December 4, 2012

Congressional Committees

Subject: Defense Management: Opportunities Exist to Improve Information Used in Monitoring Status of Efficiency Initiatives

In May 2010, the Secretary of Defense publicly announced that the Department of Defense (DOD) was to undertake a department-wide initiative to assess how the department is staffed, organized, and operated with the goal of reducing excess overhead costs and reinvesting those savings in sustaining DOD’s current force structure and modernizing its weapons portfolio. The Secretary’s initiative targeted both short- and long-term improvements and set specific goals and targets for achieving cost savings and efficiencies, which are expected to be achieved between fiscal years 2012 and 2016. As part of this effort, the Secretary of Defense tasked the military departments and other components, including U.S. Special Operations Command (SOCOM), to find savings of about $100 billion in overhead costs over the specified time period. On January 6, 2011, the Secretary of Defense publicly stated that while about one-third of these savings would be used to fund higher-than-expected operating costs, the remaining two-thirds—over $70 billion—would be reinvested in high-priority military capabilities over five years. Of this amount, around $11 billion was projected to be achieved in fiscal year 2012 and available for reinvestment.

Information accompanying DOD’s fiscal year 2012 budget request outlined specific efficiency initiatives identified by the military departments and SOCOM. Prior to the beginning of fiscal year 2012, DOD’s Comptroller and Deputy Chief Management Officer (DCMO) began developing an approach for entities, including the military departments and SOCOM, to track and report on their efforts to implement efficiency initiatives and realize savings. In information accompanying its fiscal year 2013 budget request, DOD identified additional efficiency initiatives expected to generate $60 billion in savings for the period of fiscal years 2013 to 2017.

The National Defense Authorization Act for Fiscal Year 2012 required GAO to assess the extent to which DOD has tracked and realized the savings proposed pursuant to the initiative to identify at least $100 billion in efficiencies during fiscal years 2012 through 2016.³ This report addresses (1) the extent to which the military departments and SOCOM have taken steps to internally track the implementation of their efficiency initiatives, and (2) DOD’s

² Force structure is the number, size, and composition of units that comprise U.S. defense forces (e.g., divisions, brigades, ships, air wings, and squadrons).
³ Pub. L. No. 112-81, § 1054 (2011). Under this section, GAO is required to conduct this assessment and submit a report yearly for each of fiscal years 2012 through 2016. See id. We provided a draft of this report to your offices on October 30, 2012, to satisfy the requirement for fiscal year 2012.
progress in developing an approach for reporting on the status of efficiency initiatives on a department-wide basis.

To determine the extent to which the military departments and SOCOM have internally tracked the implementation of their efficiency initiatives, we reviewed programmatic and financial data, such as progress reports and budgetary documents, that included information on the status of the efficiency initiatives. To determine DOD’s progress in developing an approach for reporting on the status of efficiency initiatives on a department-wide basis, we identified DOD guidance and mechanisms established to capture data on the efficiency initiatives. We also analyzed financial and program information contained in existing databases, progress reports, and briefing documents compiled for senior DOD decisionmakers. We assessed DOD’s approach for reporting information using prior GAO reports on best practices for reporting information internally and also relied on other GAO reports that focused on specific efficiency initiatives at DOD and other agencies. For both of our objectives, we interviewed officials within the Office of the Secretary of Defense, including the offices of the Comptroller and DCMO, the military departments, and SOCOM.

To gain a better understanding of how the military departments and SOCOM internally tracked implementation of their respective initiatives, we selected a nongeneralizable sample of seven individual efficiency initiatives, including two each from the Army, Air Force, and Navy, and one from SOCOM. We designed the case study sample to ensure that a range of efficiency initiatives were represented in terms of the type of programs and chose initiatives that had estimated savings in fiscal year 2012. For the initiatives selected, we reviewed program and financial data and the processes used within the military departments and SOCOM to track, monitor, and report on the status of these initiatives. We also interviewed officials who implemented the programmatic actions associated with the efficiency initiatives and monitored the progress of implementation. We discuss our scope and methodology in more detail in enclosure I.

We conducted this performance audit from January 2012 to December 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Summary

The military departments and SOCOM have taken various steps to track the implementation of their efficiency initiatives. For example, prior to or during fiscal year 2012, they identified necessary programmatic actions to implement initiatives and began to carry out these actions, such as reassigning personnel from organizations being consolidated and terminating weapon system programs. They also set up approaches for senior officials to review progress, including using existing governance structures as a means for officials to review relevant financial and programmatic information, such as expected completion dates for actions related to implementing the initiatives and progress in meeting estimated savings targets. To track savings related to the initiatives, the military departments and SOCOM identified the appropriation accounts and areas within these accounts from which they expected to achieve savings, the specific dollar amounts, and areas where savings were to be reinvested. They also took actions intended to prevent reinvestments in the areas from which savings were
taken, such as issuing guidance that required internal justification or approval before changes to efficiencies could occur.

DOD has developed an approach for the military departments and SOCOM to follow in reporting information on the status of efficiency initiatives; however, DOD’s approach has some limitations that result in incomplete reporting, which may limit the visibility of senior leaders in monitoring progress in achieving programmatic and financial goals. Specifically, in emails, briefings, and training, the offices of the DCMO and Comptroller directed the military departments and SOCOM to compile information on their efficiency initiatives, such as risk, implementation status, and realized savings, enter this data into a database, and also prepare briefings for senior leadership using some of the same types of information entered into the database. DCMO and Comptroller officials stated that they are primarily interested in maintaining visibility for senior leaders over high- and medium-risk initiatives, but gave the military departments and SOCOM flexibility to report on the efficiency initiatives that they felt were important. In practice, the Army, Air Force, and SOCOM have reported on all of their efficiency initiatives, while the Navy has reported on only a subset of its initiatives based on what it deems to be at medium or high risk of experiencing implementation issues or adversely affecting the Navy’s ability to carry out its mission.

