its people. Leadership sets the tone and creates this environment by doing the following:

- Creating career enhancing incentives for DoD executives and managers to employ TQ principles and methods.
- Redesigning DoD's reward and recognition programs and performance appraisal systems so that they are consistent with TQ principles and value total quality practitioners.
- Designing and implementing an unencumbered, responsive employee suggestion program that encourages people to volunteer their improvement ideas.
- Reinventing the DoD IG so that its main purpose is to assist DoD components in achieving their mission vice controlling their actions. Its statutory control role would be minimized.
- Enacting a DoD policy that accentuates involvement of elected union representatives as active participants and partners in the TQ process.

**5. DoD should rewrite directives, instructions and policies to support TQ principles and methodologies.** This can be achieved by doing the following:

- Providing departmental guidance for the implementation of "Government Performance and Results Act of 1993," which is consistent with TQ principles.

- Ensuring that recommendations resulting from ongoing reviews of personnel and acquisition regulations are consistent with TQ principles.

6. **DoD should use performance metrics to assess progress towards attaining its vision.** A measurement system ensures leadership decisions are based on objective information from outcomes by establishing a performance measurement capability to assess progress towards the DoD vision.

### **Implications**

Total Quality Management principles have been an unqualified success in the private sector. Introduction of Total Quality concepts into DoD greatly enhances the ability of each service branch, component, command and individual to accomplish their specific missions. For this to happen DoD's cultural environment must change so that a comprehensive knowledge of TQ principles and practices are part of the everyday practices at all levels in DoD. Many of the initiatives are long range in nature and require changes in regulations and policies. The end result will be a true quality defense establishment.

### **Fiscal Impact**

It is anticipated that once these initiatives are implemented there will be cost savings within DoD based upon enhanced productivity and reduction of errors, bad management practices and obsolete regulations.

**Now Is The Time**

# GIVE DEPARTMENT OF DEFENSE INSTALLATION COMMANDERS MORE AUTHORITY AND RESPONSIBILITY OVER INSTALLATION MANAGEMENT

## **Background**

Installation management is big business in the Defense Department, with over 5,500 properties containing approximately 27 million acres and more than 400,000 buildings. The current replacement value of these properties is greater than \$566 billion. Facilities and services are provided for approximately 1.8 million military personnel, almost one million civilian employees, 2.5 million dependents and 1.7 million military retirees. The annual funding support provided to military installations totaled over \$16 billion per year during the early 1990s.

All installations share a common mission. This mission is to provide quality facilities and services to tenant organizations, activities and individuals to allow them to most effectively and efficiently accomplish their assigned tasks. Among the varied types of services provided are housing, messing (food services), utilities, waste disposal, health and child care, schools, hospitals, recreation, facilities repair, grounds and building maintenance, vehicle maintenance and administrative and technical support. Managing a defense installation is comparable to managing a city of equal size.

Despite the similarity in the services provided, each installation is uniquely defined by a combination of factors including the mission and requirements of tenants, funding sources, geography, population served, Service or agency identity and history.

Installation commanders have a demanding job that is hampered by an abundance of rules and regulations that inhibit, rather than encourage, decisions to be made on behalf of mission success. Many decisions that impact installations are made by people who have no knowledge of a situation's particulars nor any responsibility for the consequences of their actions. For example, authority to repair

leaking roofs in Albuquerque, New Mexico, could only be given by the Deputy Assistant Secretary of the Air Force even though he was 2,500 miles away and did not know whether the roofs leaked. The installation engineer, who could see that the roofs were leaking, could only write a report to Washington, D.C. seeking permission to fix them, rather than take the initiative to fix them on his own.

The ideal vision for the Department of Defense's (DoD) installation in the year 2000 is to empower installation commanders with the responsibility, authority, and flexibility to make the requisite decisions based on what is best for the client tenants and their respective missions. This report identifies the legislative, regulatory, and policy impediments that form barriers to the effective and efficient management of military installations.

To provide focus to this effort and to define an implementation plan for this vision of installations in the year 2000, four general functional areas have been identified: financial management and funding flexibility, installation engineering support, installation contracting and supply and service support. These represent areas in which installation commanders are restricted in their authority to manage in a more business-like manner.

The first area which will be discussed involves financial management and funding flexibility.

The finance and accounting systems that support installations are generally designed to control and track appropriation obligations. Currently, these systems fail to provide adequate cost accounting information to the installation commander and severely limit the capability of commanders to make cost-based, best value support, supply or service decisions.

Financial management constraints include appropriation structure, restrictive fiscal policies, inflexible program levels, fiscal year boundaries and obligation limits. Though some would argue that these constraints are necessary to control and monitor spending, unreasonable restrictions often overwhelm the proactive installation commander who is attempting to apply limited resources to an unending

list of operational, support and quality of life requirements.

To improve financial management and funding flexibility, the installation commander must be empowered to manage his or her installation from a comprehensive view. The commander must have the authority, ability and responsibility to develop a comprehensive management plan that addresses all of the installations' tasks and functions. This plan must establish the overall priorities, distribute the full set of resources and balance requirements with available resources. Finally, the installation commander must be held accountable for his or her decisions.

The proposed actions would enable installation commanders to tailor their resources to the unique requirements of their installation, flexibly respond to changing circumstances, encourage and reward good management by subordinates and subsequently improve the overall value and effectiveness of DoD Installations.

The second area addressed is installation engineering support. Mission effectiveness and productivity are significantly affected by the quality of installation engineering services. Engineering services include the maintenance and disposal of real property, facilities and physical plant systems (e.g., heating) and the procurement of services, supplies and equipment in support of these systems.

Engineering support requirements from authorities above installation level have often been reasonably unattainable and needlessly prescriptive, directing "how" commanders are to meet these requirements. Engineering projects often require line-item reviews and approval by authorities above the installation commander's level. These restrictions unnecessarily delay the completion of these projects. Inflexible workforce authorization and personnel hiring and discharge procedures impede the commander's ability to adequately staff a particular project to accommodate changing workloads and resources. Personnel restrictions sometimes prevent commanders from retaining the most qualified and productive personnel. Similarly, limitations on budget accounts prevent commanders from expeditiously funding necessary engineering requirements as mission needs and circumstances

dictate.

DoD is currently in the process of reducing its inventory of properties and is retaining only those installations which are necessary to adequately support the current and planned missions and activities of the Department. Where possible, DoD has relied on private sector and other public sector agencies to provide real property and installation support (e.g., use of local fire departments). However, coordination between private and public sectors has not been fully explored. And the use of private sector financed projects has not always been considered as an option. Installation commanders are also hampered by inflexible requirements which prevent them from acquiring a provider who can give the best value for services, supplies or equipment in the most cost-effective manner.

In the area of inventory management, decisions on the cost of installation facilities and engineering services are often based on annual obligation authorities or outlay considerations rather than on total life cycle costs. Also, DoD lacks a comprehensive, long range management program to manage its capital assets. This has led to DoD's inability to properly maintain and dispose of real property facilities and systems.

Another problem which challenges installation commanders is an ever increasing number of environmental, safety and occupational health laws/regulations imposed by both state and federal authorities. Installation commanders sometimes do not have adequate facilities and engineering services to operate in compliance with these regulations. Inadequate engineering service support also impedes the commander's ability to minimize and prevent adverse impacts on the environment.

The third area of concern which affects installation commanders involves contracting support.

Contracting support at the installation level is hampered by excessive controls imposed on contracting activities. For example, smaller contracts ranging from \$25,000 to \$100,000 cannot be processed in an expeditious manner due to complex and restrictive acquisition procedures. Current procurement statutes and regulations

require extensive documentation and lead-time to advertise and prepare bids on contracts with values that are comparable to the price of a used car. Unnecessary inter- and intra-agency reviews also impede the efficient and effective processing of contracts.

One of the biggest problems that DoD must address concerns the resolution of disputes between service contractors and the Department. "Partnering" agreements between service providers and service users which could prevent misunderstandings between parties are rarely used. As a result, procurement disputes between service providers and service users delay the prompt delivery of goods and services, create a confrontational atmosphere and raise the costs to both the provider and the Government.

Because of these problems and restrictions, installation commanders are discouraged from taking prudent risks or trying creative contracting approaches.

The final major area addressed is in the area of supplies and services support. Installation managers lack flexibility and freedom to purchase, procure, obligate, negotiate, source or price for best value supplies and services directly from a provider.

