

Apr 26, 2019

Department of Defense
OFFICE OF PREPUBLICATION AND SECURITY REVIEW

Initial Plan for Reforming the Business Operations of the Department of Defense for Efficiency and Effectiveness



Office of the Chief Management Officer

The estimated cost of this report or study for the Department of Defense is approximately \$16,010 for the 2019 Fiscal Year. This includes \$10 in expenses and \$16,000 in DoD labor.

Generated on 2019Mar06 RefID: 0-838204E

[This page intentionally left blank]

Table of Contents

Highlighted Excerpts from Section 921	5-9
Plan Requirement, Executive Summary and Background	11-14
Plans, Schedules, and Cost Estimates for Section 921 Covered Activities	
Human Resources Reform Team	16-21
Supply Chain and Logistics Reform Team	12-27
Category Management Reform Team	28-31
Overview of Tracking and Reporting Mechanism for Section 921 Covered Activities	33-34
Plans, Schedules, and Cost Estimates for Fourth Estate Reform	35-42

[This page intentionally left blank]

**HIGHLIGHTED
EXCERPTS FROM
SECTION 921**

Boxed text indicates which portion of the 2019 NDAA is covered in this Section 921 report.

Information Referenced in the reporting requirement

SEC. 921. AUTHORITIES AND RESPONSIBILITIES OF THE CHIEF MANAGEMENT OFFICER OF THE DEPARTMENT OF DEFENSE.

(a) **AUTHORITIES AND RESPONSIBILITIES.**—

(1) **IN GENERAL.**—Subsection (b) of section 132a of title 10, United States Code, is amended by adding at the end the following new paragraph:

“(7) Serving as the official with principal responsibility in the Department for minimizing the duplication of efforts, maximizing efficiency and effectiveness, and establishing metrics for performance among and for all organizations and elements of the Department.”

(2) **BUDGET AUTHORITY.**—

(A) **IN GENERAL.**—Such section is further amended—

(i) by redesignating subsections (c) and (d) as subsections (d) and (e), respectively; and

(ii) by inserting after subsection (b) the following new subsection (c):

“(c) **BUDGET AUTHORITY.**— (1) (A) Beginning in fiscal year 2020, the Secretary of Defense, acting through the Under Secretary of Defense (Comptroller), shall require the head of each Defense Agency and Department of Defense Field Activity specified by the Secretary for purposes of this subsection to transmit the proposed budget of such Agency or Activity for enterprise business operations for a fiscal year, and for the period covered by the future-years defense program submitted to Congress under section 221 of this title for that fiscal year, to the Chief Management Officer for review under subparagraph (B) at the same time the proposed budget is submitted to the Under Secretary of Defense (Comptroller).

“(B) The Chief Management Officer shall review each proposed budget transmitted under subparagraph (A) and, not later than January 31 of the year preceding the fiscal year for which the budget is proposed, shall submit to the Secretary a report containing the comments of the Chief Management Officer with respect to all such proposed budgets, together with the certification of the Chief Management Officer regarding whether each such proposed budget achieves the required level of efficiency and effectiveness for enterprise business operations, consistent with guidance for budget review established by the Chief Management Officer.

“(C) Not later than March 31 each year, the Secretary shall submit to Congress a report that includes the following:

“(i) Each proposed budget for the enterprise business operations of a Defense Agency or Department of Defense Field Activity that was transmitted to the Chief Management Officer under subparagraph (A).

“(ii) Identification of each proposed budget contained in the most recent report submitted under subparagraph (B) that the Chief Management Officer did not certify as achieving the required level of efficiency and effectiveness for enterprise business operations.

“(iii) A discussion of the actions that the Secretary proposes to take, together with any recommended legislation that the Secretary considers appropriate, to address inadequate levels of efficiency and effectiveness for enterprise business operations achieved by the proposed budgets identified in the report.

“(iv) Any additional comments that the Secretary considers appropriate regarding inadequate levels of efficiency and effectiveness for enterprise business operations achieved by the proposed budgets.

“(2) Nothing in this subsection shall be construed to modify or interfere with the budget-related responsibilities of the Director of National Intelligence.”

(B) EXECUTION OF AUTHORITY.—In order to execute the authority in subsection (c) of section 132a of title 10, United States Code (as amended by subparagraph (A)), the Chief Management Officer of the Department of Defense shall do the following:

(i) By April 1, 2019, develop an assessment of cost and expertise requirements to execute such authority.

(ii) By September 1, 2019, develop guidance for Defense Agencies and Department of Defense Field Activities to delineate spending on enterprise business operations and develop a process to determine the adequacy of their budgets for such operations.

(b) REFORM OF BUSINESS ENTERPRISE OPERATIONS IN SUPPORT OF CERTAIN ACTIVITIES ACROSS DEPARTMENT OF DEFENSE.—

(1) PERIODIC REFORM.—

(A) IN GENERAL.—Not later than January 1, 2020, and not less frequently than once every five years thereafter, the Secretary of Defense shall, acting through the Chief Management Officer of the Department of Defense, reform enterprise business operations of the Department of Defense, through reductions, eliminations, or improvements, across all organizations and elements of the Department with respect to covered activities in order to increase effectiveness and efficiency of mission execution.

(B) CMO REPORTS.—Not later than January 1 of every fifth calendar year beginning with January 1, 2025, the Chief Management Officer shall submit to the congressional defense committees a report that describes the activities carried out by the Chief Management Officer under this subsection during the preceding five years, including an estimate of any cost savings achieved as a result of such activities.

(2) COVERED ACTIVITIES DEFINED.—In this subsection, the term “covered activities” means any activity relating to civilian resources management, logistics management, services contracting, or real estate management.

(3) REPORTING FRAMEWORK.—Not later than January 1, 2020, the Chief Management Officer shall establish a consistent reporting framework to establish a baseline for the costs to perform all covered activities, and shall submit to Congress a report that, for each individual covered activity performed in fiscal year 2019, identifies the following:

(A) The component or components of the Department responsible for performing such activity, and a business process map of such activity, in fiscal year 2019.