With respect to reporting on realized savings, Comptroller officials stated that reported data on realized savings was expected to reflect net savings. However, the general directions did not specify whether the military departments and SOCOM should include all of the costs associated with implementing their efficiency initiatives, including costs not initially identified. For the case studies we reviewed, the military departments and SOCOM reported they were on track to realize estimated savings, but we found some instances where certain costs were not considered. For example, for its initiative to reduce fleet shore command personnel from U.S. Pacific Fleet and U.S. Fleet Forces Command, the Navy did not account for potential increases in relocation costs for moving fleet shore command personnel from U.S. Pacific Fleet and U.S. Fleet Forces Command to other areas within the Navy.

We have previously reported that a process with written guidance for monitoring achieved savings from efficiency initiatives can help organizations measure actual performance against planned results. In addition, a key part of ensuring that the information being measured is reportable in a consistent fashion is using standardized definitions and methodologies. Without guidance that clearly outlines the information to be provided, DOD cannot be assured that senior leaders are getting complete information needed to enhance their visibility over the status of efficiency initiatives. GAO is recommending that DOD develop guidance with standardized definitions and methodologies for the military departments and SOCOM to use in reporting their efficiency initiatives and savings. In commenting on a draft of our report, DOD generally concurred with our recommendation and stated that prior to the next round of briefings in the February 2013 timeframe, it plans to issue additional formal guidance. Our comments on DOD’s letter are on page 12 and DOD’s comments are reprinted in enclosure III. The department also provided technical comments on our draft report, which we incorporated as appropriate.

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Background

As part of its fiscal year 2012 budget request, DOD outlined savings of about $178 billion to be realized over a 5-year time period beginning in fiscal year 2012. According to DOD, these savings included about $154 billion of savings from the Secretary’s initiative and $24 billion from other sources. The savings are as follows.

- The military departments and SOCOM identified a total of $100 billion in savings as a result of their efforts to support the Secretary’s initiative. A majority of the projected savings identified by the military departments and SOCOM (approximately $70 billion, or 70 percent) is planned to be reinvested in high-priority military needs—such as enhancing weapon systems—while the remainder is planned to be used to address operating costs resulting from areas such as health care and training.

- In addition to the $100 billion in savings from the military departments and SOCOM, the department proposed a $78 billion reduction in its overall budget plan over a 5-year time period, covering fiscal years 2012 through 2016, which reflects a 2.6 percent reduction from DOD’s fiscal year 2011 budget submission over the same time period. Of this amount, $54 billion reflected projected savings identified from a health care policy assessment, governmentwide civilian pay freeze, and other specific areas identified by the Secretary where immediate action could be taken department-wide. The remaining $24 billion reflected revised economic assumptions, projected savings from restructuring the Joint Strike Fighter weapon program, and projected savings from reducing the size of the Army and Marine Corps.

Information accompanying the budget request catalogued the $100 billion in savings from the military departments and SOCOM under the following four categories:

- reorganizations, such as restructuring headquarters management and eliminating unneeded task forces;

- better business practices, such as reducing energy consumption;

- program reductions and terminations, such as terminating weapon system programs; and

- reductions in lower priority programs, such as shifting funding requests from military construction projects to base operations.

Table 1 shows the specific amounts of projected cost savings reported for each category and organization.

<table>
<thead>
<tr>
<th>Category of reduction</th>
<th>Army</th>
<th>Navy</th>
<th>Air Force</th>
<th>SOCOM</th>
<th>Total for fiscal years 2012-2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reorganizations</td>
<td>5.4</td>
<td>15.4</td>
<td>4.2</td>
<td>0</td>
<td>25.0</td>
</tr>
<tr>
<td>Better business practices</td>
<td>10.3</td>
<td>14.1</td>
<td>20.6</td>
<td>.4</td>
<td>45.4</td>
</tr>
<tr>
<td>Program reductions/terminations</td>
<td>11.0</td>
<td>5.5</td>
<td>3.7</td>
<td>1.3</td>
<td>21.5</td>
</tr>
<tr>
<td>Reductions in lower priority programs</td>
<td>2.8</td>
<td>0</td>
<td>4.8</td>
<td>.6</td>
<td>8.2</td>
</tr>
<tr>
<td>Total</td>
<td>29.5</td>
<td>35</td>
<td>33.3</td>
<td>2.3</td>
<td>100.1</td>
</tr>
</tbody>
</table>

Source: DOD
Officials stated that after DOD submitted its fiscal year 2012 budget request, the DCMO and the Under Secretary of Defense (Comptroller)/Chief Financial Officer were assigned as the co-leads for developing an approach to track and report the implementation of the efficiency initiatives, including the initiatives identified by the military departments and SOCOM.6

Under the Consolidated Appropriations Act for 2012, the Secretary of Defense was required to submit a report to the congressional defense committees on the $100 billion in savings that derived from the efficiency initiatives identified by the military departments.7 Among other things, the Act required the Secretary to report on the following:

- the budget account from which each savings identified will be derived;
- the number of military personnel and full-time civilian employees of the Federal Government affected by such savings;
- the estimated reductions in the number and funding of contractor personnel caused by such savings;
- a specific description of activities or services that will be affected by such savings, including the locations of such activities or services; and
- certain information regarding each reinvestment planned to be funded with efficiency initiative savings.8

In June 2012, DOD submitted its report to the defense committees and provided at least some information on the categories above. Among other things, DOD reported that, at that point in time, it was on track to meet estimated savings targets for all of its initiatives. However, the report did not include a comprehensive analysis of reinvestments because, according to DOD’s report, many areas in which reinvestments had occurred due to the efficiency initiatives included in the fiscal year 2012 President’s Budget request had been offset by major force structure changes and other reductions in its fiscal year 2013 budget request.