Restrictive regulations and directives drive up costs by inhibiting the commander from "shopping smart." For example, to purchase a commercial motor vehicle or to lease space, an installation manager must provide an extensive analysis to the DoD Comptroller and the General Services Administration. The preparation of the analysis and the subsequent review and approval processes often cause unnecessary delay and expense to the Department. It would be faster and more economical to permit the manager to purchase the vehicle directly from a private commercial dealer. To do this, restrictive Government procurement regulations will have to be changed to permit commanders to purchase certain types of items from large businesses. Commanders must also be given authority to buy high demand items "in bulk" to minimize costs.

Current procurement practices create unusable excess as well as pose significant

disposal problems for hazardous waste at installation sites. For example, if a project only requires one gallon of paint, a commander may be forced to purchase a 55 gallon container because this is the minimum amount that can be obtained.

Obviously, procuring, storing and ultimately disposing of the excess paint is an expense which should be avoided.

Currently, the costs of procuring, warehousing, packing, crating and handling are not permitted to be included as customers' surcharges. These additional costs should not be absorbed by the Government.

Finally, because DoD instructions concerning interagency support agreements (ISA) are inadequate, the responsibilities and functions of users and suppliers are often not clearly defined. Ambiguous and incomplete provisions in an ISA ultimately lead to confusion and costly delays.

### **Recommendations**

## **FINANCIAL MANAGEMENT AND FUNDING FLEXIBILITY**

- 1. The Defense Finance and Accounting Service should develop and institute a Defense-wide cost accounting system for installation management.**
- 2. The Defense Comptroller, in conjunction with Service and Agency Comptrollers, should review all financial constraints and limitations imposed on installations.** All limitations would be challenged and removed wherever possible. For example, the Defense Comptroller should seek legislative authority to allow, on a limited basis, Operations and Maintenance appropriations beyond the traditional single fiscal year. For those limitations required by law or good business practice, the dollar amounts would be raised to the maximum achievable levels.

3. **The Defense Comptroller should develop and institute procedures that allow installation commanders to retain a designated portion of budgetary savings generated by specified cost saving measures, such as energy conservation.** This would be an incentive program designed to encourage installation commanders to manage their programs as efficiently and economically as possible.
  
4. **The Services should institute procedures that require a financial impact assessment of major policy issues on resource decisions.** These assessments can be factored into resource initiatives before these proposals reach the installation level. Installation commanders can then act with the assurance that these financial impacts have already been considered by the Services.
  
5. **The Office of the Secretary of Defense (OSD) should issue guidance that encourages the Services to limit non-specific, broad based cuts of installation resources.** By limiting the imposition of non-programmatic reductions of resources, the Services would spare installations the problem of maintaining unnecessary functions or undesired levels of service in the face of decreasing funding levels. Reductions should be tied to a specific deletion or reduction of a required function or level of service.

#### **INSTALLATION ENGINEERING SUPPORT**

6. **The Office of the Under Secretary of Defense (OUSD) for Environmental Security, in conjunction with the Services, should review existing installation engineering policies, procedures and other regulatory requirements.** The review should ensure that clear, measurable and realistic (attainable) goals and standards have been established for each primary

process and activity. It should eliminate all unnecessary prescriptive direction on how the goal/standard is to be achieved.

7. **OSD, the Comptroller and the Office of the Deputy Under Secretary of Defense for Environmental Security, in conjunction with the Services and other Agencies, the Office of Management and Budget (OMB) and Congress, should develop a comprehensive, long-range approach to managing DoD capital assets, similar to capital asset management systems common in the private sector.** Such an approach would require the development of a system for tracking total life cycle costs for acquiring, operating, maintaining, and disposing of real property facilities and systems. DoD, with the assistance of OMB and Congress would also have to annually program and budget the capital and operating/expense resources necessary to minimize the total life cycle costs of the required physical plant.
  
8. **The Office of the Under Secretary of Defense for Environmental Security, in conjunction with the OSD Comptroller, the Services, other DoD Agencies, OMB and Congress, should implement policies and practices which will enhance the installation commander's ability to obtain engineering support in a timely and efficient manner.** For example, the number and types of projects requiring line-item review and approval by authorities above the installation commander level, especially by Congress should be greatly reduced. Work classification policies and guidance should be simplified. Commanders should be allowed to adopt a "unified budget" that would equip the installation commander with a single account which could be used with any or all installation engineering requirements, e.g., for installation or family housing facilities; for operations, maintenance, repair or available resources to their highest priority requirements, as changing mission needs and circumstances dictate. The

extraordinary costs now incurred unnecessarily due to excessive oversight in budget development, review, authorization, and appropriation would be greatly reduced.

9. **The OSD Force Management and Personnel, in conjunction with the Services, Agencies, the Office of Personnel Management (OPM), unions and Congress, should modify staffing authorization and personnel hiring and discharge procedures to permit installation commanders the flexibility they need to efficiently adjust their staffs to changing workloads and resources and to retain the most qualified and productive personnel.**
  
10. **The Office of the Under Secretary for Defense for Acquisition, in conjunction with the Services, Agencies and Congress, should identify and modify those statutes, policies and procedures which preclude or otherwise limit the installation commander from acquiring from a provider who offers the best value for services, supplies, equipment and other resources required to accomplish installation engineering activities in the most cost-effective manner.**
  
11. **The OSD Comptroller and the Office of the Deputy Under Secretary of Defense for Environmental Security, in conjunction with the Services, Agencies, OMB and Congress, should modify current statutes and/or budget scoring rules to encourage private sector financed alternatives to Military Construction (MILCON) for acquiring, operating and maintaining required facilities at the lowest total life cycle cost.**

12. **The OSD Comptroller and the Office of the Under Secretary of Defense for Environmental Security, in conjunction with the Services, Agencies, OMB and Congress, should implement cost savings incentives that would authorize installation commanders to retain savings (or cost avoidance) which result from process improvements and productivity enhancements.** Commanders should be allowed to apply these savings towards discretionary spending and/or other installation engineering requirements.

#### **CONTRACTING SUPPORT**

13. **The Deputy Under Secretary of Defense for Acquisition Reform should allow the use of simplified acquisition procedures for contracts between \$25,000 and \$100,000.** Along with this proposal, DoD should consider reducing the synopsis and solicitation lead-time for contracts between \$25,000 and \$100,000 and increase the threshold established by the Service Contract Act and the Davis-Bacon Act consistent with the recommended change to the simplified acquisition threshold.
14. **The OSD should encourage the use of "partnering" agreements between service providers and service users, and encourage widespread application wherever possible and appropriate, in contracts as well as in agreements between government organizations.** Successful partnering can be enhanced by formally stating values and goals in solicitations, ensuring top-level commitment to establish "champions" at all levels in the government and with contractors, sponsoring joint team building workshops and by reaching consensus on operating principles and conflict management (e.g., Alternate Disputes Process). Follow-up meetings and/or workshops will also maintain open communications and encourage continued cooperation after the contract is underway.

15. **All Defense Services and Agencies should increase the use of "best value" contracts where applicable and encourage installation commanders to take prudent risks in procurement activities.** Current requirements do not match the best type of contract to be used in specific situations. This contributes to longer lead times, customer dissatisfaction and less than full value for Government expenditures. All personnel involved in the contracting process should be better trained in the "best value" philosophy. The training should emphasize the benefits of using best value contracting approaches; clearly state the roles, responsibilities and authorities of all personnel involved in the contracting process; and instill quality management principles. DoD needs to encourage installation commanders to take prudent risks and to accept occasional failures. In that regard, auditors should recognize that risk taking is a necessary component of the culture and that criticism should be avoided. Contracting support can also be improved by authorizing installation contracting officers to approve Value Engineering proposals at the local level.
  
16. **The Deputy Under Secretary of Defense for Acquisition Reform should revise protest procedures, including limiting the time in which a protest is considered, to facilitate the rejection of unreasonable protests submitted by contractors whose primary intent appears to be to delay the contract awards.**

#### **SUPPLIES AND SERVICES SUPPORT**

17. **OSD should identify impediments to a "shop smart" capability and implement a standardized reimbursement accounting system.** DoD needs to revise and/or eliminate restrictive regulations that prevent installation contracting officers from buying in the most cost efficient manner. DoD

needs to develop standard interservice support agreements (ISAs) to fully integrate with a standard financial accounting system. DoD should also provide information to installation commanders comparing commercial options to available federal sources.

**18. The Defense Logistics Agency and the OSD should change the Federal Acquisition Regulations (FAR) to permit purchasing from large businesses based on cost and quality of items required.** Amending the FAR would, in many cases, save the costs associated with the small business "middle man." DoD should also establish a single DoD retail activity or retail supply activity for each military service/agency so that duplicative functions can be eliminated. GSA and the local procurement organization should ensure that the best products are obtained at the lowest prices in a timely manner. To provide for a single retail inventory management system, DoD should establish the Base Operating System. Once established, this System would become the accounting, financial, contracting and supply choice for DoD.

