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BUSINESS REFORM IN THE DEPARTMENT OF DEFENSE

An Agenda for the Next Administration

Robert F. Hale



About the Author



THE HONORABLE ROBERT F. HALE is a Fellow at Booz Allen Hamilton, where he represents the firm in public policy discussions and provides internal assistance on projects. From 2009 until 2014 Hale served as Comptroller and Chief Financial Officer at the Department of Defense (DoD). During those years he managed \$600 billion budgets in a time of war and oversaw efforts by the department to minimize the problems caused by the 2013 sequestration and government shutdown. He also made significant improvements in defense financial management, making tangible progress toward auditable financial statements and establishing a course-based certification program for defense financial managers. From 1994 to 2001, Hale served as the head of Air Force financial management, managing that service's budgets and spearheading creation of a test-based certification program for DoD financial managers. Hale also spent 12 years as head of the defense group at the Congressional Budget Office, where he frequently testified as an expert witness before congressional committees. He was the Executive Director of the American Society of Military Comptrollers and held analytic and management positions at LMI government consulting and the Center for Naval Analyses. Early in his career he served as a Navy officer.

Hale served as a Commissioner on the recent National Commission on the Future of the Army and is a past member of the Defense Business Board. Since 2001 he has been a Fellow in the National Academy of Public Administration. He is Level 3-certified in Defense Financial Management and is a Certified Defense Financial Manager (with acquisition specialty).

Hale holds a Bachelor of Science with honors from Stanford University in statistics, a Master of Science from Stanford in operations research, and a Master of Business Administration from the George Washington University. He has received numerous awards from the Department of Defense and the federal government for distinguished public service, including the Department of Defense Distinguished Public Service Award, the Joint Distinguished Civilian Service Award from the Chairman of the Joint Chiefs, and the GAO/OMB/Treasury award for distinguished lifetime accomplishments in federal financial management.

Introduction

It is difficult to reform business practices at the Department of Defense (DoD). Senior officials who must lead reform efforts rightly focus their attention on warfighting missions and personnel issues, which sharply limits the time available to implement reforms. This is particularly true when the nation is at war. Incentives to pursue business reform are often missing. Savings from reform efforts frequently get harvested to pay for mission needs, leaving reformers with little except job satisfaction. Sometimes key constituent groups (for example, unions or key industries) discourage an administration from advancing reforms. Finally, Congress can be a major impediment. Business reforms typically save money by reducing workforce size, and such reductions often do not endear the reforms to members of Congress who do not want to risk losing votes in their states and districts.¹

Still, most past administrations have undertaken and had some success with these reforms. (Does anyone remember the Defense Management Improvement Plan, the Defense Management Report, or the Defense Reform Initiatives?)

The Obama administration joined in the pursuit of DoD business reforms, starting with Defense Secretary Robert Gates' efficiency initiatives and continuing with initiatives under Secretaries Leon Panetta, Chuck Hagel, and Ashton Carter. For example, DoD worked with Congress to restructure co-pays for pharmaceuticals in ways that encourage beneficiaries to use more cost-effective services. Congress took the lead and passed a significant revision of the military retirement system,

modernizing it and holding down costs. DoD increased its use of "strategic sourcing," which saves money by combining purchases of goods and services to take advantage of the department's market power. Organizations have been streamlined, including, for the first time, elimination of a combatant command (the Joint Forces Command). DoD also made progress in improving the acquisition process to slow unanticipated cost growth, and key portions of all the military services' budget statements are under audit for the first time. Together, these and other reforms probably saved at least \$5 billion a year and, in some cases, improved program effectiveness. The savings will continue in perpetuity, unless reforms have to be reversed, and so will add up to increasingly large sums.

During the next administration, DoD needs to continue to implement business reforms that save money and improve effectiveness. Not long after the new administration's senior staff is in place, the deputy secretary of defense (who currently serves as the department's chief management officer) will probably call a meeting to formulate an agenda. Similar meetings may occur in the military departments. This paper seeks to assist those meetings by providing a menu of higher-priority candidates for business reform, defined here as changes in business practices rather than the termination or restructuring of lower-priority programs. Business reforms are particularly important because they can save money while improving, or at least not reducing, mission effectiveness. The paper draws on research from many organizations. It also reflects my own experience with DoD financial and reform initiatives, experience that spans four decades and included service as DoD's comptroller and chief financial officer from 2009 to 2014.