(B) The number of the military, civilian, and contractor personnel of the component or components of the Department who performed such activity in that fiscal year.

(C) The manpower requirements for such activity as of that fiscal year.

(D) The systems and other resources associated with such activity as of that fiscal year.

(E) The cost in dollars of performing such activity in fiscal year 2019.

(4) INITIAL PLAN.—Not later than February 1, 2019, the Chief Management Officer shall submit to the congressional defense committees a plan, schedule, and cost estimate for conducting the reforms required under paragraph (1)(A).

(5) CERTIFICATION OF COST SAVINGS.—Not later than January 1, 2020, the Chief Management Officer shall certify to the congressional defense committees that the savings and costs incurred as a result of activities carried out under paragraph (1) will achieve savings in fiscal year 2020 against the total amount obligated and expended for covered activities in fiscal year 2019 of—

(A) not less than 25 percent of the cost in dollars of performing covered activities in fiscal year 2019 as specified pursuant to paragraph (3)(E); or

(B) if the Chief Management Officer determines that achievement of savings of 25 percent or more will create overall inefficiencies for the Department, notice and justification will be submitted to the congressional defense committees specifying a lesser percentage of savings that the Chief Management Officer determines to be necessary to achieve efficiencies in the delivery of covered activities, which notice and justification shall be submitted by not later than October 1, 2019, together with a description of the efficiencies to be achieved.

(6) **COMPTROLLER GENERAL REPORTS.**—The Comptroller General of the United States shall submit to the congressional defense committees the following:

(A) Not later than 90 days after the submittal of the plan under paragraph (4), a report that verifies whether the plan is feasible.

(B) Not later than 270 days after the date of enactment of this Act, a report setting forth an assessment of the actions taken under paragraph (1)(A) since the date of the enactment of this Act.

(C) Not later than 270 days after the submittal of the reporting framework under paragraph (3), a report that verifies whether the baseline established in the framework is accurate.

(D) Not later than 270 days after the submittal of the report under paragraph (5), a report that verifies—

- (i) whether the activities described in the report were carried out; and
- (ii) whether any cost savings estimated in the report are accurate.

[This page intentionally left blank]

**PLAN REQUIREMENT,
EXECUTIVE SUMMARY,
AND BACKGROUND**

PLAN REQUIREMENT

Pursuant to section 921 of the John S. McCain National Defense Authorization Act (NDAA) for FY 2019, Public Law 115-232, this report provides an initial plan, schedule, and cost estimate for conducting reforms within the enterprise business operations of the DoD. These reforms will include reductions, eliminations, or improvements, across all organizations and elements of the Department, with respect to covered activities, in order to increase effectiveness and efficiency of mission execution.

As required by statute, we will provide a final report on January 1, 2020, and not less frequently than once every five years thereafter, which will report on all the enterprise business operations reforms that the CMO has accomplished. The January 2020 report will include a certification of cost savings, which is required to be not less than 25 percent of the cost in dollars of performing covered activities in fiscal year 2019. If the CMO determines that the achievement of savings of 25 percent or more will create overall inefficiencies for the Department, the CMO will provide written notice and justification to the Congressional Defense Committees by October 1, 2019. This justification will specify a lesser percentage of savings that the CMO determines to be necessary to achieve efficiencies in the delivery of covered activities together with a description of the efficiencies to be achieved.

EXECUTIVE SUMMARY

Reforming the business operations of the Department is a significant undertaking which requires extensive analysis, planning, and collaboration throughout the enterprise to ensure implementation of the most impactful reforms. Business reform goes beyond efficiencies and reductions; it includes improving business processes, systems, or policies, to improve innovation or processes for weapon system acquisition; and better alignment of resources to support the National Defense Strategy. Current defense enterprise business reform efforts in the Department are led by the Office of the Chief Management Officer (OCMO).

The OCMO established reform teams that are leading efforts to improve enterprise business operations throughout the Department and establish a culture of continuous improvement focused on results and accountability. The four activities covered in Section 921 of the FY2019 NDAA (civilian resources management, logistics management, services contracting, and real estate management) are being overseen by three reform teams – Human Resources, Supply Chain and Logistics, and Category Management. Further, the Office of the CMO is conducting efficiency and effectiveness reviews of the Defense Agencies and DoD Field Activities (DAFAs) to identify common, shared services that are similar and/or duplicative in an effort to reform the Fourth Estate. Highlights from these covered activities are:

- **Human Resources Reform Team (Sec 921 - Civilian Resources Management):** Supports force readiness and lethality through strategic workforce planning and management. The team is pursuing enterprise human resources management solutions throughout the Department. Three key civilian resources management reform initiatives are 1) Regulatory Reform, 2) Civilian Hiring Improvement, and 3) Human Resources Service Delivery.

- **Supply Chain and Logistics Reform Team (Sec 921 - Logistics Management):** The goals of this team are to 1) increase materiel visibility, 2) strengthen sustainment, and 3) maximize buying power. Its vision is to deliver cost-effective readiness to improve lethality, while constantly innovating to outpace our adversaries. The top three supply chain and logistics reform initiatives, in coordination with the Defense Logistics Agency, address the following: 1) Strategic Sourcing of Sustainment/Commodity Procurement, 2) Maintenance Work Packages and Bills of Material, and 3) Munitions Readiness.
- **Category Management Reform Team (Sec 921 - Services Contracting, Real Estate Management):** The team is developing a cross-agency contract and category management procurement methodology aimed at driving efficiencies and savings throughout the DoD. These efforts grew out of the successful Services Requirements Review Board (SRRB) reviews conducted by the Office of the Secretary of Defense (OSD) and the DAFA's that resulted in millions of dollars in programmed savings for the Department. The contract and category management effort will also help the Department achieve enterprise business operations consistent with guidance for budget review as it moves from a budget-spend centric acquisition process to a strategic-spend centric acquisition process. The Department's real property reform initiatives (including: lease process standardization, footprint consolidation, space utilization, contract optimization, etc.) are now being addressed as part of the category management effort.