We have previously reported on opportunities for federal agencies to improve reporting on cost savings and efficiencies. For example, in March 2008, we reported that it is important to update and track base realignments and closures savings over time in order to judge the financial performance of the realignment and closure recommendations and make adjustments as necessary to achieve savings goals.9 In September 2011, we reported that federal

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6 In a statement submitted for a March 2011 testimony before the Senate Armed Services Committee, Subcommittee on Readiness, the DOD Comptroller/Chief Financial Officer stated that within the Office of the Secretary of Defense, the Under Secretary of Defense (Comptroller) and DCMO would work together to monitor compliance and report successes and problems to the Deputy Secretary of Defense, DOD’s Chief Management Officer. Notably, DOD Directive 5118.03, Under Secretary of Defense (Comptroller)/Chief Financial Officer, Department of Defense (USD(C)/CFO) (Apr. 20, 2012), assigns broad responsibility to the Comptroller and DCMO to conduct analyses aimed at increasing the efficiency of defense spending.

7 See Pub. L. No. 112-74, § 8123 (2011). Although the provisions do not discuss SOCOM, DOD’s report included similar information for the command.

8 See § 8123(1), (2).

agencies can benefit from having top-level attention placed on tracking the progress of their efficiency efforts. In a February 2012 report on the Department of Veterans Affairs efficiency initiatives, we recommended that the department develop a detailed process with written guidance for tracking achieved savings from its efficiency initiatives. We also found in March 2012 that, as part of the Secretary’s efficiency initiative, DOD has taken some steps to examine its headquarters resources for efficiencies, but an underlying challenge facing DOD is that it does not have complete and reliable headquarters information available for making efficiency assessments and decisions. In July 2012, we reported that, as part of the Secretary’s efficiency initiative, the Air Force estimated it could save about $1.7 billion in its training program by reducing live flying hours and taking other steps, such as increasing the use of virtual training, but it lacks a methodology for determining the costs of virtual training and therefore did not consider these costs in its estimate.

The Military Departments and SOCOM Have Taken Steps to Internally Track Their Efficiency Initiatives

The military departments and SOCOM have taken various steps to internally track the implementation of their efficiency initiatives. For example, prior to or during fiscal year 2012, they identified programmatic actions needed to implement initiatives and began to carry out those actions; developed approaches to review the progress of the efficiency initiatives using existing governance structures; and tracked the savings associated with the efficiency initiatives. We analyzed seven specific case studies to determine how the military departments and SOCOM applied these steps. Table 2 shows the seven case studies with their realized savings for fiscal year 2012 as reported by DOD and projected savings for fiscal years 2012 through 2016.

Table 2: Case Study Efficiency Initiatives with Reported Fiscal Year 2012 Savings Amounts and Projected Savings Amounts through Fiscal Year 2016

<table>
<thead>
<tr>
<th>Component</th>
<th>Title of Initiative</th>
<th>Reported Fiscal Year 2012 Savings</th>
<th>Projected Savings Through Fiscal Year 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Army</td>
<td>Termination of Non-Line of Sight Launch System</td>
<td>$605 million</td>
<td>$3.2 billion</td>
</tr>
<tr>
<td></td>
<td>Reduction of recruiting and retention incentives</td>
<td>$796 million</td>
<td>$5.9 billion</td>
</tr>
<tr>
<td>Navy</td>
<td>Reduction of fleet shore command personnel at U.S. Pacific Fleet and U.S. Fleet Forces Command</td>
<td>$88.3 million</td>
<td>$858.1 million</td>
</tr>
<tr>
<td></td>
<td>Merger of U.S. Fleet Forces Command and U.S. Second Fleet staff</td>
<td>$10.5 million</td>
<td>$100.8 million</td>
</tr>
<tr>
<td>Air Force</td>
<td>Consolidation of air and space operations centers and inactivation of numbered air forces</td>
<td>$0.1 million</td>
<td>$96.3 million</td>
</tr>
<tr>
<td></td>
<td>Reduction in training costs</td>
<td>$268 million</td>
<td>$1.7 billion</td>
</tr>
<tr>
<td>SOCOM</td>
<td>Development of new framework for its information technology contracts</td>
<td>$67 million</td>
<td>$368 million</td>
</tr>
</tbody>
</table>

Source: DOD

11 GAO-12-305.
Enclosure II includes further details on the steps taken by the military departments and SOCOM to track their implementation of the efficiency initiatives we reviewed for our case study. The following paragraphs summarize these steps and highlight some examples.

For the case studies we reviewed, the military departments and SOCOM have identified and begun implementing the programmatic actions necessary to achieve the efficiency initiatives. For example, in one of our case study initiatives—the Navy's initiative to reduce fleet shore command personnel at U.S. Pacific Fleet and U.S. Fleet Forces Command—U.S. Pacific Fleet and U.S. Fleet Forces Command selected the positions to reduce. According to officials, the Navy's Office of Manpower, Personnel, Training, and Education then removed these positions from the Navy's manpower database, and the Navy Personnel Command reassigned the personnel from these positions to other areas within the Navy. The Navy's Office of Manpower, Personnel, Training, and Education calculated the savings associated with this efficiency initiative by reviewing the rank and salary data for these positions and removed these savings from the appropriate program elements in their budget.

In addition, the military departments and SOCOM have developed approaches to periodically review the progress of the efficiency initiatives—such as expected completion dates for actions related to implementing the initiatives and progress in achieving planned savings—through their existing internal governance organizations. For example, the Army's Planning, Programming, and Budgeting Council of Colonels reviews the implementation of the Army's efficiency initiatives on a monthly basis and the Assistant Secretary of the Army (Financial Management and Comptroller) and Army DCMO receive quarterly updates on selected initiatives. As another example, officials in the Office of the Air Force DCMO review monthly updates on the Air Force's efficiency initiatives, which they use to update other Air Force entities and senior officials, such as the Under Secretary of the Air Force and the Vice Chief of Staff of the Air Force.

Finally, the military departments and SOCOM have also tracked the savings associated with the efficiency initiatives. Specifically, they have identified the appropriation accounts and budget categories within these accounts—referred to as sub-activity groups—from which they expected to achieve savings, the dollar amount of those savings, and the areas where those savings were to be reinvested. For example, the Air Force reinvested $381 million of its savings from the efficiency initiatives from various sub-activity groups into its air operations training sub-activity group. The military departments and SOCOM have also taken action intended to prevent reinvestment in the areas reduced as a result of the efficiency initiatives. Specifically, according to officials and documentation, the military departments and SOCOM require that reinvesting in an area reduced as a result of the efficiency initiatives must receive internal justification or approval. For example, Army budget guidance indicates that any changes to the efficiencies must be approved by Army's Planning Program Budget Committee.