This paper seeks to assist [the next administration] by providing a menu of higher-priority candidates for business reform.

Criteria for Selecting Reforms

As it considers initiatives for a business reform agenda, the new administration should keep in mind four criteria:

1. Business reform initiatives should improve support to the warfighter or at least leave it unchanged.
2. The new initiatives should have a reasonable chance of being approved and implemented. That requires considering prospects for support within the DoD as well as in Congress. The number of initiatives must also be no more than senior leaders can effectively promote and manage while also meeting national security goals.
3. Some initiatives should be sufficient in scope and visibility to convince the president and the public that DoD is working to manage its resources

carefully. Initiatives that meet this criterion include those that can reduce the number of times DoD appears on the high-risk list of management problems maintained by the Government Accountability Office.²

4. Initiatives should save enough money, or result in sufficient improvements in program effectiveness, to justify the effort required to make the initiatives happen. Stated more succinctly, the gain should be worth the pain.

With these criteria in mind, this paper identifies potential initiatives in three categories. Within each category, the higher-priority initiatives are listed first. The following table summarizes the proposed agenda.

Summary of Initiatives in Proposed DoD Business Reform Agenda

<p>REQUIRE PERSONAL ATTENTION OF SECRETARY OF DEFENSE Reset defense budgets at more reasonable and predictable levels. Eliminate excess infrastructure.</p> <p>REQUIRE CONTINUED ATTENTION Continue military health care reform. Continue pursuing acquisition reform. Achieve auditable financial statements.</p>	<p>DESERVE RENEWED ATTENTION Control operating and support costs. Re-evaluate personnel mix. Improve civilian personnel management. Encourage longer military careers. Apply the brakes to year-end spending.</p>
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Reforms That Require Personal Attention From the Secretary of Defense

A few business reforms will require the personal attention of the secretary of defense, both because they are important and because they will be difficult to get approved and implemented.

Reset Defense Budgets at More Reasonable and Predictable Levels

Since the enactment of the Budget Control Act of 2011, DoD has faced budgetary turmoil that has caused numerous problems. Mission effectiveness suffered, especially during the sequester cuts of 2013, because rapid budget reductions left DoD with insufficient funds for training. DoD was forced to waste \$400 million during the 2013 government shutdown because it ended up paying civilian employees who were not allowed to work. Budgetary turmoil also consumed a great deal of the time of senior leaders.³

If the next administration confronts continued budgetary turmoil, it will be difficult to implement a successful agenda of business reforms. Resetting defense budgets is therefore not only needed to meet defense mission needs; it will increase the chances of successful business reforms.

The need to reset budgets will confront the new secretary of defense almost immediately after he or she begins to serve in January. The Obama administration will bequeath a legacy budget that, for the Department of Defense, will probably exceed the current budget caps by at least \$30 billion in fiscal year (FY) 2018 and by \$20 billion to \$30 billion a year throughout the remainder of the period when caps are in effect. If budget caps are not raised significantly, efforts to meet defense budgetary needs will probably lead to the same costly, time-wasting turmoil that has occurred for the past six years. Failure to raise the caps will also leave DoD unable to finance the sharp growth in spending on new weapons systems that will occur in the 2020s under the administration's current plans.⁴

How can this problem be resolved? A broad, long-term budget deal constitutes the only realistic solution. Such a budget deal needs to consider not just changes

in defense and nondefense spending, but also changes in mandatory spending (such as Social Security and Medicare) and revenues. Changes must also take into account effects on the federal deficit, which has shrunk in recent years but will begin rising again as more baby boomers retire. The budget deal should be long-term, setting targets for at least five years so the country does not have to repeat this difficult process very often.

As part of its plan, a broad budget deal should reset the defense caps at levels more consistent with the current administration's proposals. The new administration will also have to deal with the future funding for the Overseas Contingency Operations (OCO) account, which pays the added costs of wartime operations in areas such as Iraq and Afghanistan. This category of funding has been helpful in ensuring that those in combat have adequate resources. But today's OCO contains several tens of billions of dollars that are now unrelated to wartime needs or, given changes during the past few years in U.S. commitments in Iraq and Afghanistan, are less directly related. It is likely that OCO funding will need to be retained, but all possible steps should be taken to limit OCO funding to wartime needs.⁵

In this supercharged political environment, it may seem impossible for all sides to reach a broad, long-term budget deal. However, even in times of political discord, past administrations have reached deals (for example, Reagan, George H.W. Bush, and Clinton). The new president might help by packaging less palatable changes, such as revenue increases and entitlement reforms, together with initiatives that have wider political support, such as infrastructure improvements and corporate tax reform.

