Performance Review Seeks to Streamline DoD

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In light of the post-Cold War environment and the declining resources available for national defense, the Department of Defense recognized the need for reinvention and had begun to incorporate the principles of quality and excellence into its operations. DoD created its own team, the Defense Performance Review, to identify and build on recent successful innovations and to review primary management functions. The review's objective has been to devise innovative ways to encourage more business-like practices and market-driven efficiencies. In addition, DoD has already undertaken several departmental initiatives, including the restructuring of the Office of the Secretary of Defense, the Bottom-up Review of military requirements, and a renewed approach to acquisition reform.

The Defense Performance Review reinvention team has taken account of these programs and built on recent efforts in other areas that are consistent with National Performance Review objectives. DoD established six task forces to undertake a systematic and comprehensive look at specific areas in which the department could use the National Performance Review philosophy to implement change.

STEER MORE, ROW LESS

One task force set out to rewrite policy directives. The goal was to give better guidance to commanders while not getting bogged down in procedures.

Committed people and sufficient resources within the Department of Defense have made the United States the sole remaining superpower. Times and available resources, however, are changing. DoD is downsizing and must operate with substantially fewer people. One obstacle to success in this new environment is the weight of more than 10,000 directives and 470,000 pages of intermingled policy and highly detailed procedures, which have stifled innovation and efficiency in the past. These publications contain many unnecessary or needlessly restrictive procedures.

Over time, DoD policy guidance has grown because its bureaucratic, overcentralized headquarters tended to decide what was best for the field. Policy makers tried to cover all possible situations, and managers attempted to prevent error by adding new procedures every time a mistake was made.

DoD buried policy in detailed procedures. This growth of detailed procedures severely limits inventiveness and creativity in finding the least costly and most effective means to accomplish changing missions. Accountability decreases as errors are blamed on "procedures" or time-consuming requests for waivers. Most important, the blurring of policy has caused a loss of focus on the end product or goal.

As a result of the National Performance Review process, DoD has the opportunity to change its operating principles. The notion of "steer more and row less" requires centralized policy making and decentralized policy execution.

To achieve a renewed, empowered environment, DoD should limit directives to clearly stating desired results. DoD must purge these directives of unnecessary, encumbering, and restrictive procedures that stifle innovation and efficiency.

RECOMMENDATIONS

The review recommends DoD clarify policy and decentralize procedures to empower people to do their jobs better. The goal is to provide clear, concise statements of policy, define desired results, and set performance measures.

Further, DoD should delegate responsibility and authority for detailing procedures to the lowest possible level so the field organizations can work within local constraints. DoD should establish procedures to ensure existing policy guidelines are reviewed and revised, future guidelines meet specific criteria, performance of the new guidelines is tracked, and all guidelines "steer more and row less."

All segments of DoD must streamline their procedural guidance. Components should write directives that include only essential procedures, such as those required by law, safety, health, or standardization. Writers should link procedural publications to the overarching policy directive that requires the essential guidance. Components should group families of related procedural documents into single publications. Detailed procedures should be left to field organizations.

Components should institutionalize the process to revise policy and procedural documents. They should annually certify directive publications are current and applicable, and monitor policy directive metrics to verify that policy objectives are met. By evaluating progress and benefits, components can continuously improve the process.

DoD should follow the Defense Logistics Agency model and make policy directives available on CD-ROM.

UNIFIED BUDGET

The establishment of a unified Department of Defense budget was the second area reviewed.

Congress provides funds to DoD through a series of appropriations covering specific aspects of defense operations. Congress allows DoD to obligate these funds over one to five fiscal years depending on the type of funds. Congress also allows cumulative transfers of about $4 billion among appropriations. However, DoD does not give similar flexibility to its headquarters and field commanders. Rather, it requires them to manage their varied and complex installations under inflexible budgetary controls.

When commanders request approval to shift funds, portions of those funds often are taken for higher priority contingencies. As a result, some former and current commanders stated they were hesitant to seek approval to shift funds. Furthermore, commanders do not have incentives to hold funds in reserve to ensure the highest priority needs are met. To avoid losing use of the funds, commanders may use the funds for lower priority needs.

In recognition of this problem, DoD initiated a three-year unified budget test beginning in fiscal 1987. Several installation commanders were given flexibility to transfer funds among appropriations and cost categories. The test showed more needs were met, and funds were used more efficiently and effectively.

The Department of the Navy has no problem meeting major unbudgeted needs. It prorates required funding among its major commands, requests recommended offsets be identified, and centrally reviews the recommendation before transferring funds to meet the emergency. This process could be used by the entire Department of Defense.

The Steer More, Row Less Concept

Two anecdotes—one from the Air Force and one from the Defense Logistics Agency—demonstrate success in clarifying policy and procedures.

The Air force recognized that the key to success was to empower people to be creative, accept responsibility, and use their initiative to seek out new, more efficient methods. It also recognized creative efforts must focus on doing the right things. Policy became one of the Air Force's most effective tools. It provided the focus on the "right things" and served as a guide. The Air Force's Policy Review initiative served to identify and clarify the Air Force's most important tasks. It set clear, concise policy; fixed accountability and responsibility; and measured the accomplishment of policy objectives.