To track and manage all reform activities, a reform initiative framework has been implemented to track and report progress of initiatives; the financial savings will be monitored by a validation process supported by the Under Secretary of Defense (Comptroller & CAPE). The Department's comprehensive plan to support all reform initiatives is detailed in this report.

BACKGROUND

The Department of Defense (DoD) is the largest federal agency, with an annual budget of more than \$500 billion and a workforce that includes uniformed service members, civilian federal employees, and defense contractor employees. Reforming the business operations of the Department is a significant undertaking which requires extensive analysis, planning, and collaboration throughout the enterprise to ensure the most impactful reforms are implemented.

Business reform goes beyond efficiencies and reductions. It includes improving business processes, systems, or policies, improving innovation or processes for weapon system acquisition; and better alignment of resources to support the National Defense Strategy. Reforming business operations to improve the lethality of the Department is one of the three pillars of the National Defense Strategy: 1) Build a More Lethal Force; 2) Strengthen alliances and Attract New Partners; and 3) Reform the Department for Greater Performance and Affordability. Current defense enterprise business reform efforts in the Department are being led by the Office of the Chief Management Officer (OCMO).

The OCMO is charged with establishing policies for, and directing, all enterprise business operations of the Department, including planning and processes, business transformation, performance management, and business information technology management. This office is leading reform efforts to improve enterprise business operations throughout the Department

and establish a culture of continuous improvement focused on results and accountability. The OCMO established reform teams to improve the quality and productivity of the business operations of the Department while reducing the cost of those operations in order to be better able to reallocate resources from business operations to readiness. The covered activities included in Section 921 of the FY2019 NDAA are being addressed by three of those reform teams: Human Resources, Supply Chain and Logistics, and Category Management.

The OCMO is also charged with conducting efficiency and effectiveness reviews of the DAFAs in order to identify duplicative activities in an effort to reform the Fourth Estate. The results of DAFA reviews will provide information that will be critical to improving enterprise business operations and shifting the Department toward the use of more enterprise services to conduct business operations.

This document provides plans, schedules, and cost estimates for executing efforts to reform enterprise business operations in the DoD in the four covered areas requested to be addressed: civilian resources management, logistics management, services contracting, and real estate management.

**PLANS, SCHEDULES, AND COST ESTIMATES
FOR THE SECTION 921 COVERED ACTIVITIES**

HUMAN RESOURCES REFORM TEAM

Sec 921 Activity: Civilians Resources Management

The Department has more than 700,000 civilian federal employees serving in the contiguous United States and deployed around the world alongside our military, doing every kind of work from manufacturing and construction to advanced scientific research. Achieving our national defense strategy depends on having people with the right leadership, direction, and resources to accomplish the mission. Reforming our business processes to include: simplifying hiring; improving employee performance management and engagement; and creating an agile workforce, will enable the Department to allocate resources to increase effectiveness and improve military readiness.

The Human Resources (HR) Reform Team supports force readiness and lethality through strategic workforce planning and management, including pursuing enterprise human resources management solutions throughout the Department. Three key civilian resources management reform initiatives are:

- 1) Civilian Hiring Improvement
- 2) Regulatory Reform
- 3) Human Resources Service Delivery

The following table shows a consolidated schedule of all reform team actions. Details for each initiative are outlined below.

	Civilian Hiring Improvement	Regulatory Reform	Human Resource Service Delivery
FY19 Q1	Turn on Hiring Manager Survey tool in OPM USASTAFFING system	Submit FY20 Legislative Proposal	Review GAO reports and other requirements resources
FY19 Q2	Kick-off Business Process Reengineering (BPR) project Conduct annual review of Component TTH Action Plans	Draft HR Reform Framework Test framework; Begin drafting implementation, communication and change management plans	Draft project charter
FY19 Q3	Establish common DoD process and metrics for civilian hiring	Prepare drafts of updated DoD policies and FY20-21 Talent Management Guidance	Approve project charter Collect and compare Service Level Agreements for HR service providers Collect and map HR Service Delivery models Collect federal government and private industry benchmarks

FY19 Q4	<p>Establish baselines / goals for manager / customer satisfaction quality metrics</p> <p>Document adoption of DoD process & metrics</p>		<p>Conduct a comprehensive review of HR line of business management costs</p> <p>Conduct a comprehensive review of HR service delivery costing models, including overhead costs</p> <p>Conduct a comprehensive review of HR service provider organizational structures, including Full Time Equivalents (FTE) and contract support</p> <p>Identify key performance and efficiency measures among HR service providers</p> <p>Assess against benchmarks</p>
FY20 Q1	Begin quarterly assessment of survey data using baseline quality metrics	(If enacted in the NDAA) Execute implementation plan, communication and change management plan, and updated DoD policies, per FY20 legislation	Develop recommended Courses of Action (CoA)

1) **Civilian Hiring Improvement**

Problem Statement and Overview: The civilian hiring process is complicated, time-consuming, and disjointed throughout the Department. For example, the average time to hire a civilian is 100 days. Hiring delays adversely impact program/project progress and can lead to managers substituting more expensive military or contractor personnel in place of less costly civilian federal employees.

Objective: The objectives are shortened time to hire (TTH), an improved match of enterprise needs to employee competencies in support of mission readiness, and an established enterprise-wide standard metrics/measurements and reports on performance of improved hiring process.