A broad, long-term budget deal constitutes the only realistic solution.

Clearly, a broad deal will be possible only if the new president makes it a priority. Because of its critical importance to DoD's mission success, not to mention success with business reforms, the new secretary of defense should urge the president to pursue a budget deal and should do everything possible to support the president's efforts.

Eliminate Excess Military Infrastructure

DoD recently concluded that 22 percent of its infrastructure capacity is excess to need.⁶ The department may decide to maintain some excess facilities in case forces have to expand to meet national security needs. But savings from eliminating even a portion of this excess infrastructure would be substantial. Congress has not permitted DoD to plan for base closures or identify specific facilities to close. However, based on past experience, the department estimates that \$2 billion a year could be saved by eliminating excess infrastructure, and actual savings could be substantially higher. Full savings would not be realized for about four years because of the time needed to close facilities, but from then on savings would recur in perpetuity unless bases had to be reopened.

DoD must have legislation to achieve these savings effectively. The legislation, which is known as Base Realignment and Closure (BRAC) authority, permits the department to formulate a list of bases to be closed or realigned. An independent commission then reviews the DoD list and may make changes. The president can ask the commission to alter its recommendations but

certainly deny the latest request. Congress has given many reasons for this, including concerns about the upfront costs associated with the last BRAC round in 2005, and DoD has proposed changes in the BRAC legislation in an effort to address these concerns.⁷ However, fundamentally, Congress fears the disruption and job losses that occur in the communities surrounding a base that is closed or significantly downsized. Past studies suggest that most jobs are replaced and nearby communities recover. For example, a 2005 study by the Government Accountability Office looked back at the first four rounds of BRAC, which ended in 1995 and affected 73 bases, and found that about three-quarters of all lost jobs had been replaced.⁸ At about 1 in 3 of the bases, redevelopment after BRAC created more jobs than were lost. Despite these results, many in Congress still strongly prefer to avoid base closures.

Persuading a reluctant Congress to permit another round of base closures will require the personal involvement of the new secretary of defense and his or her senior staff. The president may have to help per-

Eliminating excess infrastructure can save billions without degrading the readiness and capability of U.S. military forces.

ultimately must approve or disapprove the commission's list. Congress must disapprove the list in its entirety or it goes into effect. BRAC legislation also permits DoD to offer planning and economic assistance to communities affected by base closures and realignments.

The Obama Administration has requested BRAC authority for five years in a row. Congress has turned down the request for four years running and will almost

sonally with Congress. DoD may also need to consider changes in new BRAC legislation, perhaps including a cap on upfront costs, in order to gain congressional approval.

Despite the major efforts required, base closures and realignments should be pursued. Eliminating excess infrastructure can save billions without degrading the readiness and capability of U.S. military forces.

Reforms That Require Continued Attention

During the Obama administration, DoD pursued a number of business reform initiatives. The department achieved notable successes, but several key initiatives warrant continued attention.

Continue Military Health Care Reform

Since 2009 DoD has put in place a number of health care reforms. The department has consolidated services such as logistics support, lowered health care provider costs by harnessing the market power of Medicare payment rates and the federal drug pricing schedule, and raised fees paid by beneficiaries. These reforms, along with other actions and favorable trends in the costs of private-sector health care, contributed to a decline in military health care costs. DoD requests for health care funding rose to \$53 billion in FY2012 but then declined to about \$47 billion by FY2015. However, costs have begun to rise again. Also, concerns remain about key issues, including medical readiness for war, access to and quality of health care services in some parts of the system, and utilization and productivity across the system.