**19. OSD should delete or revise those statutory and regulatory requirements which unreasonably impede an installation commander's ability to contract for supplies and services.** In the area of real estate leasing and purchasing, Section 2682 of Title 10, United States Code should be amended to eliminate some fixed lease costs and overhead expenses. Similarly, DoD should be allowed to delete the requirement to submit Analysis of Requirements for Commercial Vehicles and other similar requirements where the procedures are unnecessary, cumbersome and difficult to understand.

The Joint Travel Regulations should also be reviewed and amended. These regulations are often confusing and contradictory. For example, the restriction on use of foreign flag carriers (Fly American Act) prohibit the use

of several U.S. Carriers (U.S. Air, Continental) because of their alignment with non-U.S. Carriers even though they can often provide the least costly means of transportation.

20. **OMB/OSD should implement full funding reimbursement on an accelerated schedule.** In this area, DoD should add improved automated support and provide more definitive policy/procedure guidance. This should include flexible pricing, process/function costs and total asset visibility.
21. **The DoD Comptroller should issue unit cost guidance.** It is critical that DoD establish a standard financial accounting system and uniform guidance for computing unit costs. This will promote uniformity and assist installation commanders in assessing their procurement programs in a more efficient and effective manner.
22. **The DoD Comptroller should change applicable DoD regulations to allow stock fund managers to include in their customers' surcharges the costs for procuring, warehousing, packing, crating and handling.**
23. **OSD should provide detailed guidance identifying the requirements, negotiations and preparation of interservice support agreements (ISAs).** DoD needs to revise its guidance to include DoD inter-Service support policy; organization, functions and specific responsibilities of suppliers and receivers in the ISA process; procedures for negotiation and preparation of ISAs; and categories of support which spell out in detail the types of support required.

### **Implications**

Many of these initiatives are long range in nature and will require changes in

statutes, regulations and policies. For some of these proposals, the Services will have to staff and coordinate with the Office of the Secretary of Defense. Several recommendations in the four functional areas will require Congressional assistance. Reforming engineering support functions will require outside assistance from outside resources such as state and local communities and other federal agencies. Modern management tools and innovative technological applications in the areas of energy use, automated data processing and the environment will have to be provided in order to assist the installation commander in moving toward entrepreneurial management. There will be some upfront administrative costs to develop the various fiscal management systems.

It is not anticipated that there will be any increase of staffing levels necessary to implement these recommendations.

### **Fiscal Impact**

It is anticipated that once these initiatives are implemented there will be a cost savings to the department. The amounts saved will vary from installation to installation.

## **REDUCE DOD SUPPORT OF THE DRUG INTERDICTION PROGRAM**

### **Background**

Sections 371-380 of Title 10, United States Code and various non-codified authorities contained in the National Defense Authorization Acts for fiscal 1991 to 1993 provide for maximum cooperation between the Department of Defense (DoD) and federal, state and local law enforcement agencies (LEA) in counternarcotics operations to stem the flow of illegal drugs into the U.S.<sup>1</sup>

The bulk of this mission has been undertaken by the National Guard (NG). Generally, in the U.S., the NG operates under state authority, following implementation plans prepared by state Governors, approved by the Secretary of Defense and funded by DoD under Section 112 of Title 32, United States Code. The major tasks assigned the NG have been supporting LEAs in specific areas. These are: interdiction activities (including reconnaissance, surveillance, cargo inspection and engineering support); eradication efforts; research and development of surveillance equipment; transportation support and drug demand reduction (e.g., urinalysis and inner city education programs).<sup>2</sup> It is estimated that for fiscal 1993, the number of NG work days related to counter drug activities will exceed one million days.<sup>3</sup>

Section 124 of Title 10, United States Code, establishes DoD to be the lead federal agency to detect and monitor aerial and maritime transit of illegal drugs into the U.S.<sup>4</sup> Additionally, the Secretary of Defense is responsible for integrating communications and technical intelligence assets dedicated to drug interdiction and to approve and fund state Governor's Plans for use of their NG in state status for counter drug activities.<sup>5</sup>

Section 1004 of the fiscal 1991 Defense Authorization Act, as amended, also specifies that DoD may provide monetary support without reimbursement during fiscal 1991 to 93 for counter drug activities for federal, state, local and foreign LEAs. This support includes the purchasing of equipment and the provision of services (e.g., training, linguists, transportation, maintenance/repair/upgrade of government provided equipment).<sup>6</sup> Section

1004 funds are also used to support activities which do not have a direct military benefit. These include procurement of C3I (i.e., command, control and communications and intelligence) services, formal training of LEA personnel in military schools and the upgrading of non-Government provided equipment.<sup>7</sup>

The total fiscal 1992 budget for these and other DoD counter drug programs was \$1.226 billion.<sup>8</sup> Within the DoD budget, the fiscal 1993 NG counter drug budget was \$236 million.<sup>9</sup> Of that total, approximately 85 percent was spent in support of the interdiction and eradication mission while 1.5 percent was spent on drug demand reduction programs.<sup>10</sup> In addition to its role in the domestic program, the NG supports the CINCs' (commander in chiefs) counter drug operations overseas.

One unique activity performed by the NG in support of LEAs, and not an authorized activity for active duty military, is a program to assist U.S. Customs Service inspections of cargo entering the country.<sup>11</sup> Under state (Section 112 of Title 32, United States Code) authority, and in accordance with plans submitted by state Governors and approved by the Secretary of Defense, NG personnel are sent on temporary active duty pursuant to ADSW (active duty special work day) orders to ports of entry where they inspect cargo containers under the supervision of the Customs Service. NG personnel (including commissioned and non-commissioned officers) assisting this effort are transported to the inspection site. They earn full military pay, credit toward retirement and if the location of the inspection facility is over 50 miles away, travel payments while performing these duties.<sup>12</sup> The program costs roughly \$28 million a year.<sup>13</sup> In all likelihood, the Customs Service could hire wage grade civilians or contractors to provide this type of support at a lower cost.<sup>14</sup>

Whether the involvement of DoD in support of LEA counter drug activities has been effective in reducing the flow of illegal drugs into the U.S. is debatable.<sup>15</sup> But, despite increased seizures, the availability of drugs in this country has not decreased.<sup>16</sup> Further, the GAO has viewed some of the drug interdiction activities (e.g., cargo inspection and use of radar balloons) as inefficient and costly.<sup>17</sup>

Congress has also asked DoD to develop communications networks for state and local LEAs. This effort was designed to fund and assist in the development of an overall,

coordinated, comprehensive telecommunications system to assist in drug interdiction efforts. The program has the potential to expand to all states. But beyond the development of these systems, DoD is also being asked to maintain them in the future.<sup>18</sup>

DoD is providing approximately 250 "temporary" staff personnel for counter drug activities at LEAs. These "temporary" details of military and civilian staff to LEAs sometimes last for periods as long as four years. Often, these details are costly and unnecessarily prolonged by the LEAs. In effect, DoD has been subsidizing the staffs of these LEAs without reimbursement. As an example, DoD is not only developing and maintaining the National Drug Intelligence Center at Johnstown, PA, but it pays the salaries of the Department of Justice employees who are assigned to this facility.<sup>19</sup>

Pursuant to Public Law 102-396, Congress made \$25.5 million available for the sole purpose of operating and maintaining five sea-based aerostat (radar balloon) systems. These systems are used for detecting and monitoring in support of U.S. Coast Guard antinarcotics operations.<sup>20</sup> However, there are indications that the sea-based aerostats are unreliable and inefficient monitoring and detecting devices.<sup>21</sup> Often, these aerostats cannot be operated due to inclement weather or because of maintenance problems.<sup>22</sup>

#### **Recommendations:**

- 1. The DoD should eliminate certain National Guard interdiction operations such as supporting the Customs Service's manual cargo inspection program, substituting, as necessary, less costly civilian inspectors funded by the Customs Service.** Congress should continue to fund non-intrusive cargo inspection research programs to develop technology such as bio-sensors and full container x-rays which will obviate the need for such labor intensive methods.
- 2. The DoD should eliminate Section 1004 funded support of other agencies when such support does not have a direct military benefit.** The DoD should be allowed to continue to provide counter drug support on a reimbursable basis where it is cost effective (e.g., establishing communication and ADP systems, training,

equipment maintenance and foreign language translators). Through appropriate legislation, Congress should make fiscal 1994 funds programmed for Section 1004 support available to other agencies as designated by the ONDCP Director.