DOD Has Taken Steps to Collect Information Department-wide on the Status of Initiatives but Its Approach Does Not Ensure That Decision Makers Are Receiving Complete Information

DOD has developed an approach for the military departments and SOCOM to follow in reporting information on the status of efficiency initiatives; however, DOD's approach has some limitations that result in incomplete reporting, which may limit the visibility of senior leaders in monitoring progress in achieving programmatic and financial goals. As communicated by emails, briefings, and training, the offices of the DCMO and Comptroller
require the military departments and SOCOM to develop and present briefings to senior DOD leaders on the status of their initiatives and also to enter various types of information into a database. Due to a lack of guidance that clearly outlines the scope of information to be reported, the military departments and SOCOM may not be reporting all costs associated with implementing the initiatives.

DOD Has Developed an Approach for Military Departments and SOCOM to Follow in Reporting on Efficiency Initiatives

In 2011, the offices of the DCMO and Comptroller, when developing an approach for entities within the department to track and report on efforts to implement efficiency initiatives and realize savings, identified various ways for the military departments and SOCOM to report information on the status of their efficiency initiatives. For example, according to officials and briefing documents, based on direction from the DCMO and Comptroller, the military departments and SOCOM develop and present briefings on a semiannual basis to senior DOD leaders, which include the following types of information:

- program risk—risk to program(s), mission(s), and resources affected by the efficiency initiative—characterized as low, medium, or high risk;
- milestone risk—implementation status of the efficiency—characterized as on track, off track but able to meet major milestones, or off track;
- calculation of savings realized to date; and
- description of the mechanisms used by the military departments and SOCOM to track and oversee the efficiency initiatives, such as specific procedures and governance structures.

According to Comptroller officials, they view the briefings as a way to facilitate senior DOD leaders’ visibility over the efficiency initiatives. For example, in the semiannual briefings, the military departments and SOCOM have an opportunity to present progress in implementing their initiatives, highlight any potential problems, and seek assistance as needed from senior leaders to find solutions. As of October 2012, the military departments and SOCOM had briefed the Deputy Secretary of Defense’s Advisory Working Group in July 2011 and subsequently briefed the DCMO and Comptroller in January 2012 and August 2012. In addition to these briefings, the DCMO and Comptroller have also prepared briefing information on the status of efficiency initiatives and presented it to senior DOD leaders. For example, in March 2012, they presented such a briefing to the Deputy’s Management Advisory Group. In their briefings, the military departments and SOCOM have generally reported their efficiency initiatives were on track and that they expected to achieve the savings targets outlined in DOD’s fiscal year 2012 budget request. DOD also indicated in its June 2012 report to the congressional defense committees that the military departments and SOCOM were on track to achieve all of their expected savings—specifically, total amounts for “current” and “original” savings were identical.

In addition to requiring the military departments and SOCOM to prepare briefings, the offices of the DCMO and Comptroller directed them in a May 2011 briefing to enter information on their efficiency initiatives into the DOD Enterprise Performance Management System (DEPMS), an existing database designed to capture performance management data. Similar to the types of data collected in the briefings, information to be entered into DEPMS was to
include implementation status, risk, and current savings. According to officials, this information was to be updated on a semiannual basis. Officials initially intended to draw information from DEPMS for purposes of developing the semiannual briefings for senior leaders but were not able to do so because, in practice, sometimes the briefings were created prior to information being updated in DEPMS. Comptroller officials told us they intended to use the data in DEPMS to maintain a consolidated view of metrics on the efficiency initiatives and to allow tracking of the efficiency initiatives department-wide. They also said they review the database for such things as ensuring that data has been input for all required categories. They told us that they do not view their role as requiring them to independently verify the data reported by the military departments and SOCOM in the database, and that they do not have the resources to do so. In addition to their review of the database, officials stated that as part of their routine reviews of the military departments’ and SOCOM’s budget execution data, they also review expenditures related to areas affected by the efficiency initiatives to determine whether funding has increased in those areas.

DCMO and Comptroller officials initially chose to adapt DEPMS to collect information on the efficiency initiatives in lieu of developing a new database to track them. In August 2012, they discontinued the use of DEPMS for this purpose. According to officials, using DEPMS was too resource intensive. For example, it required a significant amount of training to teach users how to input and maintain data in DEPMS. Comptroller officials identified a different database for the military departments and SOCOM to use. They began reporting data in this database in August 2012. Officials explained that the database captures the same metrics that were in DEPMS that are pertinent to tracking the implementation and savings of the initiatives, such as current and planned savings.

Military Departments and SOCOM Reporting Differs As to Whether They Include Information on All or a Subset of their Efficiency Initiatives and They May Not Be Reporting All Costs

In practice, the three military departments and SOCOM report the same types of information on the status of their efficiency initiatives in response to general direction from the DCMO and Comptroller, but they differ in whether they report this information for all or a subset of their initiatives, and they may not be reporting all costs. To guide reporting, the offices of the DCMO and Comptroller provided general direction in a series of emails, training sessions, and briefings. According to DCMO and Comptroller officials, they collaborated with the military departments and SOCOM to determine which efficiency initiatives would be reported in the semiannual briefings and the DEPMS database. Further, Comptroller officials stated that the military departments and SOCOM had flexibility to only report on those efficiencies that they felt required senior-level visibility. Specifically, Comptroller officials stated that at a minimum they wanted to maintain visibility of efficiencies that were at medium and high risk of not being implemented but that it was up to the military departments and SOCOM to decide on whether to also report on low-risk initiatives. The Navy requested to report on a subset of its efficiency initiatives that included medium- and high-risk initiatives. According to Comptroller officials, they gave the Navy permission prior to the July 2011 briefing to senior DOD leaders to not report on low-risk efficiency initiatives. Officials also told us that the Army, Air Force, and SOCOM reported on all of their efficiency initiatives because they track all their initiatives internally and did not ask for permission to only report to the DCMO and Comptroller on a subset. Therefore, in the July 2011 and January 2012 briefings, the Army, Air Force, and SOCOM reported the milestone and program risk for all of their efficiency initiatives, while the Navy reported the same information for only a subset of its efficiency initiatives. This subset reflected around $10 billion in savings of the $35 billion in total expected savings the Navy
reported it will generate through fiscal year 2016 in information accompanying its fiscal year 2012 budget request.