The Air Force has identified its most important, "overarching" policies in Air Force policy directives. Written by Air Force headquarters, these directives clearly and concisely state policies, outline responsibilities and authorities, and provide "CEO-level metrics to measure performance. Senior leaders use management information based on these metrics to make "fact-based decisions. Policy directives are no more than three to five pages.

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

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

The Air Force's major commanders have strongly approved the increased latitude this initiative provides and are quickly employing the concept within their commands. They also are confining their headquarters instructions to policy and leaving the "rowing" for local commanders.

Similarly, the Defense Logistics Agency's Defense Contract Management Command replaced 16 manuals with The DCMC Manual. Known as the "One Book," it is a single document organized around the contract management command's services. The One Book eliminates restrictive procedures because it focuses only on headquarters policy and leaves procedures to field activities. It has fundamentally changed the way the command operates. The One Book empowers field commanders to best apply resources to achieve mission success.

As a related initiative, the Defense Logistics Agency converted more than 800 regulations, manuals, and handbooks containing 140,000 pages to CD-ROM. The agency's publishing system produces and distributes all policy, procedures, and administrative-support documents on CD-ROM. For a one-time capital investment of $900,000, the agency identified an annual cost savings of $600,000 by eliminating conventional printing of publications and reducing distribution and storage costs.

Additionally, the Defense Logistics Agency avoided $1.37 million in annual costs by no longer having to insert changed pages in its publications. Users receive the most complete, up-to-date inventory of publications every three months. The success of this initiative clearly demonstrates the feasibility and desirability of using electronic media to distribute revised policies and procedures.

RECOMMENDATIONS

Among the actions needed, DoD should seek legislative authority to revise this budget process to fund major unbudgeted emergencies by a process of assessing each organization an appropriate share of the shortfall.

To the extent possible and appropriate, commanders should have flexibility to determine which budget accounts under their control will be used to fund the assessment. This could be implemented in fiscal 1994.

DoD should combine Operations and Maintenance, nonweapon systems (noncentrally managed), Other Procurement, Family Housing Operations, and Maintenance and Minor Construction into a single appropriation, available for obligation for three years, for each service and DoD agency. If approved by Congress, this would further enhance the unified budget concept. Three years of funding availability is necessary for cost-effective procurement and is consistent with the current availability of Other Procurement funds. This should be proposed for the fiscal 1995 budget.

DoD should allow field commanders flexibility to transfer funds among appropriations and cost categories, as needed, to improve mission capability, cope with unforeseen contingencies and take advantage of opportunities that only flexibility permits. This could be implemented immediately. Notification to central budget offices of transfers of funds may be desirable to assure compliance with reprogramming thresholds and legislated authority. However, evidence from the unified budget test indicates a very low probability of noncompliance exists even if notification is not required. If noncompliance levels are approached, the central budget offices should notify the field organizations to stop further transfers.

DoD should allow headquarters commanders flexibility to transfer headquarters' administrative and housekeeping funds among appropriations and categories. This also could be implemented immediately, and would permit more appropriation allocation among items such as travel, equipment, contractors, and civilian personnel.

BEST-VALUE BUYING

The third review area was the purchasing of best-value common supplies and services.

DoD acquires common supplies and services under guidance approved by the Federal Acquisition Regulation and Defense Federal Acquisition Regulation Supplement. These regulations incorporate laws aimed at more than just acquiring supplies and services.

Socioeconomic goals, protection of American markets and tailored economic legislation are often included. Additionally, each service applies unique acquisition and supply regulations. Service regulations provide policy and guidance to ensure proper expenditure of public funds, and require adequate records for review and audit.

As problems have arisen, services have revised their regulations to prevent recurrence. As a result, service regulations are lengthy to prevent mistakes. The resulting regulatory environment often confuses and frustrates the customer, supplier, and procurement personnel. The bottom line is the complexity of excessive regulation adds to the cost of doing business.

For example, at an East Coast installation an average 10 percent of vehicles are out of service at any given time and awaiting parts from the DoD supply system. Many of these parts are locally available, often for less than $100. If down time could be reduced to 5 percent

through local purchase of repair parts, the requirement for 30 vehicles, worth over a quarter million dollars, could be eliminated. Buyers did not know local purchase was authorized for such requirements. This is an example of how best intentions run awry in this complex environment.

To provide best-value common supplies and services, DoD must continue to streamline existing acquisition guidelines and wholeheartedly adopt commercial business practices like credit cards, electronic commerce, competition, and electronic data interchange.

Ultimately, employees must be empowered to procure everything in the most efficient manner. DoD has initiated many efforts in the past aimed at procurement reform and streamlining acquisition practices, but caution and fear of failure have impeded rapid expansion of these practices.