Benefits:

- TTH: Target DoD-wide average time to hire of 85 days or less
- Reduce staffing gaps which lead to under-execution of budget
- Increase manager/customer satisfaction

Strategic Approach:

- TTH: Implement and track Component TTH Action Plans
- Quality Measure: Establish baselines and goals for manager/customer satisfaction
- Business Process Review (BPR): Establish shared business process for civilian hiring

Example Accomplishments:

- In the spring of 2018, DoD Components developed TTH Action Plans to identify ways to decrease time to hire and increase candidate quality. The Department began hosting quarterly meetings to discuss best practices and lessons learned.
- Beginning October 1, 2018, the Department began using the Hiring Manager Survey tool in the OPM USA Staffing system to systematically collect customer satisfaction data. Initial results were reviewed in February 2019.

Plan & Schedule:

FY 2019				FY 2020			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	2 3	4	5 6	7			

- 1 Turn on Hiring Manager Survey tool in OPM USASTAFFING system
- 2 Kick-off Business Process Review (BPR) project
- 3 Conduct annual review of Component TTH Action Plans
- 4 Establish common DoD process & metrics; Initiate manager survey pilot to baseline quality metrics
- 5 Establish baselines / goals for manager / customer satisfaction quality metrics
- 6 Document adoption of DoD process & metrics
- 7 Begin quarterly assessment of survey data using baseline quality metrics

Cost Estimate: To date, project has been executed using existing internal resources, including OCMO Reform Team support. We do not anticipate a need for additional investment as improved hiring practices will be incorporated into standard HR processes.

2) Regulatory Reform

Problem Statement and Overview: The federal government operates under a rigid, monolithic 1978-vintage personnel system, to which hundreds of limited, tailor-made exceptions have been added over the years. According to the Government Accountability Office (GAO) and other reviewers, agencies use only a small number of the scores of personnel authorities and flexibilities that have been granted to them. The GAO stated in 2017 testimony (GAO-17-627T, page 11) that the hiring process could be improved by refining, consolidating, or eliminating less effective authorities. The Department's internal reviews confirm that HR practitioners and hiring managers find the array of available authorities confusing, impractical, uncoordinated, and in some cases inconsistent.

Objective: The objective of this initiative is to develop a new proposed legal authority allowing the Department to simplify, streamline, and standardize civilian personnel policies and processes to effectively recruit, appoint, compensate, incentivize, reward, retain, and manage a qualified and agile civilian workforce, allowing for a strategic, enterprise-wide approach to support the Department's missions.

Benefits:

- Simple, streamlined, standardized processes
- Increased mission readiness through quality performance measures
- Focus on results-oriented management of human resources

Strategic Approach:

- Legislative change to grant broad civilian hiring authority for DoD
- Legislative change to grant Secretary of Defense authority to develop a modern civilian compensation and classification system
- Simplified DoD policies and processes

Example Accomplishments:

- The HR Reform Team has coordinated and led efforts to develop a conceptual design for a new system. This will help communicate the type of changes the Department seeks and prepare the Department to begin implementation.
- Over several months, the HR Reform Team drafted an HR Reform Framework to depict a conceptual structure in support of the legislative reforms. The team worked with policy makers and operators and senior DoD civilian HR leadership to develop this framework. The HR Reform Team will use the Framework to draft a Roadmap for implementation, including alternative approaches depending on the outcome of legislative proposals.

Plan & Schedule:

FY 2019				FY 2020			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	2	3	4	5			

- 1 Submit FY20 Legislative Proposal
- 2 Draft HR Reform Framework
- 3 Test framework; Begin drafting implementation, communication and change management plans
- 4 Prepare drafts of updated DoD policies and FY20-21 Talent Management Guidance
- 5 (If enacted in NDAA) Execute implementation plan, communication and change management plan, updated DoD policies, per FY20 legislation

Cost Estimate: To date, project has been executed using existing internal resources, including OCMO Reform Team support. Future (FY19-20) costs may include approximately \$500 thousand for research and studies. To the extent possible, we will make use of USD(P&R) budgeted funds for FFRDC studies.

3) Human Resources Service Delivery

Problem Statement and Overview: The Department currently does not regulate or oversee, from an enterprise perspective, the activities of various HR providers that offer a range of services and products to other DoD Agencies/Components. HR providers operate independently, and offer various types of services, terms, and fees for various customers throughout the Department. As such, the Department has no standard way to evaluate the performance of HR providers in terms of costs, quality, or other metrics.

Objective: The objectives for this initiative are to establish a common DoD HR business/service delivery model, a standard set of performance measures, and cost accountability structure that will be applied to all HR service providers, with a focus on certain DAFAs. This effort will also provide information for the Secretary of Defense and the Chief Management Officer to reform civilian resource management to increase effectiveness and efficiency of mission execution. It will identify an enterprise-wide HR Service Delivery model based on generally accepted business

practices within government that can be used by service providers to optimize their organizational structure and costing methods. This reform initiative will also identify an enterprise-wide oversight and governance structure and processes to monitor and evaluate key performance and efficiency measures among HR service providers. Outcomes for this initiative include enabling the Department to:

- Exercise oversight to evaluate effectiveness of efficiency initiatives to make better investment decisions and reduce risk of overspending on non-essential support programs
- Identify and remedy fragmentation, overlap, and duplication of HR service delivery within the DAFAs
- Increase quality of services through the optimization of HR business practices

Scope: At least six organizations within the Department provide a range of specialized human resources services to other defense agencies or organizations. These specialized HR services include technical HR assistance and HR business operations (or “back room” operations). This project focuses on the three HR service providers that are DAFAs: the Defense Logistics Agency (DLA), the Defense Finance and Accounting Service (DFAS), and the Washington Headquarters Service (WHS). Note: Personnel matters handled in individual units by supervisors, managers, and administrative support personnel are not included in this definition of HR services.