While the military departments and SOCOM periodically report information on their efficiency initiatives, they are not reporting all costs related to implementation of their efficiency initiatives in either the database or briefings. Specifically, Comptroller officials told us that they intended the military departments and SOCOM to report net savings that take into account implementation costs for the efficiency initiatives. However, during our review, we found instances where some costs were not tracked and reported that could affect the validity of the reported savings. For example, for its initiative to reduce fleet shore command personnel from U.S. Pacific Fleet and U.S. Fleet Forces Command, the Navy reduced 1,785 positions at ashore headquarters offices and increased at-sea positions that support operations more directly. The savings the Navy reported for this efficiency initiative included the salaries associated with the reduced headquarters positions. However, the Navy did not report relocation costs for moving those personnel whose positions were reduced from U.S. Pacific Fleet and U.S. Fleet Forces Command to other areas within the Navy. According to Navy officials, because they did not expect these costs to be significant enough to affect their realized savings, they did not track them separately. Navy officials stated that they tried to minimize these costs by moving personnel who were already scheduled to rotate to new assignments or relocating personnel to available positions at nearby locations, but acknowledged that any costs incurred could affect realized savings. Additionally, we have previously reported that the Air Force did not consider certain costs in its estimate of savings for its efficiency initiative related to aircrew training. Specifically, as part of the Secretary’s efficiency initiative, the Air Force estimated it could save about $1.7 billion in its training program by reducing live flying hours and taking other steps, such as increasing the use of virtual training. However, the Air Force has not estimated additional expenses such as those incurred for aircrew to travel to simulators, contractor personnel to schedule and operate simulators, and purchase of additional simulators. The Air Force did not consider the potential costs associated with the increase in virtual training in its initial estimate of cost savings because it had not developed a methodology to collect and track information on the cost of its virtual training program. We recommended that the Secretary of Defense direct the Secretary of the Air Force to develop a methodology for collecting and tracking cost data for virtual training. In response, DOD agreed and stated that the Air Force is developing a standard methodology of accounting and tracking the programming and execution of program funds through improved visibility into cost categories.\(^\text{14}\)

The military departments and SOCOM may not be reporting complete cost information because they have not received written guidance with standardized definitions and methodologies. Specifically, the offices of the DCMO and Comptroller provided general direction in emails, briefings, and training for what information to include in DEPMS and the follow-on database and to present in the semiannual briefings, but no detailed written guidance was provided on whether implementation costs were to be considered in net savings estimates. Officials acknowledged that the military departments and SOCOM may not be including all implementation costs and agreed that additional guidance could be beneficial. We have previously reported that a process with written guidance for monitoring achieved savings from efficiency initiatives can help organizations measure actual performance against planned results. In addition, a key part of ensuring that the information being measured is reportable in a consistent fashion is using standardized definitions and methodologies. In the absence of standardized definitions and methodologies for reporting, the military departments and

\(^{14}\text{GAO-12-727.}\)
SOCOM have been reporting incomplete cost data related to implementation of the efficiency initiatives. Consequently, DOD may not have a complete picture of net savings for all efficiency initiatives for monitoring purposes.

Conclusions

With the efficiency initiatives set in motion by the Secretary, the department has the opportunity to target high-priority areas for further investment while cutting or reducing low-priority programs. In order to enhance its ability to monitor progress of the military departments and SOCOM in achieving savings, DOD needs access to complete information from these components. Providing written guidance to the military departments and SOCOM that clearly specifies the types of information needed for senior leaders to exercise effective and efficient oversight of the efficiency initiatives would further ensure that the information they receive is complete, not only in regard to the department’s current initiatives, but also for any future initiatives it may pursue.

Recommendation for Executive Action

To ensure more complete and consistent reporting on the status of efficiency initiatives, we recommend that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) and the Deputy Chief Management Officer to take the following action aimed at improving their ability to monitor the efficiency initiatives of the military departments and SOCOM:

- develop guidance with standardized definitions and methodologies for the military departments and SOCOM to use in reporting their efficiency initiatives and savings. This guidance should define reporting requirements for such things as the specific types of costs associated with implementing the initiatives, including implementation costs that were not initially identified in calculations of net savings.
Agency Comments and Our Evaluation

In written comments on a draft of this report (reprinted in enclosure III), DOD stated that it agreed with the spirit and intent of our recommendation. DOD noted that detailed instructions were provided to the military services, defense agencies, and U.S. Special Operations Command in various forms (emails, meetings, training sessions, etc.). DOD also stated that prior to the next round of briefings in the February 2013 timeframe, it plans to issue additional formal guidance. DOD also provided technical comments, which we have incorporated where appropriate.

As described in our report, we recognize that DOD provided general direction in emails, briefings, and training for what information to include in the semiannual briefings and database, but it had not provided detailed written guidance with standardized definitions and methodologies for the military departments and SOCOM to use in reporting their efficiency initiatives and savings. We are encouraged that the department plans to issue formal guidance and continue to believe the guidance should define reporting requirements for such things as the specific types of costs associated with implementing the initiatives, including implementation costs that were not initially identified in calculations of net savings.

We are sending copies of this report to appropriate congressional committees; the Secretary of Defense; the Secretaries of the Army, Navy, and Air Force; the Under Secretary of Defense (Comptroller)/Chief Financial Officer; and the Deputy Chief Management Officer. In addition, this report will be available at no charge on our website at http://www.gao.gov.