RECOMMENDATIONS

The review group recommended DoD test enabling actions that allow commanders and managers access to all sources of common supplies and services to obtain best-value products. The goal of each prototype is to create a competitive environment in which commanders and managers can select private, public, or nonprofit sources for best value common supplies and services, and suppliers focus on meeting customer needs. Enabling actions should be adopted DoD wide if proved successful in a pilot test. DoD will test these actions at specific reinvention labs for 15 months. The tests should commence no later than four months after approval by the Defense Performance Review. As the reinvention labs verify the effectiveness of specific actions, the Defense Performance Review staff will coordinate exportation and institutionalization of the action.

Four Outsourcing Examples

Four examples of successful outsourcing in the private sector are:

- General Dynamics awarded a $3 billion, 10-year contract to Computer Services Corp. to provide all information technology functions, including applications development and maintenance, data center operations and networking.

- United Technologies awarded a $100 million, 10-year contract to Integrated Systems Solutions Corp. for operation of the United Technologies data center in Newington, Conn., providing data processing services and managing all existing hardware leases and system software.

- Continental Bank awarded a $700 million, 10-year contract to Integrated Systems Solutions Corp. for data center and network management and operations, assuming all leases on currently installed hardware and system software.

- Cummins Diesel outsorced piston design and manufacturing, concentrating instead on building leadership in electronics, ceramics, and alternative fuels.

In the public sector, there are also many examples of successful outsourcing. Across the country, outsourcing of public services has experienced significant growth in recent years. In the last 10 years, outsourcing for refuse collection has grown 43 percent, data processing 3,664 percent and landfill operations 129 percent. Local governments routinely outsource vehicle towing, legal services, street light operation, solid waste disposal, and street repair.

DoD personnel should use best-value sources of supply, as determined by the local commander or manager. This will not eliminate the requirement to use specified items where technical guidance exists. DoD should empower local commanders and managers to buy supplies, including personal computers, small amounts of hazardous material, commercial off-the-shelf items and consumable weapon system items, from any authorized source of supply. Commanders may locally purchase items when using the normal supply system is undesirable due to availability, cost, or quality.

DoD should empower any properly delegated individual to buy common supplies and nonprofessional services. DoD should not limit authorization to make small purchases to procurement personnel. Proper delegation will include sufficient training to be aware of legal and ethical restrictions pertinent to their level of buying authority. DoD should expand the use of credit cards, establish higher procurement thresholds, publish a "Customer's Bill of Purchase Rights," and eliminate service restrictions beyond basic FAR/DFARS small-purchase guidelines.

DoD should encourage internal and external suppliers to focus on satisfying customer requirements at the least total cost to the taxpayer. Suppliers will price goods based on the level of required support, match price with commercial vendors, tailor on-site logistics support, and deliver common supplies directly to customers' desks. DoD should empower commanders and individual military personnel to obtain essential support services from their best-value source.

Outsourcing noncore DoD functions was the fourth area reviewed. The department cannot devote significant resources to performing noncore functions when non-DoD providers are available to do them better, cheaper and faster.

Competition, which includes outsourcing, is increasingly important. Outsourcing in DoD means possible transfer of organizational functions, in whole or in part, to non DoD providers. Key to deciding whether to outsource functions is how to provide the best balance of cost and operational risk.

DoD core functions in general include combat force, command of combat forces, deployable combat or combat service support, and provision of the rotational base for these functions. The distinction between core and noncore is used only to remove from consideration certain functions clearly not viable outsource candidates. Noncore does not equal noncritical.

Outsourcing of noncore functions has been proven in both private and public sectors to be a sound business tool. In fact, the trend nationwide is toward more outsourcing. In the private sector, the motivation to outsource is reduced costs and increased profit. In the public sector, the principal motivation to outsource is the need to provide essential services at the least cost because of declining budgets. Simply put, it is purely a business decision.

The critical consideration for outsourcing is defining the core business and, thus, core functions of the company. For example, administrative functions such as data processing, billing and payroll, while important and necessary, are not core tasks. Outsourcing these functions to specialized vendors allows management to concentrate on the company's core functions.

Roadblocks prevent DoD from taking advantage of the opportunity to outsource various noncore functions, even though it may make operational economic sense:

- Cultural blocks - Well-entrenched communities within DoD strongly object to letting go of noncore competencies. A rigorous review may show DoD does not need to perform them in-house. Achieving this needed cultural change will take an institutional commitment to begin outsourcing.

- Administrative blocks - Commanders/ managers do not have sufficient latitude to design the mix of resources needed to accomplish their missions, nor is there a simple approach to defining noncore functions and when to outsource them.

- Legislative blocks - Section 512 of the fiscal 1995 Defense Authorization Act is an excellent example of a roadblock to the outsourcing process. It constrains DoD's outsourcing ability. The Acquisition Law Advisory Panel was directed by Congress in the fiscal 1992 defense authorization act to review all laws affecting procurement actions.

During its review, the panel found the statutory provisions in Chapter 146 of Title 10 "present a confusing and contradictory set of rules regarding the DoD's contracting-out process." The panel proposed to consolidate and streamline the existing rules into two sections that provide DoD managerial flexibility while at the same time preserving meaningful congressional oversight and effective community input.