Benefits: Enable DoD to evaluate effectiveness of efficiency initiatives, make better investment decisions, and reduce risk of overspending on non-essential support programs; identify and remedy fragmentation, overlap, and duplication of HR service delivery within the DAFAs; and increase quality of services through the optimization of HR business practices

Strategic Approach:

- Improve HR Service Delivery in and from the Fourth Estate (DFAS, DLA, WHS)
- Compare reliable data from MilDeps and other federal providers
- Standardize HR Services
- Use HR LOB cost and performance data

Plan & Schedule:

FY 2019				FY 2020			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	2	3	4	5	6	7	

- 1 Review GAO reports and other requirements resources
- 2 Draft project charter
- 3 Approve project charter
- 4 Collect data and information
 - a. Collect and compare Service Level Agreements for HR service providers
 - b. Collect and map HR Service Delivery models
 - c. Collect federal government and private industry benchmarks
- 5 Analyze data and information
 - a. Conduct a comprehensive review of HR line of business management costs
 - b. Conduct a comprehensive review of HR service delivery costing models, including overhead costs
 - c. Conduct a comprehensive review of HR service provider organizational structures, including Full Time Equivalents (FTE) and contract support
 - d. Identify key performance and efficiency measures among HR service providers
- 6 Assess against benchmarks
- 7 Develop recommended Courses of Action (CoA)

Cost Estimate: This project will be incorporated into OCMO's new Office of Fourth Estate Management. Reviews of WHS, DLA, and DFAS (HR service providers in Fourth Estate) will include information about HR service delivery along with other covered activities. The costs of DAFA reviews are addressed in the DAFA section of this report. In the initial stand-up of the Fourth Estate Management office, we anticipate a need in FY19-20 for approximately \$2 million to \$2.5 million in contract services to assist with developing business case analyses, researching internal and external benchmarks, conducting data analytics, evaluating processes and performance of providers, and developing reports and related communications. (Note that these initial Fourth Estate Management stand-up costs are not limited to HR but will include oversight of other covered activities.)

SUPPLY CHAIN AND LOGISTICS REFORM TEAM

Sec 921 Activity: Logistics Management

The Supply Chain and Logistics Reform Team is a cross-functional team that directly supports the first and third lines of effort identified in the 2018 National Defense Strategy. The team seeks to provide a resilient and agile, best-in-class logistics force. The team is commissioned to deliver enterprise level cost-effective readiness reforms, increase the department's lethality, and harvest innovation to outpace our adversaries. The team's approach to standardizing processes, reducing duplication of efforts, and adopting well-aligned authoritative performance measures will increase weapon system readiness and decrease sustainment costs throughout the Department.

The Supply Chain and Logistics Reform Team is working to increase materiel visibility, strengthen sustainment, and maximize buying power. The goal is to deliver cost-effective readiness to improve lethality, while constantly innovating to outpace our adversaries. The top three supply chain and logistics reform initiatives, in coordination with the Defense Logistics Agency, are in the following areas:

- 1) Strategic Sourcing of Sustainment/Commodity Procurement
- 2) Maintenance Work Packages and Bills of Material
- 3) Munitions Readiness

The following table shows a consolidated schedule of all reform team actions. Details for each initiative are outlined below.

	Strategic Sourcing of Sustainment/Commodity Procurement	Maintenance Work Packages and Bills of Material	Munitions Readiness
FY19 Q1		Elect a weapon systems to assess depot maintenance work package and BOM accuracy	Phase I: Develop tool prototype (Subset of munitions/capability)
FY19 Q2	Align CoE reform efforts with OSD Category Management initiative	Obtain work packages/BOMs & gain access to relevant data	
FY19 Q3	Develop business intelligence/analytics to capture data to Categorize DoD Spend, identify redundancies, price gap analysis, and data driven decisions	Compare planned scope and forecasted spares demand against actual scope and demand to assess accuracy of BOM Identify opportunities to improve processes, make recommendations to address deficiencies, improve efficiency, improve material availability (MA), and identify any necessary changes in guidance and directives	Phase II: Expanding tool (Subset of 7 munitions to 50 munitions)

FY19 Q4	Collaborate with the Services and DHA to establish highest priority items, Analyze market segmentation to select best in class process owner, select candidate items, and implement	Develop implementation plan for the recommendations, quantify the projected cost avoidance, and develop metrics and a process for monitoring future performance of the recommendations	The proof of concept final report will document and highlight the stakeholder interviews, discovery of future requirements, anticipated challenges, as well as include an implementation plan for recommendations, future phase development, user experience/user interface, data ingestion, maintenance, updating and sustainment
FY20 Q1			
FY20 Q2			The Munitions Readiness initiative is expected to deliver a Department-wide initial COP for munitions, as well as advanced analytics capabilities that directly links resourcing to industrial base capacity, procurement planning and operational health and readiness to better enable and drive informed decision making
FY20 Q3			Phase III: Full implementation/live
FY20 Q4	Based on lessons learned refine business process for selection and implementation of future items Establish DLR procurement interface / system with the Air Force and Navy using procurement data standards		

1) **Strategic Sourcing of Sustainment/Commodity Procurement**

Problem Statement and Overview: Procurement is fragmented and redundant across the Services with an inability to leverage the Department's economies of scale. There are opportunities to achieve process efficiencies and savings by centralizing commodity procurement throughout the Department. On the whole, the Department can increase its negotiating power with suppliers by consolidating contracts to leverage economies of scale. Contract consolidation provides enterprise-wide visibility that enables the Department to reduce price variability and more efficiently manage supply demand.

Objective: The objective of this initiative is to improve buying power of the Department, increase data transparency throughout the enterprise related to sustainment/commodity procurement, and apply best-in-class cost and contract management practices with suppliers to

drive higher performance and lower cost. The approach is to:

- Capture enterprise data and develop business intelligence/analytics that will drive consolidation decisions across Services and agencies, improve buying power, and reduce overhead
- Establish interface/system integration with the Services using procurement data standards, and compare prices throughout the DoD and with industry to match terms to the Department's scale and buying power
- Use demand management to right-size requirements based on Service and agency needs
- Collaborate between the Services and DLA to analyze spend and prioritize the categories of items based on the greatest potential to generate the benefits of consolidation
- Identify opportunities to leverage DLA automation, and prioritize categories for strategic sourcing.