There is no shortage of proposals for further reform of the military health care system. For several years DoD has proposed to simplify the system by offering fewer care alternatives. The DoD proposal also increases certain copays to minimize overutilization of health care services.⁹ Congress is still considering these changes but has not yet accepted most of them. In January 2015 the Military Compensation and Retirement Modernization (MCRM) Commission made extensive recommendations for changes in the military health system that sought, among other things, to improve wartime readiness and increase choices available to beneficiaries.¹⁰ Other studies have suggested major changes, including paying medical providers based on improvements in patient health rather than the volume of care provided.¹¹ In their proposed legislation for FY2017, both the Senate and House Armed Services Committees have proposed changes in the military health care system that, as this paper is issued, continue to be debated.¹²

The next administration will need to consider these many proposals for health care reform and arrive at an updated proposal. The details of potential changes go well beyond what can be discussed in an overview paper. However, several broad reform areas should be considered, including:

- **Wartime readiness.** The MCRM Commission concluded that the types of medical care most required in peacetime (led by pregnancy and newborn care) do not build the trauma skills needed in war. The commission recommended organizational changes and a law requiring that DoD maintain essential medical capabilities needed for war. To meet this goal, DoD may need to pursue approaches such as an increase in partnerships with trauma centers.
- **Value-based reimbursements.** Medicare and many private-sector health care plans are moving toward provider reimbursements that are directly linked to the health and well-being of their patients rather than the volume of care provided. DoD should consider moving in this direction, which would be consistent with requirements in the Senate's proposed authorization language for 2017.
- **Utilization.** Utilization of medical services under TRICARE (a DoD program that reimburses private-sector providers for care provided to military retirees and dependents) exceeds civilian benchmarks by about 40 percent. DoD has proposed increases in copays that would minimize overutilization and help sustain this valuable benefit.
- **Productivity.** The most recent report of the Senate Armed Services Committee concluded that the productivity of military medical providers is unreasonably low compared with civilian providers. DoD needs to provide financial incentives (such as lower copays) to induce more use of military facilities. It also needs to streamline its medical facilities, realigning some and closing others while filling any resulting gaps with contracted care.
- **Availability and choice.** The MCRM Commission found that military health care beneficiaries wanted more choice of providers and improved availability of care. The commission recommended creating a menu of insurance choices for military beneficiaries who use private-sector care, similar to the one now available to federal civilian employees.

Effective and affordable military health care is critical to warfighting, maintaining satisfaction among military members and their families, and limiting cost growth. Continued reform of the military health care system therefore deserves a high priority.

Continue Pursuing Acquisition Reform

DoD has aggressively pursued acquisition reform throughout the Obama administration, with some notable successes. For example, the department has made progress in reducing growth in weapons costs above baseline estimates.¹³ There has been a decline in critical Nunn-McCurdy breaches. (The Nunn-McCurdy legislation requires a report to Congress when growth in the costs of a weapons program exceeds established thresholds.) The length of time needed to develop and field weapons has declined. The current secretary of defense has taken a number of steps aimed at encouraging use of innovative approaches in weapons and other programs, including setting up a private-sector board to help DoD make the best use of commercial innovations.¹⁴

Congress has also mandated acquisition changes. For example, legislation enacted last year requires that the military service chiefs become more involved in establishing requirements for new weapon systems. To meet security needs while holding down costs, DoD must make difficult design tradeoffs, and the involvement of the chiefs should help. Military chiefs must also report on ways to streamline and better integrate their services' processes relating to weapons requirements, acquisition, and budget.

Pending legislation would require numerous other changes in the acquisition system aimed at encouraging innovation and making other improvements. Included are far-reaching shifts such as disestablishing the current single organization in the Office of the Secretary of Defense that manages acquisition policy and instead creating a new acquisition position that focuses on research and development while assigning other acquisition duties to the new undersecretary for management.

DoD should take the time needed to implement with care the many changes recently made to the defense acquisition system.

The next administration should consider a few additional changes. A later section of this paper recommends that control of operating and support costs associated with weapons should be the next frontier for acquisition reform.

However, the new administration should focus primarily on implementing those changes that have already been put in place and that appear to add value to the acquisition system. Successful acquisition of new

weapons is critical to ensuring warfighter success while remaining within budgetary limits. DoD should take the time needed to implement with care the many changes recently made to the defense acquisition system.

Achieving Auditable Financial Statements

In 1994 Congress passed the Government Management and Reform Act, which among other things required all large federal agencies to complete successful audits of their financial statements. Today DoD is the only large agency that does not have auditable statements.