If you or your staffs have any questions about this report, please contact me at (202) 512-9619 or pickups@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in enclosure IV.

Sharon L. Pickup
Director
Defense Capabilities and Management
Enclosures – 4
List of Committees

The Honorable Carl Levin
Chairman
The Honorable John McCain
Ranking Member
Committee on Armed Services
United States Senate

The Honorable Daniel K. Inouye
Chairman
The Honorable Thad Cochran
Ranking Member
Subcommittee on Defense
Committee on Appropriations
United States Senate

The Honorable Howard P. McKeon
Chairman
The Honorable Adam Smith
Ranking Member
Committee on Armed Services
House of Representatives

The Honorable C.W. Bill Young
Chairman
The Honorable Norman D. Dicks
Ranking Member
Subcommittee on Defense
Committee on Appropriations
House of Representatives
Scope and Methodology

We conducted this work in response to a statutory mandate in the National Defense Authorization Act for Fiscal Year 2012 that requires GAO to assess the extent to which the Department of Defense (DOD) has tracked and realized the savings proposed pursuant to the initiative to identify at least $100 billion in efficiencies during fiscal years 2012 through 2016.\(^\text{15}\) The mandate requires GAO to conduct this assessment and submit a report yearly for each of fiscal years 2012 through 2016.\(^\text{16}\) This report addresses (1) the extent to which the military departments and SOCOM have taken steps to internally track the implementation of their efficiency initiatives, and (2) DOD’s progress in developing an approach for reporting on the status of efficiency initiatives on a department-wide basis.

For both of our objectives, we selected and assessed a sample of DOD efficiency initiatives included within the $100 billion of efficiency initiatives identified by the military departments and U.S. Special Operations Command (SOCOM). We used the Department of Defense Efficiency Initiatives Fiscal Year 2012 Budget Estimates justification book to select a sample of seven efficiency initiatives to use as case studies—two initiatives each from the Army, Navy, and Air Force and one initiative from SOCOM. For all seven initiatives, we selected: 1) efficiency initiatives that had realized savings in fiscal year 2012, indicating that they were fully or partially implemented when we conducted our review; 2) efficiency initiatives that had been reviewed in previous GAO engagements; and 3) efficiency initiatives that represented a range of efficiency types (i.e., reorganizations, better business practices, program reductions or terminations, reduced lower priority programs). The results from this nonprobability sample cannot be used to make inferences about all of the efficiency initiatives because the sample may not reflect all characteristics of the population.

To determine the extent to which the military departments and SOCOM have internally tracked the implementation of their efficiency initiatives, we interviewed officials and reviewed progress reports and budgetary documents to identify the processes the military departments and SOCOM had in place and the steps they had taken to track the implementation of their efficiency initiatives and resulting savings. We also interviewed officials who implemented the programmatic actions associated with the efficiency initiatives and reviewed documentation from those offices to determine whether actions had been taken to implement the efficiency initiatives in our case study. We reviewed budgetary documents to determine whether funding had been removed from accounts associated with the efficiency initiatives. In addition, we also met with and collected data from offices in the military departments and SOCOM that had responsibilities related to the efficiency initiatives, including the military departments’ deputy chief management offices, financial management and budget offices, and comptroller offices.

To determine DOD’s progress in developing an approach for reporting on the status of efficiency initiatives on a department-wide basis, we reviewed data maintained in the Office of the Secretary of Defense’s DOD Enterprise Performance Management System (DEPMS) and in electronic spreadsheets on all of the efficiency initiatives, as well as status briefings on the efficiency initiatives given to the Offices of the Under Secretary of Defense (Comptroller) and the DOD Deputy Chief Management Officer (DCMO). We assessed information in DEPMS, electronic spreadsheets, and the briefings using prior GAO reports with best practices for reporting information internally as well as reports on DOD and other agencies’ efficiency initiatives. In addition, we interviewed appropriate officials in the military departments and

\(^{15}\) See Pub. L. No. 112-81, § 1054 (2011).
\(^{16}\) See id.
SOCOM about what information they provide to the DCMO and Comptroller. We focused our questions on efficiency initiatives that were part of our case study analysis. We also reviewed emails and briefings issued by the Comptroller and DCMO that guided the military departments and SOCOM in the types of information they reported to the Comptroller and DCMO. We interviewed Comptroller and DCMO officials about their monitoring of the efficiency initiatives, including the roles they play and their usage of the data and briefings they received. We assessed DOD’s approach for reporting information using prior GAO reports that focused on specific efficiency initiatives at DOD and other agencies.

We interviewed officials and, where appropriate, obtained documentation from the organizations listed below:

Office of the Secretary of Defense
- Office of the Deputy Chief Management Officer
- Office of the Director of Cost Assessment and Program Evaluation
- Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer

SOCOM
- Office of Special Operations Financial Management
- Information Technology Management Division

Department of the Army
- Assistant Deputy Chief of Staff of the Army/Army Deputy Chief Management Officer
- Office of the Assistant Secretary of the Army (Financial Management and Comptroller)
  - Principal Deputy Assistant Secretary of the Army, Assistant Secretary of the Army (Financial Management and Comptroller)
  - Office of the Director, Army Budget
  - Office of the Deputy Assistant Secretary of the Army, Assistant Secretary of the Army (Financial Management and Comptroller)—Cost and Economics
- Director of Business Operations, Office of Business Transformation
- Office of Program Analysis and Evaluation

Department of the Navy
- Office of the Deputy Under Secretary of the Navy/Navy Deputy Chief Management Officer
- Office of the Assistant Secretary of the Navy, Manpower and Reserve Affairs
- Office of Manpower, Personnel, Training, and Education
- U.S. Fleet Forces Command
- U.S. Pacific Fleet

Department of the Air Force
- Office of the Air Force Deputy Chief Management Officer
- Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller)
- Office of Manpower, Organization, and Resources
- Office of Operations

We conducted this performance audit from January 2012 to December 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis
for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.
Description of the Military Departments’ and U.S. Special Operations Command’s Tracking of Efficiency Initiatives Included in Our Case Study

The military departments and U.S. Special Operations Command (SOCOM) have taken various steps to internally track the implementation of their efficiency initiatives. For example, prior to or during fiscal year 2012, they identified programmatic actions needed to implement initiatives and began to carry out those actions; developed approaches to review the progress of the efficiency initiatives using existing governance structures; and tracked the savings associated with the efficiency initiatives. The following sections describe how the military departments and SOCOM tracked their efficiency initiatives, including for the case studies we reviewed.