- Regulatory blocks - While current federal, DoD, service, and DoD agency regulations may have served useful purposes, many restrictions placed on commanders or managers at all levels are not warranted. For example, DoD Directive 4100.33 and Office of Management and Budget Circular A-76 require local authorities to get assistant secretary-level waivers for deviations in severance pay and contract administration factors. This requirement can add substantially to the time it takes to complete a cost comparison, one major complaint about the process.

RECOMMENDATIONS

The panel recommended DoD implement a comprehensive program for outsourcing noncore functions when it makes economic and operational sense.

Before the program can be implemented, senior leadership must overcome roadblocks to outsourcing, give commanders/managers incentives to outsource when appropriate and test the viability of outsourcing. DoD must emphasize the need for a cultural change within the department regarding outsourcing and give commanders/manager the latitude to design the mix of resources needed to accomplish their missions.

Six steps should be used to decide when outsourcing makes economic and operational sense:

- Clearly describe the function in objective terms of what gets done and how it gets done, but not who does it;

- Categorize the function as either core or noncore,

- Establish detailed, specific performance requirements for each function based on the commander's/manager's mission and customer requirements,

- Analyze legal, supplier, and performance requirements for each function to determine the source that best balances economic benefits with operational risk;

- Produce a detailed performance agreement and associated documents for function (for example, performance work statement and request for proposal if function is to be outsourced); and

- Introduce cost competition.

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

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

DoD should implement the recommendations made by the Acquisition Law Advisory Panel's Section 800 Report. The panel proposed to consolidate and streamline existing rules of Chapter 146, Title 10, into two sections that provide DoD managerial flexibility while at the same time preserve meaningful congressional oversight and effective community input. Other sections were identified for amendment or repeal. The legislative requirement to obtain construction and design services exclusively from the Corps of Engineers or the Naval Facilities Engineering Command should be eliminated. And legislation should be enacted to permit installation commanders to negotiate agreements with municipalities for exchange or purchase of services.

Executive Order 12615, Performance of Commercial Activities, should be replaced by a new order that highlights the government's policy of acquiring goods and services in the most economical and efficient manner without directing study goals or identifying projected savings. The study goals and budget reductions have served as disincentives rather than incentives to outsourcing.

In the very near term, Office of Management and Budget Circular A-76 should be reviewed for potential change to simplify the process and increase its flexibility by allowing varying levels of detail based on the size and scope of the study. Added flexibility in how economic comparisons are made will enhance the government's ability to meet this policy goal.

For the long term, the federal government needs to evolve beyond the limited scope of OMB Circular A-76 to ensure sourcing decisions for all government functions are based on a logical, systematic, and accepted process.

DoD should provide tangible incentives for commanders/managers to seek new and better ways of doing business. DoD's incentive clearly comes from reducing overhead and the ability and flexibility to shift its limited and ever-decreasing resources from noncore to core functions. Commanders and managers who initiate outsourcing must be permitted to retain a portion of the resulting savings. This is the only way to provide a positive, real incentive to outsource.

Further, DoD must move more toward specifying from contractors "what is wanted, rather than how it is to be done." DoD should give contractors flexibility to use standard commercial business practices and material specifications, rather than demanding more costly and often unnecessary military/government specifications.

DoD should test outsourcing noncore functions. It has identified 50 broad area candidates for outsourcing such as base operations support, housing, health services, maintenance and repair, training, labs, security, and transportation. Further, the services and DoD agencies have identified nine specific functions for immediate outsourcing consideration. The functions are Navy-Defense Printing Service, formerly Navy Publishing and Printing Service; Defense Nuclear Agency Technical Library Division; 504 Air Force conference Switch and Associated

Command Display system consoles and maintenance; Defense Finance and Accounting Service DoD travel reimbursement; Defense Reutilization and Marketing Service; Defense Mapping Agency security guard functions; Air Education and Training Command, Training Base operating support functions; Defense Information System Network switched services; and Army morale, welfare, and recreation business programs.

The fifth area reviewed was incentives for commanders and managers to save money and resources. By giving commanders/ managers incentives, DoD can increase funds available for mission-related activities, improve the environment, and enhance customer service.

OPPORTUNITIES FOR REVENUE

Appropriate incentives would include allowing DoD to retain all or a portion of the new revenue for mission-related use. DoD has opportunities to generate new revenues by such changes as eliminating or reducing subsidies and increasing sales of recyclable materials.

Eliminating or reducing subsidies can generate a significant amount of revenue. DoD does not consistently charge customers either the incremental or full costs of services. In effect, DoD subsidizes some customers. When subsidies are included, neither the provider nor the recipient of services has an incentive to seek the most cost-effective way of doing business.

Fees are about $12 million short of costs incurred by the Corps of Engineers for processing applications for discharges of dredged or fill materials into the waters of the United States. In 1993, the taxpayers funded permitting activities at $86 million to evaluate about 15,000 individual applications, 20,000 activities under the corps' regional permit program, and over 60,000 activities through the corps' nationwide permit program.

For many years, the Corps of Engineers has been charging token permit fees of $10 for noncommercial projects and $100 for commercial projects, which resulted in revenues of less than $400,000 per year. Funds received for permits historically have been conveyed to the U.S. Treasury rather than used as a reduction of costs.