The department has made progress. Many services have installed or are installing new financial systems that will provide better financial information and make that information easier to audit. Some defense agencies and smaller organizations have achieved auditable financial statements, but to date no military service has done so. In 2010 the department adopted a strategy for military-service audits that focused first on the information most used to manage, especially budgetary information, and revised DoD's five-year budget plans to provide the resources necessary to improve financial information and conduct the audits.

Today all the military services are under audit for significant portions of their budgetary statements. The department is also working to improve information in its other financial statements so that they too can be audited.

Achieving fully auditable statements has taken longer than I anticipated in 2009, when I became the DoD comptroller and chief financial officer. The lengthy time to become auditable reflects the enormous size and complexity of the Department of Defense and the significant changes that must be made in financial information and practices before DoD's financial statements can pass an audit. The budgetary turmoil of recent years has also hindered progress by usurping the time of the same senior managers who must manage the audit process.

Despite the delays, the next administration should continue financial audit efforts and make them a priority, for many reasons. Audit success will result in improved financial information. It will reduce congressional criticism of the department.¹⁵ In some cases achieving auditable financial statements will require changes in systems (especially logistics systems) that could save DoD money.

Most importantly, the department should continue its financial audit efforts in order to reassure taxpayers that DoD is a good steward of their dollars. Every public organization in the United States must pass an independent financial audit. DoD should do so as well.

Reforms That Deserve Renewed Attention

There are many business reform initiatives that have been discussed before but have not benefited from significant management efforts in recent years. Some of these initiatives deserve renewed attention.

Control Growth in Operating and Support Costs

Operating and support (O&S) costs are eating DoD's budgetary lunch. O&S costs include pay and benefits for military personnel along with other day-to-day operating costs such as those for fuel, small spare parts, and administrative services.¹⁶ Today these costs account for about two-thirds of the total defense budget, and they typically make up more than half of the total cost to buy and operate a weapon over its life cycle.¹⁷

Since FY2000, DoD's O&S costs have risen by about 20 percent, even after excluding wartime costs and adjusting for inflation. During the same period military force size – as measured by the number of active-duty military personnel – has *declined* by about 4 percent. Nor are these trends limited to the years since 2000; even more startling trends have occurred over the past 50 years.

Some of the growth in O&S costs reflects increases in costs not directly related to weapons, such as growth in funding for military compensation. But a substantial part of the growth in O&S costs appears to be directly related to weapons. Stealth technology has been expensive to maintain; computerization of newer weapons and their overall complexity have also contributed to O&S growth.

Some of the cost growth reflects improvements in weapons needed to meet evolving threats. But sharp growth in O&S costs, coupled with budget limits, exerts downward pressure on military force sizes. If these trends continue, and budgets remain tight, DoD could end up with military forces that are too small to meet national security requirements.

DoD has paid much more attention to the cost of buying weapons than it has to the cost of operating them.

The department has begun to take notice. DoD has established affordability caps for weapons programs.

These caps, which include O&S costs, provide a vehicle for increased scrutiny. DoD has stated that weapon programs will be canceled if affordability constraints cannot be met even after aggressive efforts at cost control. So far, however, DoD has paid much more attention to the cost of buying weapons than it has to the cost of operating them.

Weapons buyers in the next administration need to pay more attention to O&S costs, highlighting unanticipated growth in those costs just as they do when acquisition costs rise unexpectedly. The new administration also needs to fund research designed to better understand the causes of O&S cost growth and what can be done to control them. Congress needs to hold hearings and express interest in this topic, which will encourage DoD to pay more attention. Most importantly, DoD and Congress must create incentives to consider tradeoffs between O&S costs and capability early in the life cycle of weapon programs.

Efforts to control weapon operating costs should represent the next frontier for acquisition reform.

Re-evaluate Personnel Mix

Today DoD employs 1.4 million military personnel and 770,000 civilian employees plus more than 800,000 part-time reserve personnel. DoD employees are augmented by a large number of contractors.¹⁸ DoD should re-examine the mix of personnel it needs in light of requirements and costs. In some cases, the choice will be clear. Enough military personnel must be available to meet all combat needs. Some tasks – such as formulating agency policy, awarding contracts, and directing federal employees – are deemed to be inherently government and must be carried out by military personnel or federal civilians.