Army

The Army took steps to internally track the implementation of its efficiency initiatives, including the case studies we reviewed—the termination of the Non-Line of Sight Launch System and the reduction of recruiting and retention incentives. Under the initiative to terminate the Non-Line of Sight Launch System, the Army determined the program was not necessary after conducting a comprehensive review of support capabilities relative to current and projected threats. Under the initiative to reduce recruiting and retention incentives, the Army reduced the enlistment bonuses offered to new recruits, reduced the number of enlistment bonuses offered, and reduced the anniversary bonuses given to current personnel, according to documentation and Army officials. The Army officials stated that the Army could reduce these incentives while still maintaining its force structure given the current and projected economic environments.

- As part of its general process, the Army identified and began carrying out the actions needed to implement its initiatives.
  - Under the Non-Line of Sight Launch System initiative, the Army Budget Office removed the funding for the system from its fiscal year 2012 through fiscal year 2016 program objective memorandum, which totaled $3.2 billion in savings through fiscal year 2016. The Army closed its operations related to the program and reassigned or terminated the personnel involved in the program, completing these actions in June 2011.
  - Under the initiative to reduce recruiting and retention incentives, the Army Budget Office removed funding from the fiscal year 2012 through fiscal year 2016 program objective memorandum to achieve the efficiency: $5.9 billion through fiscal year 2016. According to documentation and Army officials, the Army took other actions to implement the initiative—including reducing enlistment bonuses to new recruits and offering enlistment bonuses to fewer recruits—and tracked its expenditures specific to recruitment and retention efforts to ensure those expenditures did not exceed the amount of funds allocated in the budget for those purposes.
- The Army also reviewed the progress of its efficiency initiatives using its internal governance structure.
• The Army completed the Non-Line of Sight Launch System initiative in 2011 by cancelling the program and therefore did not need to use internal governance structures to track it.

• Under its initiative to reduce recruiting and retention incentives, the manning program evaluation group reports progress on this initiative to the Army Budget Office on a monthly basis, and the Secretary of the Army receives updates on this initiative on a quarterly basis, according to Army officials.

• Finally, the Army has taken steps to track the savings associated with its initiatives.

• For all of its initiatives, including our two case studies, the Army identified sub-activity groups where it reinvested the resulting savings. The Army Budget Office also reviewed its fiscal year 2013 through fiscal year 2017 program objective memorandum and its fiscal year 2014 through fiscal year 2018 program objective memorandum to ensure the Army did not reinvest in the areas reduced as a result of the efficiency initiatives, according to Army officials. In addition, the Army specifically cited its initiatives in fiscal year 2014 through fiscal year 2018 program objective memorandum guidance, which also indicates that any changes to the efficiencies must be approved by the Army's Planning Program Budget Committee.

Navy

The Navy took steps to track the implementation of its efficiency initiatives, including the case studies we reviewed—the reduction of fleet shore command personnel by five percent at U.S. Pacific Fleet and U.S. Fleet Forces Command and the merger of U.S. Fleet Forces Command and U.S. Second Fleet staff. For the reduction of fleet shore command personnel, more effective training has decreased shore manpower needs, freeing up manpower for operational ships at sea. For the merger of U.S. Fleet Forces Command and U.S. Second Fleet staff, the Navy found that the missions of the two organizations had converged over time and decided that an integrated staff could better adapt to changing missions than two separate staffs and the merger could eliminate redundant personnel.

• As part of its general process, the Navy identified and began carrying out the actions necessary to implement its initiatives.

• Under its initiative to reduce fleet shore command personnel, U.S. Pacific Fleet and U.S. Fleet Forces Command selected the positions to reduce—606 officers and 1,127 enlisted active military positions and 10 reserve officer and 42 enlisted reserve positions—which the office of the Chief of Naval Operations approved, according to Navy officials. Officials stated that the Navy’s Office of Manpower, Personnel, Training, and Education removed these positions from the Navy's manpower database and the Navy Personnel Command reassigned the personnel to other areas within the Navy. The Navy’s Office of Manpower, Personnel, Training, and Education calculated the savings associated with this efficiency initiative, which totaled $858 million through fiscal year 2016, by reviewing the rank and salary data for these positions.

• Under its initiative to merge U.S. Fleet Forces Command and U.S. Second Fleet staff, the Navy’s Office of Manpower, Personnel, Training, and Education removed the positions from U.S. Second Fleet—57 officers and 104 enlisted
active military positions and 117 reserve officer and 67 enlisted reserve positions—and the Navy Personnel Command reassigned the personnel within U.S. Fleet Forces Command. The Office of Manpower, Personnel, Training, and Education calculated the savings associated with this efficiency, which totaled $100.8 million through fiscal year 2016, by reviewing the rank and salary data for these positions.

- The Navy also reviewed the progress of its efficiency initiatives using its internal governance structure, according to Navy officials.
  - For all of its initiatives, including the two case studies here, the Office of the Navy Deputy Chief Management Officer (DCMO) coordinated with the appropriate Navy offices to ensure they implemented the efficiency initiatives as planned. Officials stated that medium- and high-risk initiatives are elevated for discussion at pre-existing forums, which include the DCMO and Assistant Secretaries of the Navy.

- Finally, the Navy has taken steps to track the savings associated with its initiatives.
  - For all of its initiatives, including the two case studies here, the Navy identified the sub-activity groups where it reinvested the savings resulting from both of these initiatives. Navy officials stated that any changes to its efficiencies would require internal approval.