3. **The DoD should require LEAs to provide their own funding for LEA counter drug administrative staff instead of relying on DoD to provide more costly civilian or military staff.** When LEAs request DoD to provide personnel assistance under the DoD 274 Detail Program, DoD will carefully determine if the LEAs have the capability to obtain these type of services from other sources. When a detail is granted, DoD should insure that the LEAs use DoD personnel in a manner consistent with the request (i.e., military intelligence analyst is used for intelligence activities), and that LEAs take appropriate action to train others to replace these personnel when the detail is over. DoD will continue to provide personnel on a nonreimbursable basis only for key billets such as those related to intelligence and planning where it is clear that LEAs do not have the capability to obtain these assets.
  
4. **The DoD should discontinue the use of sea-based aerostats for counter drug detection and monitoring activities because they are costly and inefficient.** Aerostats are relatively high cost assets for limited coverage and are not valued by DoD commanders in the field. Though they are primarily used in support of the Coast Guard activities, land based radar, tracker aircraft, E2 and P3 aircraft and Coast Guard cutters are sufficient assets to perform the mission of detection and monitoring. Elimination of this program would most directly affect the Coast Guard.

### **Implications**

The Clinton Administration is expected to announce its counternarcotics policy sometime in the fall of 1993.<sup>23</sup> Any changes in DoD's counternarcotics program should be

implemented in such a way that they are consistent with this policy.

If DoD military assistance is reduced in such areas as aerial surveillance and interdiction, \$270 million in OPTEMPO training funds now dedicated to the counter drug program would continue to be spent in non-counter drug endeavors to assure minimum military readiness qualifications.<sup>24</sup>

Despite criticism from the Congressional Budget Office and Congress, NG and DoD drug enforcement officials believe that they have fulfilled the mission given them by Congress -- namely, to provide support to LEAs. In particular, the NG believes that because they are an integral part of their local community, it is part of their state mission to assist in the drug interdiction effort. The NG contends that it provides LEAs with irreplaceable resources such as aerial surveillance, reconnaissance, intelligence, linguists, translators and technical expertise for sophisticated surveillance equipment.<sup>25</sup> LEAs should be able to accomplish their mission more economically in such areas as cargo inspection if the LEAs were funded directly for this mission.<sup>26</sup> However, DoD may have to continue support until LEA forces are hired and trained. Legislation may be necessary to assure that the hand-off is accomplished in a timely manner.<sup>27</sup> As a result of these recommendations, Congress may have to readjust budget ceilings of affected federal LEAs to properly fund the national counter drug policies established by this Administration.<sup>28</sup> It is also anticipated that NG reservists will receive less secondary income if ADSW funding is reduced for counter drug inspections.<sup>29</sup>

### **Fiscal Impact**

Each of the recommendations listed above can result in cost savings to DoD. In the area of NG cargo inspections, approximately \$28 to 29 million per year for the next five years is budgeted in support of this program. These funds could be better spent on contracting for less expensive contractors or in the development of non-intrusive cargo inspection technology to achieve the same results. Currently, \$8 million a year in Section 1004 support to LEAs is expected to be spent by DoD for non-military assistance.

Elimination of this support will result in over \$35 million savings to DoD over the next five years. Similarly, funding for DoD personnel assistance under the DoD 275 Detail program, currently budgeted at \$10.5 million for the next five years, could be saved if DoD is allowed to curtail unnecessary administrative details in the future. Finally, over \$25 million per year could be saved if DoD is permitted to discontinue the costly and ineffective sea based aerostat program.

**In Millions of Dollars**

	1994	1995	1996	1997	1998	1999
<b>Budget Authority</b>		71.5	72.3	73.1	74.0	74.0
<b>Outlays</b>		55.8	68.2	70.0	70.7	70.7
<b>Change in FTEs</b>		(74)	(74)	(74)	(74)	(74)

**Endnotes**

1. Lieutenant Commander John Rolph, *Military Assistance to Law Enforcement*, (June, 1992) p. 7-9

2. Interview with Francis J. Bray, Director, Counterdrug Task Force, National Guard Bureau, Department of Defense, the Pentagon, Arlington, Virginia, June 3, 1993.

3. Department of Defense, *Annual Report to the President and the Congress, Part III, Defense Components Counterdrug Program*, Richard Cheney, (Washington, D.C., January 1993) p. 110.

4. Rolph, p. 3.

5. Telephone interview with James Fish, Budget Examiner, Office of Management and Budget, Washington, D.C., June 8, 1993.

6. Interview with Colonel Robert Newberry, Principal Director for Drug Enforcement Policy & Support, Department of Defense, the Pentagon, Alexandria, Virginia.

June 1, 1993.

7. Memorandum provided by Brian E. Sheridan, Deputy Assistant Secretary for Drug Enforcement Policy and Support, July 16, 1993, p. 8.
8. Telephone interview with James Fish.
9. Interview with Francis J. Bray.
10. Ibid.
11. Telephone interview with James Fish.
12. Interview with James Fish.
13. Ibid.
14. Ibid.
15. U.S. Congress, Senate Judiciary Committee, *Hearing on America's Drug Strategy*, Comments by Senator Joseph Biden, Jr., April 29, 1993.
16. Congressional Budget Office, *Reducing the Deficit: Spending and Revenue Options, A report to the Senate and House Committees on the Budget as required by PL 93-344*, (Washington, D.C., February 1993) pp. 216-17.
17. "Military anti-drug effort \$3-billion flop, report says," *Milwaukee Journal*, (June 21, 1993) p. 1.
18. Comments received from Colonel Robert Newberry, June 21, 1993, p. 3.
19. Ibid.
20. Memorandum from R.C. Macke, Vice Admiral, USN, Director, Joint Staff, (Washington, D.C. June 15, 1993) p. 1.
21. Interview with Captain Stewart Barnett (Navy), Branch Chief, Host Nations Operations Branch, Counternarcotics Operations Division (CNOD), Lieutenant Colonel Gordon W. Howard, Branch Chief, Research Management Branch, CNOD, and Captain John D. Roberts (Navy), Action Officer, Detection and Monitoring Branch, CNOD, Joint Chiefs of Staff (J3), the Pentagon, Alexandria, Virginia, June 14, 1993.
22. Ibid.

23. Interview with Richard Canas, Director of Counterterrorism & Counternarcotics, National Security Council, June 21, 1993.
24. Comments received from Colonel Newberry, June 21, 1993, p. 3.
25. Interview with Frank Bray.
26. Interview with James Fish.
27. Comments received from Colonel Newberry, June 21, 1993, p. 3.
28. Comments received from Lee P. Brown, Director, Office of National Drug Control Policy, Office of the President, Washington, D.C., August 6, 1993.
29. Interview with James Fish.

## REDUCE NATIONAL GUARD AND RESERVE COSTS

### Background

In 1993, the U.S. military reserves exceeded 1.1 million personnel, compared with 1.8 million on active duty.<sup>1</sup> The seven reserve components are in the Army, Navy, Air Force, Marine Corps and Coast Guard and the Army and Air National Guard. Two-thirds of the reserve force are in the Army Reserve and National Guard.

A selected reservist performs duty one weekend a month plus serves on active duty for a period of time (usually 12 to 14 days) during a calendar year. During the monthly drill period, the selected reservist trains in his or her military occupational specialty for a wartime mission. Some selected reservists occupy positions in "individual mobilization augmentee" (IMA) slots. An IMA reservist can either be in a drilling or a non-drilling position. Depending on the service (e.g., Army, Air Force, Navy), a drilling IMA reservist performs duty either one or two days a month and is paid. A non-drilling IMA reservist does not perform duties during the month. However, like all selected reservists, an IMA reservist must serve on active duty for up to 12 to 14 days during the calendar year.<sup>2</sup> In fiscal 1992, there were 18,735 officers and 11,070 enlisted personnel in IMA slots.<sup>3</sup> At the end of fiscal 1991, the Army had the largest number of selected reservists (755,802) (65 percent of overall reserve strength). In comparison, the Navy and Marine Corps had a force of only 196,443 in the selected reserves (17 percent), the Air Force had 202,325 (17 percent) and the Coast Guard had 11,857 (one percent).<sup>4</sup>

Because of the draw down of military forces after the end of the Cold War, the Bush Administration proposed reducing the National Guard and Reserve personnel by over 250,000 by the end of fiscal 1995.<sup>5</sup> There has also been a large reduction of active duty personnel which has greatly increased the number of former military who wish to join the reserves. At the same time, there are many reservists who have lost their positions due to the draw down and are actively seeking to stay in the selected reserves. The draw down of active and reserve military forces coupled with the effects of the recession have, in some cases, created a surplus of individuals seeking to join or stay in the reserve program.