In many cases, however, DoD can choose the most cost-effective category of employee. In these cases relative costs should play a role, and DoD may be able to make decisions that reduce costs. A recent study by the Congressional Budget Office found that shifting 80,000 positions from military to civilian personnel, and eliminating the military positions, could save the federal government \$3.1 billion to \$5.7 billion a year once fully implemented.¹⁹ Shifts in the mix of contractors and civilian employees may also save money. In my experience, DoD sometimes uses contractors in order to satisfy political pressure to limit the number of federal civilians even though contractors can cost more than federal civilians. In recent years the Navy sought to streamline its service contracts by reviewing them at senior levels, and these efforts should continue throughout DoD.

A re-evaluation of the personnel mix will require Congress to relax some of its restrictions. Some in Congress treat numbers of federal civilian employees as a proxy for the size of government, which they believe is too large. This leads to demands to reduce the federal civilian workforce, which in turn may lead to an increase in contractors that is not cost effective. Some private analysts, and some in Congress, also tend to equate federal civilians with overhead and seek to cut civilian employees in proportion to reductions in military personnel. This usually does not produce a cost-effective mix.

Reviewing the personnel mix represents a significant task. It should begin with an examination of differences among the military services in the mix of personnel used to accomplish similar types of jobs. Substantial amounts of personnel expertise and management judgment will also be required. Nevertheless, the gain from this re-evaluation makes it worthwhile. It could save substantial sums of money. It could also end some of the mechanistic and often unhelpful guidance designed to force DoD to make equal percentage cuts in military and civilian personnel or to impose arbitrary cuts in contractors.

Better Civilian Personnel Management

DoD needs to pay more attention to its civilian employees. After two furloughs in 2013 and multiple pay freezes, civilian employee morale is down across government, including at DoD. Despite their critical contributions in support of the warfighters, some DoD civilians no doubt wonder whether the Defense Department still views them as valued employees.²⁰

DoD should begin by harnessing the power of praise. All employees like to be praised for their work, so long as the praise is warranted and appropriate. In my experience DoD does an excellent job commending military employees for their accomplishments and their service to the nation. In the future I hope DoD will make more of an effort to thank its civil servants, without whom the department could not effectively meet the country's national security needs.

DoD needs to pay more attention to its civilian employees.

The Defense Department also needs to be able to hire civilians more quickly. Special hiring authorities should be expanded along with further streamlining of the

hiring process. DoD also needs authority to streamline the process for terminating civilians who are not performing well, while protecting basic civil service rights. Congress took a step in the right direction by extending the probationary period for new DoD employees to two years and requiring that DoD take performance into account during reduction-in-force actions. But many of the senior civilians whom I supervised still spent an inordinate amount of time handling problems associated with the small number of their employees who performed poorly. More change is needed.

DoD should also look for ways to increase the pay of civilian employees, especially senior ones. Given the current compression in the pay tables, newly minted members of the Senior Executive Service (SES) – who provide career leadership for the civil service – often receive only a token pay raise. This is especially true in the Washington area, where many SES members work. During the latter part of its term, the current administration helped by increasing the amount of bonus funds that can be awarded to SES members who perform well. The next administration should consider expanding the number of SES personnel who are eligible for presidential rank awards, which are awarded competitively and come with a substantial cash stipend and considerable prestige.

Encourage Longer Military Careers

Today many military personnel leave active duty at relatively young ages, averaging 41 years for enlisted personnel and 45 years for officers. Thus military personnel often leave at the peak of their productivity. These early departures result in part from the structure of the current military retirement system.²¹

Bernard Rostker, a senior analyst at RAND who has served in senior leadership positions at DoD, argues that longer career lengths make sense, probably up to 40 years of service.²² This conclusion applies especially in support areas such as human resources, intelligence, medical, chaplains, acquisition, and cyber in the future. Some of these support career fields should probably make greater use of civilian personnel (see above discussion about re-evaluating the personnel mix), but military personnel will no doubt remain. Officers and enlisted personnel working in some logistics and maintenance activities might also be candidates for longer careers.

Rostker argues that longer careers for officers would allow time for training and required joint service while also leaving enough years to make meaningful contributions in their specialties. While costs will vary by specialty, Rostker concludes that careers of 40 years are likely to be cost effective.