Following a study and recommendation from the DoD inspector general, a corps task force developed a more realistic fee schedule based on the costs to the government for work done in the regulatory program. In October 1990, the corps formally proposed significantly higher permit fees designed to recover about $17 million annually. The proposal would have increased application fees to $2,000 for commercial projects and to $500 for noncommercial projects. The proposed increases were controversial, and in the 1992 and 1993 Energy and Water Development Appropriations Acts, Congress expressly prohibited the Corps of Engineers from expending any funds to finalize its proposed fee regulations. As a result, no action has been taken on the proposed fee increases.

Revenue can also be generated by increasing sales of recyclable materials. Proceeds from sales of recyclables grossed $37 million in fiscal 1992, down from a high of $50 million in a previous year. Although income from the sale of recyclables is increasingly important, Public Law 97-214 restricts the use of revenue from sales of recyclable materials as follows: funds shall cover the costs of operations, maintenance, and overhead for processing recyclable materials at the installation, including the cost of any equipment purchased for recycling purposes. Up to 50 percent of the remaining funds can be used for pollution abatement, energy conservation and occupational safety and health activities. All remaining funds may be used for morale and welfare activities. However, at the end of each fiscal year, unobligated funds in excess of $2 million must be conveyed to the U.S. Treasury.

Proceeds from sales of recyclables are declining even though the quantity of materials is increasing. This is due in part to declining markets for recyclables. More materials are being recycled, and demand for products containing these materials has not kept pace.

DoD will save money by increasing purchases of products containing recycled materials and by developing "closed-loop" recycling ventures, where DoD-provided recycled materials are manufactured into products DoD needs.

More and more communities are prohibiting the disposal of certain materials such as yard wastes, newspapers, mattresses, and tires in their landfills, which forces DoD to look to recycling or to alternate uses of these materials. These materials could increase disposal costs if they are not effectively addressed.

DoD is now determining the total costs of its solid waste disposal, which may be as much as $500 million a year. By establishing aggressive goals, these costs can be reduced, thus saving operation and maintenance funds for mission support. In some cases, it may be advantageous for DoD to pay for the recycling of materials. Since disposal costs can be as high as $200 a ton, paying companies to take recyclable material will still save funds if the payments are less than its normal disposal costs.

DoD estimates that solid waste reduction goals of 50 percent are achievable over the next five years. This can equate to significant reductions in solid waste disposal costs, even if DoD must pay companies to take the recyclables.

RECOMMENDATIONS

The Corps of Engineers should be permitted to establish more realistic commercial regulatory fees and be allowed to retain all revenues generated through the collection of fees. These funds would then be used by districts solely to increase the efficiency of the regulatory program by reducing delays associated with permit evaluations and wetlands delineations. This fund would be independent from the corps' normal regulatory operating budget and should be available without appropriation. DoD must provide accountability over use of the new revenue.

Congress should amend Public Law 97-214 to allow managers and commanders mission-related use of all net revenue from sales of recyclable materials. DoD should continue the same level of funding available in fiscal 1992 from sales of recyclables for pollution abatement, energy conservation, occupational safety and health activities, and morale and welfare activities. However, commanders and managers should be allowed unrestricted use of all revenue in excess of fiscal 1992 revenue from sales of recyclables. In addition, commanders and managers should be allowed unrestricted mission-related use of savings from reducing waste disposal costs.

CAPITAL INVESTMENTS

The sixth area reviewed was the establishment and promotion of a productivity enhancing capital investment fund. DoD appropriations include approximately $12 million annually for capital investments that will, over a period of increased productivity, result in savings greater than the initial investment. The money available, however, has not been sufficient to fund all the potentially worthy projects. To increase long-term savings, more of these investments should be made.

Each military department has a central organization that controls the allocation of funds for investing in equipment to increase productivity. Applicants for these funds are required to submit proposals demonstrating that enhanced productivity would result in recovery of the cost in three

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

DoD should work with EPA regional offices and state and local environmental organizations to develop joint implementation approaches.

NO BUSINESS AS USUAL

Total quality management was the eighth focus area.

Substantial budget reductions in the post-Cold War era compel DoD to change the way it does business. The services and several DoD agencies have already implemented total quality management principles as a means to accomplish their missions in a constrained fiscal environment. Many have achieved significant successes, and several DoD activities have even become nationally recognized quality award winners.

The key factor underpinning each success is top leadership commitment and strategic management of the quality improvement effort. The commitment of the department's most senior leadership to establishing a defense quality workplace is required now if DoD is to continue to provide and maintain an effective national defense.

Many corporations that recognized their survival was at stake adopted TQM as their framework for improvement. Likewise, many units and entire DoD components have injected the principles of TQM in their daily operations. They have achieved many breakthroughs, saved millions of dollars, and prevented potentially life-threatening situations. Unfortunately, these efforts have not been institutionalized across the entire department.