Two specific issues with National Guard and Reserve implications were identified which showed inequities in the program. The first of these deals with payments to reservists who are federal employees.

In fiscal 1992, there were 136,700 reservists who were Federal civilian employees.<sup>6</sup> Selected reservists who are also federal employees receive their full civilian pay and full reserve pay during their two weeks of annual military training. This is an exception to the Dual Compensation Act which generally prohibits a federal employee from drawing two salaries from the federal government for the same period of time. These members are authorized to receive military leave for training by federal statute with no loss of pay or annual leave.<sup>7</sup> In contrast, a 1986 Hay-Higgins Benefits Survey of Clients showed that 81 percent of reservists employed by private employers with over 500 employees only received the difference between their civilian and reserve pay or received no additional pay at all.<sup>8</sup> In 1989 Yee/Minard and Associates, Inc. prepared another study for Ross Roy, Inc. which showed 66 percent of small private companies and 51 percent of large private companies only paid the difference in reserve and civilian salary, paid no salary at all or required the reservist to take annual or sick leave.<sup>9</sup>

In 1978, the Reserve Compensation System Study (RCSS) and a 1990 Congressional Budget Office report proposed eliminating dual compensation.<sup>10</sup> The RCSS was, however, not released as an approved study outside DoD. The RCSS found that over half of the reservists who were federal employees were civilian technicians (i.e., full-time federal employees of Guard and Reserve units) whose civilian employment was contingent upon membership in the unit.<sup>11</sup> In fiscal 1992, out of 101,000 federal employees employed at DoD, 58,000 were military technicians.<sup>12</sup>

Reservists with dependents who are placed on active duty for short training periods also receive housing allowances. Reservists generally serve on two weeks of active duty each year for annual training. Reservists also may serve for short periods of additional active duty for schooling or special training. While training for periods of 14 days or less, reservists with dependents receive basic allowance for quarters (BAQ), even when government quarters are provided to the reservist. Reservists without dependents do not receive BAQ.

This issue was originally raised by a congressional inquiry following a constituent's

complaint that two single members without dependents of the same Service and same grade received different compensation when performing identical missions in a temporary duty status.<sup>13</sup> One of the members was in the reserves and the other was on active duty. The second issue concerning BAQ arose when service members complained in a 1986 Reserve Component Survey that reservists without dependents did not receive BAQ during short tours of active duty while members with dependents did.<sup>14</sup> As a result of these complaints, the Sixth Quadrennial Review of Military Compensation recommended that BAQ be extended to all reservists on active duty with the exception of members without dependents who are performing initial active duty for training.

The disparity in treatment with respect to compensation results from Section 401(d) of Executive Order No. 11457, "Regulations Relating to Incentive Pay, Special Pay and Allowances." This Section defines the permanent duty station of members of the reserve components on active duty for training as the place where the training is being performed.<sup>15</sup> Entitlement to BAQ is based on the availability and use of Government quarters at the "permanent duty station".

A reservist who is sent to a location on temporary active duty is deemed to be at his or her "permanent duty station." Since quarters are generally provided to reservists during short periods of active duty, the Government does not provide BAQ for reserve members without dependents. In contrast, reservists who have dependents receive BAQ even though they are provided quarters during active duty for training. As an example, a member in pay grade E-4 who has no dependents will receive \$125 less during a 14 day annual training period than will an E-4 with dependents.<sup>16</sup>

Active duty members, with or without dependents, are provided BAQ even though they may be on temporary duty at another location. The justification for this differentiation is that the government has an obligation to provide housing benefits (i.e., BAQ) for active duty dependents even when an active duty service member is on TDY. In contrast, the government should not be obliged to provide housing benefits for dependents of a reservist and should not have to pay BAQ benefits when a reservist, on short periods of AT, is provided government quarters.<sup>17</sup> The existing policy primarily benefits officers and senior enlisted personnel who have dependents.<sup>18</sup> Since single reservists do not receive BAQ, elimination of BAQ benefits for all reserve personnel when government quarters are

provided would remedy a perceived inequity.

### **Recommendations:**

- 1. Congress should amend Section 6323 of Title 5, United States Code to authorize a reservist on annual military training leave who is a federal employee to be paid only the greater of civilian or reserve compensation or to allow the reservist to take annual leave.** Corresponding changes to DoD and Office of Personnel Management regulations and policies would also have to be made to implement this statutory amendment.
- 2. Congress should amend Section 403 of Title 37, United States Code to eliminate BAQ for all selected reserve personnel occupying government quarters during short periods of active duty training (15 days or less).** To implement this statutory change, relevant Executive Orders, regulations and policies would also have to be amended.

### **Implications**

The issue of eliminating dual compensation and BAQ benefits have been raised in the past by the Congressional Budget Office and Office of Management and Budget. Though there have been arguments that this change in policy would be detrimental to the recruitment and retention of qualified individuals in the reserves, our review indicates that this change would only minimally affect overall reserve compensation and would not adversely affect the viability of the program. Enactment of these proposals would end perceived inequities in the system and provide significant cost savings for the Government.

### **Fiscal Impact**

By eliminating dual compensation for reservists who are federal employees, the potential cost savings to the Government would average approximately \$80 million a year. Ending BAQ for reservists with dependents who are provided quarters during short periods of active duty would save the Government approximately \$100 million per year. The

reduction in yearly income of reservists with dependents would be only about five percent.

In Millions of Dollars						
	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99
<b>Budget Authority</b>		180	180	180	180	180
<b>Outlays</b>		180	180	180	180	180
<b>Change in FTEs</b>		0	0	0	0	0

#### Endnotes

1. Congressional Budget Office (CBO), *Reducing the Deficit, Spending and Revenue Options, A report to the Senate and House Committees on the Budget as required by PL 93-344*, (Washington, D.C. , February 1993), p. 90.

2. CBO, *Reducing the Deficit*, p. 94.

3. Memorandum received from Frank Rush, Principal Director, Office of the Deputy Secretary of Defense for Reserve Affairs (Manpower and Personnel), the Pentagon, Alexandria, Virginia, July 20, Recommendation #1, p. 3.

4. Memorandum received from Frank Rush, July 20, 1993, Recommendation #1. p. 2.

5. Committee on Armed Forces, United States Senate, *National Defense Authorization Act for Fiscal Year 1993, Subtitle E - Guard and Reserve Transition Initiatives*, p. 203

6. Memorandum received from Frank Rush, July 20, 1993, Recommendation #1, p. 3.

7. Federal Personnel Manual 630, Subchapter 9, *Absence and Leave*, p. 21-22.

8. Memorandum received from Frank Rush, July 20, 1993, Recommendation #1, p. 4.

9. Ibid.

10. Interview with Gene Divine, Budget Analyst, Office of Management and Budget, May 10, 1993.
11. Ibid.
12. Memorandum received from Frank Rush, July 20, 1993, Recommendation #1, p. 3.
13. Department of Defense, *Sixth Quadrennial Review of Military Compensation, Volume 1, National Guard and Reserve Compensation*, (August, 1988), p.6-2-6-9.
14. Ibid.
15. Ibid.
16. Ibid.
17. Interview with Wendel Waites, Budget Analyst, Office of Management and Budget, June 11, 1993 .
18. Interview with Gene Divine.

## STREAMLINE AND REORGANIZE THE US ARMY CORPS OF ENGINEERS

### Background

The US Army Corps of Engineers (Corps), which has both a military mission and a Civil Works mission, is part of the Department of Defense (DoD). The Corps does all of the military construction for the Army and 80 percent of the Air Force's construction.<sup>1</sup> In addition, the Corps performs some of the DoD's environmental work. Out of a \$10.6 billion fiscal 1993 program including reimbursable work, \$5.5 billion is for military construction programs and \$5.1 billion is for civil works programs.<sup>2</sup> The Corps presently does approximately \$1.5 billion of reimbursable work for programs of DoD and other federal agencies, such as the Environmental Protection Agency's (EPA) Superfund, environmental restoration and other engineering services for the Department of Energy (DOE), and emergency activities for the Federal Emergency Management Agency (FEMA).<sup>3</sup> These agencies use the Corps' expertise in project planning, cost estimating, engineering design, and contract management.