Longer tour lengths for officers would require changes in laws that mandate “up-or-out” policies (which require that officers advance in paygrade or leave the service) and limit numbers in each paygrade. Secretary of Defense Carter achieved important changes in personnel policies as part of his Force of the Future initiatives, but more effort is needed on broad issues such as this one.²³

The new administration should try again, for both officers and enlisted, to extend career lengths and to make related changes in personnel policies.

Apply the Brakes to Year-End Spending

At almost every DoD base and installation, employees labor during the final weeks of the fiscal year to obligate all the funds in the department’s day-to-day operating budget. To do otherwise, they fear, would create the appearance that their organization does not need all its funding and so lead to lower future budgets. “Use it or lose it” is the pithy summary.

As a result, spending for items such as office equipment and information technology spikes sharply during the final week of the fiscal year. The money is not necessarily wasted, but research on information technology initiatives suggests that these year-end funds pay for lower-quality projects, and the same finding probably applies for other categories of year-end spending.²⁴ The spike in year-end spending may also lead overworked contracting officers to issue lower-quality contracts.

Year-end spending worries federal employees. For several years the Obama administration conducted a SAVE campaign, which asked federal employees to provide good ideas for saving money. As I reviewed the submissions from DoD employees, I was struck by the number that pleaded for putting the brakes on year-end spending. A 2007 survey of DoD financial management and contracting specialists also suggested widespread concerns.²⁵

Authority to carry over funds to the next fiscal year could help reduce year-end spending spikes. One federal agency with carry-over authority (the Department of Justice) experienced significantly smaller spending spikes at the end of the fiscal year.

While serving as DoD comptroller, I tried to get Congress to allow the department to carry over small amounts of funds in its appropriations for military personnel and operations and maintenance. I did not succeed, but the new administration should try again.

Conclusion

It is impossible to provide an estimate of total savings from these proposed business reforms without extensive additional work. In my experience, reforms of business processes, even extensive reforms such as the agenda outlined in this paper, tend to produce annual savings of multiple billions of dollars rather than tens of billions. Larger savings require DoD to restructure or terminate lower-priority weapon systems and other programs.

Nor is this list exhaustive. In recent years there have been discussions of other significant reforms. For example, DoD could seek authority to make greater use of the private sector to support some activities (referred to as A-76 initiatives). Defense commissaries could be restructured in ways that reduce costs. DoD could also shutter some or all of the schools it runs to educate dependents of military personnel, instead paying to send these students to public schools. And these are only examples of additional initiatives.

While not exhaustive, the list in this paper will hopefully help the next administration as it formulates its reform agenda. The paper’s initiatives both meet the criteria noted above and, in the author’s view, represent higher-priority initiatives.

Whether using this list or other sources, during the next administration the Department of Defense should pursue business reform initiatives. DoD will need the savings to meet defense needs while complying with constrained budgets. The department also owes it to the public to pursue business reforms designed to capture as much defense capability as possible from every taxpayer dollar.

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15. See, for example, Senator Chuck Grassley, "Pentagon's Audit Readiness Remains an Elusive Goal" (U.S. Senate floor, Washington, July 7, 2016), <http://www.grassley.senate.gov/news/news-releases/grassley-pentagons-audit-readiness-remains-elusive-goal>.
16. Specifically, O&S numbers in this paper include costs in the military personnel appropriation and the operation and maintenance appropriation. All numbers in the paper exclude wartime costs.
17. This section draws heavily on the author's congressional testimony. See Robert F. Hale, former DoD Comptroller and Chief Financial Officer, "Starting Acquisition Programs Well: Budget Issues," statement to the Committee on Armed Services, U.S. House of Representatives, February 3, 2016, <http://docs.house.gov/meetings/AS/AS00/20160203/104381/HHRG-114-AS00-Wstate-HaleR-20160203.pdf>.
18. Estimates put the number of private-sector contractors providing services to DoD at around 750,000. An additional substantial number of contractors build weapons and other goods for the department. DoD also employs civilians (known as nonappropriated fund employees) to staff its morale and welfare activities.
19. Congressional Budget Office, "Replacing Military Personnel in Support Positions with Civilian Employees," Publication 51012 (December 2015), https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51012-Military_Civilian_Mix_1.pdf. Note that the 80,000 is an illustrative number derived by examining how mixes of military and civilian personnel differed among the services for similar types of jobs.
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