Air Force

The Air Force took steps to track the implementation of its efficiency initiatives, including the case studies we reviewed—the initiative to consolidate air and space operations centers and inactivate three numbered air forces and the initiative to decrease training costs by reducing the Air Force’s live flying hour program for its legacy fighter and bomber aircraft by 5 percent and its Air Force Reserve Command F-16 flying hour program by 10 percent. For its initiative to consolidate air and space operations centers and inactivate three numbered air forces, the Air Force consolidated the 617th Air and Space Operations Center, which supports U.S. Africa Command, with the 603rd Air and Space Operations Center, which supports U.S. European Command and inactivated the 13th (Air Forces Pacific), the 17th (Air Forces Africa) and 19th Air Force, which supports Air Education and Training Command. For its initiative to decrease training costs by reducing the Air Force’s live flying hour program for its legacy fighter and bomber aircraft by 5 percent and its Air Force Reserve Command F-16 flying hour program by 10 percent, the Air Force stated that it expected to offset any effect on readiness caused by a reduction in live flying hours by increasing its use of simulators.

- As part of its general process, the Air Force identified and began carrying out the actions necessary to implement its initiatives.
  - Under its initiative to consolidate air and space operations centers and inactivate three numbered air forces, the Air Force eliminated 212 civilian positions and reassigned 162 military positions, which resulted in $96.3 million in savings through fiscal year 2016. The Air Force’s major commands moved these reassigned positions to other areas within the Air Force.
• Under its training reduction initiative, the Air Force removed $1.7 billion through fiscal year 2016 from its budget, which it derived by multiplying the cost of live training for its legacy fighter and bomber aircraft by the number of hours of live training reduced by the initiative.

• The Air Force also reviews the progress of its initiatives using internal governance structures.

• For all of its initiatives, including our two case studies, the priority owners—officials assigned responsibility for the initiatives—update the progress of these initiatives on a monthly basis in the Air Force’s Integrated Master Schedule, which lists the date the initiatives began, the expected completion date of the initiatives, and the percentage of each initiative that has been completed. Air Force Comptroller officials review the Integrated Master Schedule to ensure the initiatives are on track. Air Force DCMO officials also review this information; they use the data in the Integrated Master Schedule to update other Air Force entities and senior officials, such as the Under Secretary of the Air Force and the Vice Chief of Staff of the Air Force.

• Finally, the Air Force has taken steps to track the savings associated with its initiatives.

• For all of its initiatives, including our two case studies, the Air Force identified the sub-activity groups where it reinvested the savings resulting from its initiatives. In addition, Air Force budget officials tracked its expenditures specific to the programs reduced as a result of the initiatives to ensure those expenditures did not exceed the amount of funds allocated in the budget for those purposes. According to Air Force officials, the Air Force Chief Management Officer must approve any reinvestments in the areas reduced as a result of the efficiency initiatives.

SOCOM

SOCOM took steps to track its efficiency initiatives, including the case study initiative we reviewed—the initiative to establish a new contract framework for its information technology services. According to officials, SOCOM’s Information Technology Management Division established a new contract framework for its information technology services that reduces SOCOM’s costs by awarding funds directly to the organizations that provide the services on a competitive basis rather than through an intermediary that selects the organizations that provide the information technology services and by adopting other best practices for procurement, such as providing performance-based incentives.

• As part of its general process, SOCOM identified and began carrying out the actions necessary to implement its initiatives.

• According to officials, under SOCOM’s initiative to restructure its information technology contract framework, SOCOM established this new framework and removed $368 million through fiscal year 2016 from its budget for these purposes.
• SOCOM also reviewed the progress of its initiatives using its internal governance structure.

• Under its information technology initiative, the Information Technology Management Division has briefed Special Operations Financial Management twice on the implementation of this initiative and reports quarterly on the progress of the initiative to SOCOM’s Joint Resources Management Board, which is co-chaired by the Director of Special Operations Financial Management and the Chief Financial Officer.

• Finally, SOCOM has taken steps to track the savings associated with its initiatives.

• For all of its initiatives, including our case study initiative, SOCOM identified the sub-activity groups where it reinvested the savings resulting from its initiatives. SOCOM highlighted the programs affected by its efficiency initiatives in its budgetary system and issued internal guidance for the preparation of the fiscal year 2014 to fiscal year 2018 program objective memorandum stating that any programmatic changes affecting the efficiencies programs would have to be justified.
Comments from the Department of Defense

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

Dear Ms. Pickup,

This is the Department of Defense (DoD) response to the GAO Draft Report, GAO-13-105R, “Defense Management: Opportunities Exist to Improve Information Used in Monitoring Status of Efficiency Initiatives.” The Department’s comments on the one recommendation are enclosed. The Department agrees with the spirit and intent of the recommendation.

The Department appreciates the opportunity to comment on the draft report. Technical comments were provided separately.

Sincerely,

[Signature]
Monique L. Dilworth
Director, Operations

Enclosure:
As stated
RECOMMENDATION 1: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) and the Deputy Chief Management Officer to take the following action aimed at improving their ability to monitor the efficiency initiatives of the military departments and SOCOM:

- develop guidance with standardized definitions and methodologies for the military departments and SOCOM to use in reporting their efficiency initiatives and savings. This guidance should define reporting requirement for such things as the specific type of costs associated with implementing the initiatives, including implementation costs that were not initially identified in calculations of net savings.

DoD RESPONSE The Department of Defense agrees with the spirit and intent of the recommendation. Detailed instructions were provided to the Services, Defense Agencies and US Special Operations Command in various forms (emails, meetings, training sessions, etc.). However, prior to the next round of briefings in the February 2013 timeframe, additional formal guidance will be issued.
GAO Contact and Staff Acknowledgments

GAO Contact

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Staff Acknowledgments

In addition to the contact named above, Patricia Lentini, Assistant Director; Usman Ahmad; Susannah Hawthorne; Charles Perdue; Michael Shaughnessy; Michael Silver; Erik Wilkins-McKee; and Sam Wilson made key contributions to this report.
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