The Corps' workforce includes 27,402 civil works full time equivalent employees (FTEs) and 13,400 military program FTEs.<sup>4</sup> This proposal deals primarily with the 15,600 civil works FTEs and the approximately 4,900 military program FTEs that are located in and have responsibility for performing work in assigned geographic areas within the continental United States (CONUS). It excludes the Corps Research and Development Laboratories and two specialized division offices.

The Corps has long recognized the need to reorganize to maintain its status as a world class engineering organization. The Corps has not undergone a major reorganization since 1942, yet it is doing less of its traditional engineering and construction activities in its civil works programs.<sup>5</sup> Recent history indicates that there will be fewer large civil works projects approved by Congress and traditional military construction is expected to decline. Although the Corps' workload and workforce are generally balanced nationwide (The present CONUS-geographic organizational structure of the Corps includes 1 headquarters, 11 division, and 38 district offices.<sup>6</sup>), some districts have severe workload peaks and valleys (varying as much as 50 percent from year to year), that are difficult to staff efficiently. The

Corps' technical capabilities are limited by a lack of personnel in specialized fields at some of the Corps' smaller offices. High overhead is also a problem for both civil works and military programs. For example, when division offices and headquarters are included, Corps-wide overhead and management costs are calculated at 25 percent; however, small district offices may have overhead rates that are as much as 20 percent higher than comparable rates at many large district offices.<sup>7</sup>

Congress has expressed its concern about the Corps' organizational structure. Committee reports accompanying the Energy and Water Development Appropriations Acts for fiscal 1990 and 1991 directed the Corps to prepare conceptual alternatives and criteria for reorganization. As a result, the Corps furnished its "Bayley" Phase I Report to Congress on January 4, 1991.<sup>8</sup>

Congress passed the Defense Base Closure and Realignment Act of 1990 (BRAC), which appeared, according to DoD, to be an appropriate vehicle for developing and implementing an agency-wide reorganization. The Corps' reorganization plan under BRAC projected significant savings and a two- to three-year payback. However, due to congressional committee jurisdiction considerations and opposition by some members, Congress asserted that the Corps' civil works program should not be considered under BRAC and passed legislation in the fall of 1991 which took the Corps out of the BRAC process.<sup>9</sup>

In early 1992, the Corps renewed its restructuring effort by focusing on its roles, missions, workload, workforce, funding, and cost efficiency. This review confirmed the Corps' need to reorganize for several compelling reasons which are summarized in its 1992 publications, *Why Reorganize* and *Reorganization Plan*.

During 1992, the Army coordinated with the Congress regarding its reorganization plans and provided testimony before the House and Senate authorization and appropriation committees on the need for a comprehensive reorganization of the Corps. The fiscal 1993 appropriations bill includes \$5 million and transfer authority for another \$7 million to reorganize the Corps' divisions and headquarters. However, a provision of the fiscal 1993 Energy and Water Development Appropriations Act prohibits closing any district office.<sup>10</sup> While individual Congressmen are opposed to closing division offices in their states or even removing functions from district offices, many have affirmed the need for Corps' reorganization.

In addition to changing the organizational structure, the Corps' proposed reorganization plan includes consolidation of some functions, elimination of review, and other process streamlining. Management efficiencies plus substantial dollar and time savings would be realized by these changes. Moreover, more than 37 actions were identified to remove redundancy, improve efficiency, and reduce headquarters costs. Some of these headquarters actions can be implemented independent of Corps-wide reorganization.<sup>11</sup>

The plan recommended by the Corps would do the following:<sup>12</sup>

1. Reduce the number of division offices from 11 to six.
2. Retain all district offices to guarantee continued, strong customer/partner interface.
3. Enhance the Corps' competency and cost effectiveness primarily through appropriate consolidations of technical and support functions - rather than primarily through office closures.
4. Consolidate some technical functions by creating 15 civil works technical centers within existing districts to provide greater concentrations of planning, design, real estate, and review experts.
5. Consolidate some administrative functions by creating five administrative centers in the continental United States.
6. Consolidate financial and accounting (F&A) functions by creating one national F&A center.
7. Collocate military project construction management and design with ten of the 15 civil works technical centers for maximum efficiency.

Since fiscal 1991, the Corps has prepared two reorganization plans. Implementation of the first plan was denied by Congressional action in 1991, and the second plan has been on hold pending review by the new administration. Congress has also made clear its opposition to changes in district structure in the fiscal 1994 Energy and Water Development Appropriations Act as passed by the House. Continued uncertainty regarding reorganization is having a severe adverse impact on the Corps' employees. As a result, the Corps is losing some of its best employees, and customer service is being affected adversely.<sup>13</sup> In this regard, reorganization needs to proceed as quickly as possible or be terminated.

## **Recommendations**

- 1. The President, Congress, and the Corps should work cooperatively to implement the Corp's *Reorganization Plan* of November, 1992.** The Corps, using previously appropriated funds for reorganization, should proceed immediately to implement the division-level portions of the *Reorganization Plan*. This initiative would consist of such actions as establishment of a central review center which would consolidate the headquarters and division policy review; transfer of technical review functions from divisions to districts; and initiation of the closure of five division offices. The President should request fiscal 1994 supplemental funding to allow the Corps to reduce the number of division offices from 11 to six.
- 2. Congress should enact legislation to establish a commission and mechanism similar to that of the Defense Base Closure and Realignment Act of 1990 to allow federal agencies, including the Corps, to close or relocate offices and resources based on mission, programs, workload, and resource needs.** Under the auspices of this commission, the Corps should recommend a plan for its district-level structure. The commission's evaluation of the Corps' plan should include public and congressional input on the Corps' mission, programs, workload, resource needs, and other planning criteria.
- 3. The Assistant Secretary of the Army (Civil Works) and Chief of the US Army Corps of Engineers should work with other federal agencies and the Office of Management and Budget (OMB) to make maximum use of Corps' planning, engineering, and contract management capabilities in support of other federal agency programs.**

## **Implications**

Although most members of Congress recognize the Corps' need for general reorganization and streamlining, the Corps' plan is politically controversial in several congressional committees because of potential impacts on individual districts. This controversy consequently hinders the Corps' ability to close or relocate offices--a situation

that has occurred with many federal agencies.

Under the Corps' *Reorganization Plan*, presented in November, 1992, there will be a reduction of 2,600 FTEs from the workforce base in place at the end of fiscal 1991.<sup>14</sup> Positions transferred will affect approximately 5,000 FTEs.<sup>15</sup> Not only will the plan improve customer service, but it will also save money and time by reducing the number of levels of review. Other proposals may increase or decrease the proposed FTE reductions and budget impacts.

President Clinton has put forth a number of initiatives to improve the way government works and to reduce the cost of government. Three of these initiatives--reducing the government workforce, reducing the administrative costs of government, and reducing the number of high grade employees--will be met and exceeded by reorganizing the Corps. Reorganization would allow the Corps to apply a managed approach to achieving necessary reductions.

### **Fiscal Impact**

The cost to implement all of the changes outlined and reported in the Corps' *Reorganization Plan* was estimated to be \$215 million. After full implementation, annual savings are estimated to be \$92 million from reduced FTEs (savings stated in the November plan were adjusted to reflect current Corps staffing and savings do not reflect the President's initiatives to reduce the government workforce and administrative reductions). Implementation of only select portions of the plan could be accomplished at lower costs, but this would be accompanied by reduced savings. While these figures were derived from this specific plan, alternative proposals may increase or reduce savings.

FISCAL IMPACT TABLE (Recommendations 1 and 2)<sup>16</sup>

In Millions of Dollars

Fiscal Year	1994 <sup>17</sup>	1995 <sup>18</sup>	1996	1997	1998	1999
Budget Authority	(\$26.0)	(\$46.0)	(\$20.0)	\$6.0	\$92.0	\$92.0
Budget Outlay <sup>19</sup>	(\$33.0) <sup>20</sup>	(\$46.0)	(\$20.0)	\$6.0	\$92.0	\$92.0

Change in FTEs	-250	-850	-1450	-2100	-2100	-2100
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### Endnotes

1. Interview with Kevin Cook, Assistant for Interagency and International Activities, Office of Assistant Secretary of the Army (Civil Works) (OASACW); Mike Davis, Assistant for Regulatory Affairs, OASACW; Jim Waddell, Chief, Office of Strategic Initiatives, Corps; Jill Davis, Reorganization Program Director, Corps; COL John Brown, Executive Director, Directorate of Civil Works (DCW), Corps; Don Kisicki, Chief, Office of Interagency & International Activities (DCW), Corps; John Studt, Chief, Regulatory Branch, Operations, Construction, and Readiness Division, Corps; Bill Klesch, Chief, Office of Environmental Policy, Policy and Planning Division, Corps; Al Carton, Deputy Director, Directorate of Military Programs, Corps; and Bob Oswald, Director, Directorate of Research and Development, Corps, Corps Headquarters, Washington, DC, May 21, 1993.
2. Memorandum from Claudia Tornblom, OASACW, to Kathleen Dillon, OASA (M&RA) at the Pentagon, June 29, 1993.
3. Interview with Corps staff, May 21, 1993.
4. Memorandum to Kathleen Dillon, June 29, 1993.
5. US Army Corps of Engineers *Reorganization Plan*, (Washington, DC, November, 1992), p. i.
6. Ibid., p. 10.
7. Ibid., p. A-1.
8. Ibid., p. 1.
9. Ibid., p. 1.
10. Ibid., p. i.
11. Ibid., p. i.
12. Ibid., p. 6.
13. Telephone interview with General Arthur E. Williams, Chief, Corps, Washington, DC, June 25, 1993.