Benefits:

- Use economies of scale to save Services upwards of 10% in next two years
- For consolidated items, expedite buying (>78% w/in 12 days)
- Increased buying transparency and governance throughout the enterprise

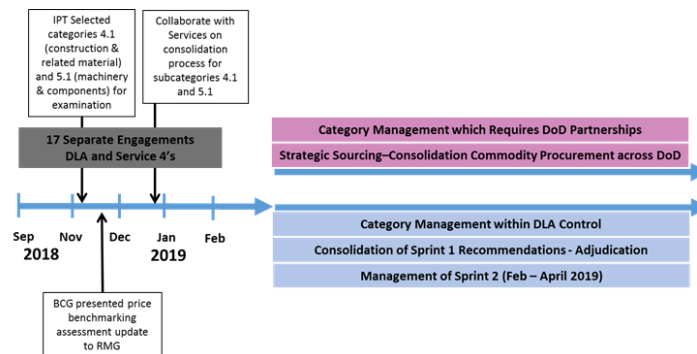
Strategic Approach:

- Benchmark against industry
- Collaborate with the Services and DHA to identify and prioritize redundancies
- Analyze and select best-in-class owner

Plan & Schedule:

FY 2019				FY 2020			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	1	2	3				4 5

- 1 Align CoE reform efforts with OSD Category Management initiative
- 2 Develop business intelligence/analytics to capture data to Categorize DoD Spend, identify redundancies, price gap analysis, and data driven decisions
- 3 Collaborate with the Services and DHA to establish highest priority items; Analyze market segmentation to select best in class process owner; Select candidate items and implement
- 4 Based on lessons learned refine business process for selection and implementation of future items
- 5 Establish DLR procurement interface/system with the Air Force and Navy using procurement data standards



Cost Estimate: The cost estimate is under review.

2) Maintenance Work Packages and Bills of Material

Problem Statement and Overview: This initiative is focused on improving the accuracy of depot maintenance work packages and related Bills of Material (BOMs) and developing recommendations for process improvements. Work packages and BOMs are the foundation for depot-level repair because they define both the content and scope of the maintenance to be undertaken. Inaccuracies can produce significant differences between planned and actual content and scope, increase repair turnaround times, delay required spares, and increase the non-mission capable time of the weapon systems while they are in depot-level maintenance.

Objective: The objective of this initiative is to improve the accuracy of the maintenance work packages resulting in shorter depot repair time for weapon systems readiness.

Benefits:

- On-time delivery of weapon systems to customers (>90%)
- Reduce projected depot repair cost by 3-5%

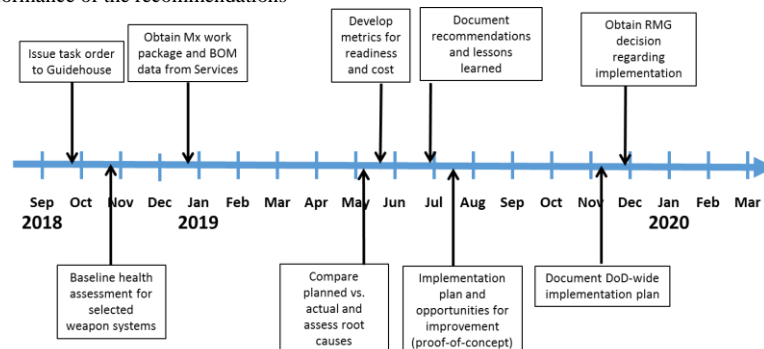
Strategic Approach:

- Compare forecast demand against actual demand to assess accuracy
- Quantify efficiency opportunities
- Identify any changes in guidance and directives required to integrate results into existing maintenance processes
- Deliver an implementation plan to monitor results and institutionalize improvements

Plan & Schedule:

FY 2019					FY 2020			
Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4
1	2	3	4	5				

- 1 Elect a weapon systems to assess depot maintenance work package and BOM accuracy
- 2 Obtain work packages/BOMs & gain access to relevant data
- 3 Compare planned scope and forecasted spares demand against actual scope and demand to assess accuracy of BOM
- 4 Identify opportunities to improve processes, make recommendations to address deficiencies, improve efficiency, improve material availability (MA), and identify any necessary changes in guidance and directives
- 5 Develop implementation plan for the recommendations, quantify the projected cost avoidance, and develop metrics and a process for monitoring future performance of the recommendations



Cost Estimate: The proof of concept development cost \$800,000 and was funded with FY18 execution year funds.

3) **Munitions Readiness**

Problem Statement and Overview: The Department lacks an integrated tool capable of providing senior leaders with an effective assessment of all the variables associated with the health and readiness of the munitions inventory and assessing options for correcting negative trends. Effectively capturing and utilizing the Department's munitions information presents the Department with a data problem requiring an advanced analytics solution that would integrate disparate datasets into a comprehensive set of data. This initiative will provide a decision-support tool to assist decision makers at all levels in understanding the multi-order effects on inventory/stockpile health, sufficiency, and the resulting impact on readiness.

The Department seeks to understand the potential for applying advanced analytics, machine learning, and cognitive computing capabilities to address long-standing challenges with measuring and managing the readiness of munitions throughout the enterprise. Challenges include but are not limited to:

- A limited end-to-end sight picture of munitions availability
- Fragmented and compartmentalized data sets that are unstructured and incomplete
- Rudimentary planning information; access, restrictions and management of third party proprietary information
- Fragmented decision-making and reliance on human abilities limiting key insights
- Inadequate analysis capabilities that are unable to consider all the relevant variables
- A highly manual and over-simplified effort to assess sufficiency and identify courses of actions to remedy insufficient situations

Objective: The objective is to use cross-functional information to implement a munitions enterprise advanced analytics solution through a proof of concept, and then expanded development of a decision support tool to reach full capability of data integration and course of action resolution and accuracy.