The quality revolution that has profoundly changed management practice rests on an industrial engineering foundation, but its leverage comes from the leadership principles of the late W. Edwards Deming. When the United States was experiencing a severe recession, a 1980 NBC TV White Paper entitled "If Japan Can, Why Can't We?" awakened American industry to the power of Deming's principles.

Individual industrial and government leaders re-examined their management practices and concluded these practices, not their employees, were the problem. A managerial breakthrough was required to reverse the country's economic fortunes. Those who saw the possibilities of a total quality approach to management initiated the change and ultimately created world-class companies.

RECOMMENDATIONS

DoD should establish a top leadership and management structure that furthers total quality management principles. This structure would provide DoD with a senior-level corporation forum to define the direction of the department. The secretary of defense should charter a DoD Executive Steering Board, composed of the department's senior leaders, to guide implementation of total quality within DoD. A DoD quality adviser should be designated to provide an independent source of advice to the secretary and the steering board on matters of quality management.

DoD should implement a strategic planning process that encompasses total quality management principles and establishes direction. A strategic planning process and implementation plan are necessary to communicate direction and guide work efforts across DoD. The plan would provide a vehicle for alignment and integration of actions, programs, and process improvement endeavors across all DoD organizational components. At the outset, the department should determine customer needs and assess the external and internal environment to identify the critical issues upon which to base the strategic plan.

DoD should ensure that employees throughout the department have a comprehensive knowledge of total quality principles and practices to bring about and sustain the transformation. Significant actions are already under way in the services, and the secretary of defense still should establish a total quality education and training plan for personnel in the Office of the Secretary of Defense. In addition, the department should issue policy that requires incorporation of quality principles in the curricula of all DoD professional and service schools, and establish measures to determine the impact of total quality management education and training on mission outcomes departmentwide.

DoD should create an environment that promotes total quality principles and practices to foster continuous process improvement, encourage creativity and innovation, and nurture the professional and personal growth of all employees. The department's most critical resource is its people. Specifically, leadership should set the tone and create such an environment through the following actions:

- Create career-enhancing incentives for DoD executives and managers to employ total quality principles and methods;
- Redesign DoD's reward and recognition programs and performance appraisal systems so they are consistent with total quality principles and value total quality practitioners;
- Design and implement an unencumbered, responsive employee suggestion program that encourages people to volunteer their improvement ideas;
- Reinvent the DoD Office of Inspector General and minimize its statutory control role so its main purpose is to assist DoD components in achieving their mission rather than controlling their actions; and
- Enact a DoD policy that accentuates the involvement of elected union representatives as active participants and partners in the total quality process.

DoD should rewrite directives, instructions and policies to support total quality principles and methodologies. In particular, the department should provide guidance for implementing the Government Performance and Results Act of 1993, which is consistent with total quality principles. Furthermore, the department should ensure that recommendations resulting from ongoing reviews of personnel and acquisition regulations are consistent with total quality principles.

DoD should use performance metrics to assess progress toward attaining its vision. A measurement system would ensure that leadership decisions are based on objective information from outcomes. A performance measurement capability would also provide a means of assessing progress toward the DoD vision.

REFORMING HEALTH CARE

Health care is a concern to military people no less than America at large, and increasing the efficiency of DoD's health care operations was the ninth area reviewed.

DoD has an extensive and complex medical system serving more than 8 million eligible people. Despite its size and complexity, the system does not use current technology to the fullest extent possible to maintain records, communicate throughout the system, and carry out other essential business functions.

The department has already begun to integrate technology to improve service delivery while simultaneously reducing costs, and opportunities exist to speed up these efforts.

Specifically, commercially available systems can effect immediate improvements in service. Through innovative uses of technology, the department could improve the proportion of health care delivered on an outpatient or ambulatory basis. Although an ever-increasing proportion of health care is delivered in the outpatient or ambulatory setting, no mechanism presently available systematically captures ambulatory diagnostic coding information and the associated costs. A prototype that incorporates these functions has been developed and will be tested in the medical center at Elmendorf Air Force Base, Alaska. Within a short time this system could be operationally deployed into one of DoD's health care regions.

Incorporating technology into DoD's health care operations alone will not be sufficient as a strategy to make the best use of DoD's resources. DoD must also determine whether all of its operations are still essential and whether the private sector can provide certain DoD service.

RECOMMENDATIONS

DoD should accelerate the deployment of currently available, commercial technology into one of its 12 health care regions, with the eventual goal of deploying it throughout the system. DoD should also investigate the use of videoconferencing to reach patients and their families at home to prevent unnecessary trips to hospitals or clinics. Medical education, health promotion, and remote patient monitoring are major areas in which such technology could be applied.

The department should seek to use technology to improve the increasing proportion of health care delivered on an outpatient or ambulatory basis. None of the currently available systems captures outpatient diagnostic information and the associated costs. A prototype system that addresses these needs has been developed for testing. Once testing is complete, DoD should aggressively deploy the system elsewhere.

DoD should seek legislative authority to terminate the Uniformed Services University of the Health Sciences medical school program. Reducing the number of physicians thus lost could be offset by an expansion of other existing, less costly programs such as the Health Professionals Scholarship Program, which costs $111,000 per person annually. Physicians currently enrolled in the school should be allowed to complete their education.