14. Corps *Reorganization Plan*, p. iv.

15. *Ibid.*, p. iv.

16. This follows the same cost and FTE estimating procedures as used in the Corps' November 1992 *Reorganization Plan*. Dollar entries are incremental, not cumulative. The civil works FTE base has been adjusted downward by 500 FTE since the end of fiscal 1991. Thus, net reductions would equal 2100 FTEs versus 2600 FTEs, and annual dollar savings \$92 million per year versus \$115 million per year. Implementation costs of \$215 million are assumed unchanged. This assumes that the reorganization plan developed through the BRAC-type process will, at a minimum, achieve the savings contained in the Corps' *Reorganization Plan* of November, 1992 as adjusted.

17. Costs and FTEs reductions for full implementation of division-level only portion of the plan during fiscal 1994.

18. Entries for fiscal 1995 through 1999 include incremental costs and savings, and cumulative FTE reductions for implementing a district-level plan of a magnitude similar to the Corps' November, 1992 *Reorganization Plan*. This also includes incremental cost savings from prior implementation of division-level portion of plan.

19. All costs and savings are assumed to be in "administrative" category, i.e., salaries and expenses, not "program" changes.

20. Includes the fiscal 1993 appropriated reorganization funds.

**Section III**  
**Agency Reinvention Activities**

## Defense Performance Review

The Department of Defense (DoD), like other large bureaucracies, is resistant to change. However, in the post Cold War world environment, declining budgets and the rapid pace of advancement in communications and information transfer necessitate change. DoD has recognized this need to restructure and has already begun to incorporate the principles of quality and excellence into its operations.

DoD created its own team--the Defense Performance Review (DPR)--to identify and build on recent successful innovations and to review primary management functions. DPR's objective is to devise innovative ways to encourage more business-like practices and market driven efficiencies. In addition to the DPR, Defense has implemented major ongoing departmental initiatives including the Bottom-up Review, Acquisition Reform and the Restructure of the Office of the Secretary of Defense.

The first reinvention effort, the Bottom-up Review, is a comprehensive analysis of all DoD programs. It includes a review of the base force structure, weapons systems, research and development programs and the support (e.g., number of installations, equipment) needed in light of a rapidly declining budget. The purpose of the review is to insure that each program is necessary and consistent with the current national security strategy.

The second initiative involves the complete restructuring of the Office of the Secretary of Defense. More than two dozen divisions that formerly operated autonomously were pared to five basic parts. Under the new plan, four of the five Pentagon divisions--Acquisition and Technology, Policy, Comptroller and Personnel and Readiness--will be headed by under secretaries. The fifth will be headed by the Assistant Secretary of Defense for Command, Control, Communications and Intelligence.

Through the acquisition reform program, the third reinvention effort, the Secretary of Defense is identifying improvements in DoD's acquisition practices. The DoD Acquisition Law Advisory Panel's Section 800 Report submitted to the Senate and House Armed Services Committees represents the first step in defining a streamlined, sensible and coherent set of acquisition laws. The report ensures necessary levels of congressional oversight and control without significantly burdening the process with unnecessary regulation. This action, if enacted, will have a major impact on DoD's ability to follow smart business practices and

outsource where it makes operational and economic sense. DoD will also maximize the use of commercial rather than military specifications where appropriate. This should lower product/service cost and, in turn, make the market place more competitive.

The Reinvention Team established within Defense has taken advantage of these programs and built on recent efforts in other areas that are consistent with National Performance Review (NPR) objectives. DoD established six task forces to take a comprehensive look at specific areas in which it could use the NPR philosophy to implement change. These include Give DoD Installation Commanders More Authority and Responsibility Over Installation Management; Rewrite Policy Directives to Include Better Guidance and Fewer Procedures; Establish a Defense Quality Workplace; Outsource Non-Core Functions When It Makes Economic and Operational Sense; Purchase Best Value Common Supplies and Services; and Create a Healthy and a Safe Environment for DoD Activities.

DoD's active participation in formulating programs that incorporate NPR principles clearly indicates that it not only supports the reinvention concept but is also totally committed to change.

**Section IV**  
**Fiscal Impact Summary**



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Team: Department of Defense

Date:

Issue No.	Issue Title	6-Year Impact (Million \$)	NPR Team Position	Agency Position	Action from Tollgate 4 Meeting
1	Rewrite Policy Directives to Include Better Guidance and Fewer Procedures	\$0.00	Rec 1: DoD should clarify policy and decentralize procedures to empower people to do their jobs better.	DoD concurs with the recommendations.	
			Rec 2: Components must streamline their procedural guidance.		
			Rec 3: Components should institutionalize in writing the process to revise policy and procedural documents.		
			Rec 4: DoD should follow the DLA model and make policy directives available on CD-ROM.		
2	Establish a Unified Budget Plan for DoD	\$0.00	Rec 1: DoD should revise its budget process to fund major unbudgeted emergencies by a process of assessing each organization an appropriate share of the shortfall.	DoD concurs with the recommendations.	
			Rec 2: DoD should combine Operations and Maintenance, non-weapons (non-centrally managed), Other Procurement, Family Housing Operations and Maintenance, and Minor Construction into a single appropriation, available for obligation for 3 years, for each Service and DoD agency.		
			Rec 3: DoD should allow field commanders flexibility to transfer funds among appropri-		

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			ations and cost categories, as needed, to improve mission capability, cope with unforeseen contingencies, and take advantage of opportunities that only flexibility permits.		
			Rec 4: DoD should allow headquarters commanders flexibility to transfer HQ's administrative and housekeeping funds among appropriations and categories.		
3	Best Value Common Supplies and Services	\$0.00	Rec 1: DoD personnel should use the best value source of supply, as determined by the local commander or manager.	DoD concurs with the recommendations.	
			Rec 2: DoD should empower any properly delegated individual to buy common supplies and non-professional services.		
			Rec 3: DoD should empower internal and external suppliers to focus on meeting customer needs.		
4	Outsource Non-core DoD Functions When It Makes Economic and Operational Sense	\$0.00	Rec 1: DoD senior leadership should implement a comprehensive program for outsourcing non-core functions when it makes economic and operational sense.	DoD concurs with the recommendations.	
5	Create Incentives to Find Revenues	\$810.00	Rec 1: The Corps of Engineers should request that Congress amend the Energy and Water Development Appropriation Act of 1993 to increase the Corps' commercial regulatory fees to more closely approximate the costs of evaluating applications and allow	DoD concurs with the recommendations.	

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			the Corps to retain, in a special regulatory account, all revenues generated through the collection of fees.		
			Rec 2: The Office of Management and Budget should draft an Executive Order reemphasizing that DoD airlift provided to non-DoD agencies is reimbursable and waiver of the reimbursement is appropriate only in the most extraordinary circumstances and with DoD approval in advance.		
			Rec 3: Health Affairs should draft legislation to amend 42 USC 1395 to require that Medicare reimburse DoD at HCFA's predetermined rates for medical services provided to Medicare eligible individuals.	DoD does not concur. This is a transfer payment with no budget effect. It will entail additional costs, and should not be undertaken unless the accounting system for all health care is rationalized.	
			Rec 4: The Deputy Under Secretary of Defense (Environmental Security) should draft legislation to amend PL 97-214 to allow managers/commanders mission-related use of all net revenue from sales of recycable materials.	DoD does not concur. No change to the law is required because DoD will not accumulate over \$2 million in unexpended receipts. Commanders and managers can use the receipts from recycling for appropriate purposes with no changes to existing statutory authority.	
6	Establish and Promote a Productivity Enhancing Capital Investment Fund	\$110.30	Rec 1: To increase the available resources for worthy investments, DoD should obtain Congressional approval to establish a fund that would loan money to DoD organizations for productivity-enhancing capital investments.	DoD concurs with the recommendation.	