Benefits:

- Robust decision support tool for all users
- Authority to operate on NIPR/SIPR
- Advanced analytics incorporating artificial intelligence and machine learning to synthesize decisions and timely quantify risk-informed COAs
- Suite of enterprise metrics to monitor munitions health & readiness

Strategic Approach:

- Leverage CMO-approved DoD Repository for Common Enterprise Data
- Ingest structured and unstructured data
- Develop user interface for decision support

Example Accomplishments: A proof of concept is examining the Department's ability to securely incorporate commercially available advanced analytics applications; discover and leverage relevant machine learning and artificial intelligence algorithms; and better understand the art of the possible when a big data approach is utilized and requisite data is made available.

- By decomposing the functional business rules, data systems, and elements necessary to code and compile fact-based solutions, a "Use Case" approach is being used to examine

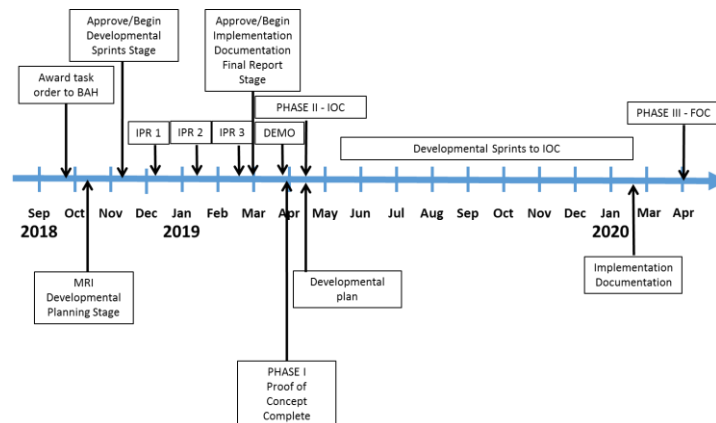
the modeling of a few of the most important recurring analytical questions for several preferred munitions types,

- The current proof of concept is working to produce a functional demonstration of a prototype tool in a secure environment, hosted on a secure DoD platform, with a working SIPR user interface. It will feature various multi-level user readiness and health dashboards, provide a munitions Common Operating Picture (COP), and provide menu driven options for tailoring user-defined analysis.

Plan and Schedule:

FY 2019				FY 2020			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1		2	3		4	5	

- 1 Phase I: Develop tool prototype (Subset of munitions/capability)
- 2 Phase II: Expanding tool (Subset of 7 munitions to 50 munitions)
- 3 The proof of concept final report will document and highlight the stakeholder interviews, discovery of future requirements, anticipated challenges, as well as include an implementation plan for recommendations, future phase development, user experience/user interface, data ingestion, maintenance, updating and sustainment
- 4 The Munitions Readiness initiative is expected to deliver a Department-wide initial COP for munitions, as well as advanced analytics capabilities that directly links resourcing to industrial base capacity, procurement planning and operational health and readiness to better enable and drive informed decision making
- 5 Phase III: Full implementation/live



Cost Estimate: The proof of concept development cost \$3 million and was funded with FY18 execution year funds.

CATEGORY MANAGEMENT REFORM TEAM

Sec 921 Activity: Services Contracting, Real Estate Management

In an effort to fulfill the reform requirements of Section 921 of the FY19 NDAA, and to support the President's Management Agenda and the National Security Strategy, the Category Management team is reviewing the \$200 billion the Department spends to purchase goods and service. The team includes representatives from Military Departments and the DAFAs. To enable the team to fully analyze this spend, the CMO has engaged the services of two consulting firms who are nationally recognized as experts in Category management. The two specific areas of focus are:

- 1) Service Requirements Review Board (SRRB)
- 2) Category Management

The following table shows a consolidated schedule of all reform team actions. Details for each initiative are outlined below.

	Service Requirements Review Board (SRRB)	Category Management
FY19 Q1	SRRB-19: Conduct engagement meeting	Category management sprint 1
FY19 Q2	SRRB-19: Conduct SRRB Senior Review Panels (SRPs)	Category management sprint 2
FY19 Q3	SRRB-19: Conduct SRPs SRRB-20: Identify new focus areas / new approaches	Category management sprint 3
FY19 Q4	SRRB-19: SRRB-19 reporting results SRRB-20: SRRB-20 policy development	Category management sprint 4
FY20 Q1	SRRB-20: Conduct engagement meetings	Category management sprint 5
FY20 Q2	SRRB-20: Conduct SRRB Senior Review Panels (SRPs)	Category management sprint 6
FY20 Q3		Category management sprint 7
FY20 Q4		Category management sprint 8

1) Service Requirements Review Board (SRRB)

Problem Statement and Overview: The Department conducts contracting activities in more than 60 organizations throughout the enterprise. In 2016, the Deputy Secretary of Defense directed an annual review of all service requirement contracts for components of the Office of the Secretary of Defense (OSD) and the DAFAs. This effort resulted in millions of dollars in savings for the Department since it first began and is an ongoing initiative within the Department. Because of the success of the SRRBs, the Department has expanded this effort and is reviewing other categories of spending throughout the enterprise. The SRRBs are timed to inform budgets for the following fiscal year.

Objective: The objective is for each organization to establish an SRRB, which is a board that reviews, validates, prioritizes, and approves services requirements to accurately inform the budget and acquisition processes. Requirements development, validation, prioritization and approval are critical to ensuring we buy only the services we need, and at the levels required. The goal of the service contracts effort is to support the execution of the Department's mission faster, better, and cheaper while enabling the best possible DoD workforce mix of service providers. The Department will become a better buyer by leveraging market research, institutionalizing better negotiating techniques, and leveraging comparative pricing.