Through continued and expanded use of current technology and development and testing of new prototypes, DoD anticipates sizable future savings and cost avoidance. Up-front investments may be required to accelerate the deployment of relevant technologies into the system. The specifics, however, cannot be estimated at this time.

DoD could save approximately $350 million over a five-year period by eliminating the Uniformed Services University of Health Sciences.

Med School vs Costs

To foster a program to train physicians committed to a long-term military career, DoD created a medical school called the Uniformed Services University of Health Sciences in 1972. The school provides a full medical education to individuals in return for seven years of active military service. The cost of this program is $90 million a year.

Based on figures from 1991, it costs the school approximately $562,000 to train each physician in its program. This program has met only a small fraction of DoD's need for new physicians and accounts for less than 9 percent of the total number of physicians entering military service. Due to anticipated drawdown of military forces, the loss of the school's physicians would be consistent with the requirements of a smaller military force.

EMPOWERING COMMANDERS

The 10th area reviewed was ways to give DoD installation commanders more authority and responsibility over their installations. DoD installations constitute more than 5,500 properties containing approximately 27 million acres and over 400,000 buildings. The current replacement value of these properties is more than $566 billion. The annual funding support provided to military installations averaged over $16 billion per year during the early 1990s.

All installations share a common mission to provide quality facilities and services to tenant organizations, activities, and individuals. Managing a defense installation is comparable to managing a city of equal size. And, like cities, each installation is unique.

Installation commanders often are hampered by an abundance of rules and regulations. Many decisions that impact installations are made by people who do not have detailed knowledge of a situation nor any responsibility for the consequences of their actions.

DoD wants to empower installation commanders with the responsibility, authority, and flexibility to make these decisions by the year 2000. But there are legislative, regulatory, and policy barriers to this vision.

Four areas with significant barriers have been identified: financial management and funding flexibility, installation engineering support, installation contracting, and supply and service support. These represent areas in which installation commanders are restricted in their authority to manage in a more business-like manner.

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

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

Second, mission effectiveness and productivity are significantly affected by the quality of installation engineering services. These services include maintenance and disposal of real

property, facilities, and physical plant systems, and procurement of services, supplies and equipment in support of these systems. Engineering support requirements received from higher headquarters often direct exactly how commanders are to meet these requirements. Engineering projects frequently require line-item reviews and approval by higher headquarters. These restrictions unnecessarily delay completion. Inflexible work force authorization and personnel hiring and discharge procedures impede the commander's ability to adequately staff a particular project as workloads and resources change. Limitations on specific budget accounts may prevent commanders from funding pressing engineering requirements.

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

The ever-increasing number of environmental, safety, and occupational health laws/ regulations imposed by both state and federal authorities is also of concern. Installation commanders sometimes do not have adequate facilities and engineering services to ensure compliance.

The third area of concern is contracting support. Contracting support at the installation level is hampered by excessive controls imposed on contracting activities. For example, smaller contracts ranging from $25,000 to $100,000 cannot be processed expeditiously due to complex and restrictive acquisition procedures. Current procurement rules require extensive documentation and lead time to advertise and prepare bids on relatively small value contracts. Unnecessary reviews also impede efficient and effective processing of contracts.

Resolution of disputes between contractors and the installation are also a matter of concern. Procurement disputes between service providers and service users delay the prompt delivery of goods and services, create a confrontational atmosphere, and raise costs to both the provider and the government. Partnering agreements between suppliers and customers could prevent misunderstandings, but are rarely used.

Steps Toward Reinventing DoD

The first priority of the Clinton administration defense plan is to ensure forces are ready to fight. There are other vital goals:

- Ability to identify when readiness is decreasing and prevent problems from occurring
- Existence of clear and agreed force performance standards
- Existence of reliable measurements to assess whether standards are met
- Ability to set policies and allocate resources to meet standards and correct problems
- Commitment to maintain adequate Operations and Maintenance funding as budgets shrink
- Establishment of a task force to provide an independent assessment of force readiness
- Establishment of an internal DoD panel co-chaired by the deputy secretary of defense and the vice chairman of the Joint Chiefs of Staff to monitor readiness.

Supplies and services support is the last area of concern. Installation managers lack flexibility to purchase, procure, obligate, negotiate, source, or price for best value supplies and services directly from a provider. Restrictive regulations and directives drive up costs by inhibiting the commander from "shopping smart."

For example, to purchase a commercial motor vehicle or to lease space, an extensive analysis must be provided to the DoD comptroller and the General Services Administration. Preparation of the analysis and the subsequent review and approval process cause unnecessary delay and expense. It would be faster and more economical to permit installations to purchase the vehicle directly from a private commercial dealer. Commanders should be permitted to make such purchases and also be given authority to buy high-demand items "in bulk" to minimize costs.

RECOMMENDATIONS

The Defense Finance and Accounting Service should develop and institute a DoD-wide cost accounting system for installation management. Systems should be developed that provide timely and accurate status reports to installation commanders. Budget function and appropriations data must not take precedence over basic financial decision-making information.