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7	Create a Healthy and a Safe Environment for DoD Activities	\$0.00	Rec 1: Develop partnering both within DoD and between DoD and stakeholders.	DoD concurs with the recommendations.	
			Rec 2: Streamline the clean-up process to clean-up sites quickly without prolonged periods of study.		
			Rec 3: Establish an environmental technology that is based on service users' environmental requirements and embodies the DoD environmental strategy.		
			Rec 4: Develop a more effective DoD pollution prevention program.		
			Rec 5: Establish regional offices to provide necessary interface for all joint policy with EPA regions and local state environmental organizations.		
8	Establish a Defense Quality Workplace	\$0.00	Rec 1: DoD should establish a top leadership and management structure that furthers total quality principles.	DoD concurs with the recommendations.	
			Rec 2: DoD should implement a strategic planning process that encompasses total quality principles and establishes direction.		
			Rec 3: DoD should ensure that the entire department has a comprehensive knowledge of total quality principles and practices to bring about and sustain the total quality transformation.		

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			Rec 4: DoD should create an environment that promotes total quality principles and practices to foster continuous process improvement, encourage creatitivity and nurture the professional and personal growth of all employees.		
			Rec 5: DoD should rewrite directives, instructions and policies to support total quality principles and methodologies.		
			Rec 6: DoD should use performance metrics to assess progress towards attaining its vision.		
9	Give DoD Installation Commanders More Authority and Responsibility Over Installation Management	\$0.00	Rec 1: The Defense Finance and Accounting should institute a Defense-wide cost accounting system for installation management.	DoD concurs with the recommendations.	
			Rec 2: The Defense Comptroller, in conjunction with Service and Agency Comptrollers should be tasked to perform a review of all financial constraints and limitations imposed on installations.		
			Rec 3: The Defense Comptroller should develop and institute procedures that allow installation commanders to retain a designated portion of budgetary savings generated by specified cost savings measures, such as energy conservation.		

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			Rec 4: The Services should institute procedures that require a financial impact assessment of major policy issues on resource decisions.		
			Rec 5: DoD should issue guidance that encourages the Services to limit non-specific, broad based cuts of installation resources.		
			Rec 6: The Office of the Under Secretary of Defense for Environmental Security, in conjunction with the Services, should review existing installation engineering policies, procedures and other regulatory requirements.		
			Rec 7: OSD, the Comptroller and Office of the Deputy Under Secretary of Defense for Environmental Security, in conjunction with the Services and other agencies, OMB and Congress should develop a comprehensive long-range approach to managing DoD capital assets, similar to capital asset management systems common in the private sector.		
			Rec 8: The Office of the Undersecretary of Defense for Environmental Security, in conjunction with the OSD Comptroller, the Services, other DoD agencies, OMB, and Congress should implement policies and practices which will enhance the installation commander's ability to obtain engineering support in a timely and efficient manner.		

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			Rec 9: OSD Force Management and Personnel, in conjunction with the Services, OPM, unions and Congress should modify staffing authorization and personnel hiring and discharge procedures to permit installation commanders the flexibility they need to efficiently adjust their staffs to changing workloads and resources and to retain the most qualified and productive personnel.		
			Rec 10: The Office of the Under Secretary of Defense for Acquisition, in conjunction with Services, agencies and Congress, should identify and modify those statutes, policies and procedures which preclude or otherwise limit the installation commander from acquiring from a provider who offers the best value for services, supplies, equipment and other resources required to accomplish installation engineering activities in the most cost-effective manner.		
			Rec 11: The OSD Comptroller and the Office of the Undersecretary of Defense for Environmental Security, in conjunction with the Services, agencies, OMB and Congress, should modify current statutes and/or budget scoring rules to encourage private sector financed alternatives to Military Construction for acquiring, operating and maintaining required facilities at the lowest		

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			total life cycle cost.		
			Rec 12: The OSD Comptroller and the Office of the Undersecretary of Defense for Environmental Security, in conjunction with the Services, agencies, OMB and Congress, should implement cost savings incentives that would authorize installation commanders to retain savings (or cost avoidance) which resulted from process improvements and productivity enhancements, and apply towards discretionary spending and/or other installation engineering requirements.		
			Rec 13: The Deputy Under Secretary of Defense for Acquisition Reform should allow the use of simplified acquisition procedures for contracts between \$25,000 and \$100,000.		
			Rec 14: OSD should encourage the use of "partnering" agreements between service providers and service users, and encourage widespread application wherever possible and appropriate, in contracts as well as agreements between government organizations.		
			Rec 15: All Defense Services and agencies should increase the use of "best value" contracts where applicable and encourage installation commanders to take prudent risks in procurement activities.		

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			Rec 16 The Deputy Under Secretary of Defense for Acquisition Reform should revise protest procedures, including limiting the time in which a protest is considered, to facilitate the rejection of unreasonable protests submitted by contractors whose primary intent appears to be to delay the contract awards.		
			Rec 17" OSD should identify impediments to a "shop smart" capability and implement a standardized reimbursement accounting system.		
			Rec 18: Defense Logistics Agency and OSD should change the Federal Acquisition Regulations to permit purchasing from large businesses based on cost and quality of items required.		
			Rec 19: OSD should delete or revise those statutory and regulatory requirements which unreasonably impede an installation commander's ability to contract for supplies and services.		
			Rec 20: OMB/OSD should implement full funding reimbursement on an accelerated schedule.		
			Rec 21: DoD Comptroller should issue unit cost guidance.		
			Rec 22: DoD Comptroller should change		

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			applicable DoD regulations to allow stock fund managers to include costs for procuring, warehousing, packing, crating and handling in their customer's surcharges.		
			Rec 23: OSD should provide detailed guidance identifying the requirements, negotiations and preparation of interservice support agreements.		
10	Reduce DoD Support of the Drug Interdiction Program	\$364.90	Rec 1: DoD should eliminate certain National Guard interdiction operations such as supporting the Customs Service's manual cargo inspection program, substituting, as necessary, less costly civilian inspectors funded by the Customs Service.	DoD does not concur with the four recommendations. As a result of the Bottom-Up Review, the role of the Guard and Reserve forces will be enlarged in the future consistent with the National Performance Review's mandate to create a government that works better and costs less. DoD's assistance to local law enforcement agencies and the Customs Service is consistent with our efforts to assist in solving America's internal problems--everything from disaster relief to drug interdiction. This role is central to the Department and supported by Congressional leadership.	
			Rec 2: DoD should eliminate Sec. 1004 funded support of other agencies when such support does not have a direct military benefit.		
			Rec 3: DoD should require LEAs to provide their own funding for LEA counter drug administrative staff instead of relying on DoD to provide more costly civilian or military staff.		
			Rec 4: DoD should discontinue the use of sea-based aerostats for counter drug detection and monitoring activities because they are costly and inefficient.		

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11	Reduce National Guard and Reserve Costs	\$900	Rec 1: Congress should amend Sec. 6323, 5 USC to authorize a reservist on annual military training leave who is a federal employee to be paid only the greater of civilian or reserve compensation or to allow the reservist to take annual leave.	DoD does not concur with the two recommendations.  As a result of the Bottom-Up Review, the role of Guard and Reserve forces will be enlarged in the future--an example of the National Performance Review 's mandate to promote a government that performs better and costs less. The minor savings that may be available are not worth the irritation to members or Congressional supporters. Moreover, the recommendations appear to undercut President Clinton's campaign speech to the Guard and Reserve in St. Louis.	
12	Streamline and Reorganize the Corps of Engineers	\$98.00	Rec 1: The President, Congress, and the Corps should work cooperatively to implement the Corps' Reorganization Plan of November 1992.  Rec 2: Congress should enact legislation to establish a commission and mechanism similar to that of the Defense Base Closure and Realignment Act of 1990 to allow federal agencies, including the Corps, to close or relocate offices and resources based on missions, programs, workload, and resource needs.  Rec 3: The Assistant Secretary of the Army (Civil Works) and Chief of the US Army Corps of Engineers should work with other federal agencies and OMB to make maximum use	DoD concurs with the recommendations. The issue is whether to propose the reorganization under the umbrella of the National Performance Review as part of an effort to reduce field organizations throughout government or to try to gain Congressional support independent of the NPR.	

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			of the Corps' planning, engineering, and contract capabilities in support of other federal agency programs.		