DoD should review all financial constraints and limitations imposed on installations. All limitations should be challenged and removed wherever possible. For example, the defense comptroller should seek legislative authority to allow, on a limited basis, operations and maintenance appropriations beyond the traditional single fiscal year. For those limitations required by law or good business practice, the dollar amounts should be raised to the maximum practical levels.

DoD should develop and institute procedures allowing installation commanders to retain a designated portion of savings generated by specified cost savings measures, such as energy conservation. This would encourage installation commanders to manage their programs as efficiently and economically as possible.

DoD should institute procedures that require a financial impact assessment of major policy decisions. The assessments would be factored into resource initiatives before these policies reach the installation. Installation commanders would be assured the financial impact has been considered.

DoD should limit nonspecific, broad-based cuts of installation resources. Reductions should be tied to a specific deletion of functions or reduction of a required level of service. By limiting nonprogrammatic reductions of resources, installations would not face maintaining unnecessary functions or undesired levels of service in the face of decreasing funding levels.

The deputy under secretary of defense for environmental security, in conjunction with the services, should ensure clear, measurable, realistic, and attainable goals and standards have been established for each primary process and activity. It should eliminate all unnecessary prescriptive direction on how the goal or standard is to be achieved.

DoD should develop a comprehensive, long-range approach to managing DoD capital assets, similar to capital asset management systems common in the private sector. DoD, the Office of Management and Budget and Congress should develop an approach that requires tracking total lifecycle costs for acquiring, operating, maintaining, and disposing of real property facilities and systems. DoD, with the assistance of OMB, would also annually program and budget the capital and operating expenses necessary to minimize total life cycle costs.

Key Modernization Evaluation Factors

- driven by new dangers and new strategy
- prospects for technology
- reduced nuclear threat
- industrial base
- acquisition reform
- international cooperation

DoD should enhance the installation commander's ability to obtain engineering support services. All involved should implement policies and practices that empower installation commanders to obtain engineering support in a timely and efficient manner. The number and types of projects requiring line-item review and approval by authorities above the installation level should be greatly reduced. Work classification policies and guidance should be simplified. Commanders should be allowed to adopt a "unified budget" with a single account for all installation engineering requirements.

The government should identify and modify those statutes, policies, and procedures that preclude or otherwise limit the installation commander from acquiring the best value for services, supplies, equipment, and other resources.

The Executive Branch and Congress should encourage private-sector-financed alternatives to the military construction appropriation for acquiring, operating, and maintaining required facilities at the lowest total life-cycle cost.

The government should implement cost-savings incentives that would authorize installation commanders to retain savings or cost avoidance which result from process improvements and productivity enhancements. Commanders should be allowed to apply these savings toward discretionary spending and other installation engineering requirements.

Legislation should be enacted to permit DoD to use simplified acquisition procedures for contracts between $25,000 and $100,000. DoD should also reduce the solicitation lead time for contracts between $25,000 and $100,000 and seek legislative authority to increase the threshold established by the Service Contract Act and the Davis-Bacon Act.

DoD should encourage "partnering" agreements between suppliers and customers. Widespread application should be encouraged wherever possible and appropriate in contracts as well as in agreements between government organizations.

DoD should increase the use of "best-value" contracts where applicable and encourage installation commanders to take prudent risks in procurement activities. Current requirements do not encourage best-value contracts. This contributes to longer lead times, customer dissatisfaction and less than full value for government expenditures. All personnel involved in the contracting process should be better trained in the philosophy. The training should emphasize the benefits of using best value contracting approaches. DoD needs to encourage installation commanders to take prudent risks, and DoD must accept their occasional failures. Approval of value engineering proposals should be authorized at the installation.

The deputy undersecretary of defense for acquisition reform should revise the protest process to include limiting the time in which a protest is considered. The rejection of unreasonable protests, submitted by contractors whose primary intent appears to be to delay contract awards, should be facilitated.

To reform supplies and services support, DoD should identify impediments to a "shop smart" capability. DoD should revise or eliminate restrictive regulations that prevent installation

contracting officers from buying in the most cost-efficient manner The department should also provide information to installation commanders comparing commercial options to available federal sources. DoD also should develop a standard interservice support agreements accounting system to facilitate reimbursement.

The Federal Acquisition Regulation should be amended to permit purchasing from large businesses based on cost and quality of items required. Amending the regulation would, in many cases, save the costs associated with the small business intermediary.

DoD should delete or revise statutory regulatory requirements that unreasonably impede an installation commander's ability to contract for supplies and services.

The DoD comptroller should establish standard financial accounting system and uniform guidance for computing unit costs. This will promote uniformity and assist installation commanders in assessing their procurement programs in a more efficient and effective manner.

DoD should change applicable DoD regulations to allow stock fund managers to include in their customers' surcharges costs for procuring, warehousing, packing, crating, and handling. These are allowable costs that should be recovered.

DoD should revise its guidance to include interservice support policy; organization, functions, and specific responsibilities of suppliers and receivers in the interservice support agreement process; procedures for negotiation and preparation of such agreements; and categories of support that spell out in detail the types of support required.