Benefits:

- FY17-FY19 savings to date = \$932 million (validated by comptroller)
- Within each organization, an established, standardized, objective, internal review process for contracted services requirements that are analyzed, at a minimum, annually



Strategic Approach:









- Currently in its fourth iteration, the establishment of the SRRB in FY16 first incorporated the DoD Fourth Estate Organizations including all Staff Orgs and the DAFAs
- In SRRB 2.0, the Joint Staff and Combatant Commands as well as Working Capital Funded Organizations were included in the review cycle
- In SRRB-19, the Military Departments will be included in the review cycle

Accomplishments to Date:

- SRRBs have already identified over two billion dollars in savings, with \$447 million of programmed savings already achieved in the Fourth Estate alone in FY17 and 18.

Plan and Schedule: SRRBs are an ongoing process to help the Department achieve enterprise business operations consistent with guidance for budget review as it moves from a budget-spend centric acquisition process to a strategic-spend centric acquisition process. Below is the timeline for two years of activity.

 SRRB-19
 SRRB-20

FY 2019				FY 2020			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		 	 				

SRRB-19

- 1 Conduct engagement meeting
- 2 Conduct SRRB Senior Review Panels (SRPs)
- 3 Conduct SRPs
- 4 SRRB-19 reporting results

SRRB-20

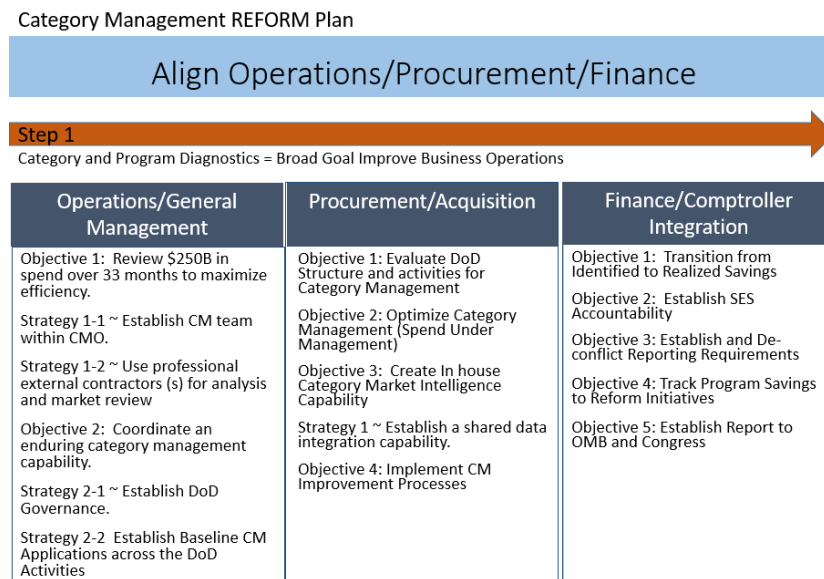
- 1 Identify new focus areas / new approaches
- 2 SRRB-20 policy development
- 3 Conduct engagement meetings
- 4 Conduct SRRB Senior Review Panels (SRPs)

Cost Estimate: There are no major costs associated with the SRRB initiative.

2) Category Management

Problem Statement and Overview: The Department’s real property reform initiatives are now part of the category management effort and will be integrated into the overall Category Management strategy. Figure 1 outlines the three top areas of CMO reform necessary to implement category management throughout the Department. Most importantly, in order to continue to realize savings, the team continues its review of spend throughout the enterprise as specified in Figure 1. The Department is currently developing plans and timelines for each of the areas.

Figure 1. Category Management Approach and Objectives



Objective: The approach to the Category Management effort is to implement best practices, such as consolidating requirements where possible to achieve volume discounts while also developing data and business tools aimed at increasing spend on contracts that meet defined criteria for management maturity and data sharing. Category Management aims to reduce contracts while also increasing savings, where the government is paying less for goods and services over time (or receiving more goods and services for the same expenditure). Finally, reducing the total number of unique contracts and increasing small businesses share of Federal spend continues to shape this reform initiative. The team will use agency-wide and government-wide data and spend analysis to evaluate and identify current acquisition, procurement and program management levers leading to contract cost inefficiencies.

Benefits: Inclusive of all stakeholders to find inefficiencies resulting in identifying savings that can be reinvested back into the program and to ultimately drive future common goods spend to buy smarter, eliminate redundancies, increase efficiency, and deliver more value and savings from the government’s acquisition program.

Strategic Approach: Working with procurement and program management team members to identify, measure, and prioritize contract efficiency reviews as well as establish a category plan that encompasses the products or categories in a designated agency.

Example Accomplishments:

- In sprint one for Category Management, \$80 million in savings on \$300 million in spend at the Defense Information Systems Agency (DISA). Leveraging business intelligence expertise from our consulting partners, we analyzed maintenance and procurement records to identify unnecessary spending which can be avoided in the future. Based on an initial diagnostics of \$16 billion in spend throughout the Department, findings revealed the necessity to realign and refocus operations, procurement, and financial efforts.

Plan & Schedule: The Department is going to use multiple levers to drive savings opportunities across demand management and price/contract renegotiation.

- Optimally match supply-demand and requirements
- Eliminate unused inventory or under-utilized assets
- Capture value from labor productivity unlocks
- Improve contract incentives and negotiations
- Achieve lowest defensible price based on cost benchmarks
- Reduce price variability for commodity goods and services

Category Management kicked off in August 2018. To review the \$200 billion in spend on goods and services, the team, with the expert assistance of the consulting firms, is reviewing \$20 billion of spend per quarter over a period of 33 months. These quarterly reviews, known as sprints, analyze contract and/or categories to find better ways to buy goods and services of the right quality, at the right time, and for the right price. Each sprint is estimated to cost \$11 million. The team plans to do a sprint per quarter through FY21 Q2.

FY 2019				FY 2020			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	2	3	4	5	6	7	8

- 1 Category management sprint 1
- 2 Category management sprint 2
- 3 Category management sprint 3
- 4 Category management sprint 4
- 5 Category management sprint 5
- 6 Category management sprint 6
- 7 Category management sprint 7
- 8 Category management sprint 8

In order to realize savings and contract improvements immediately, while also continuing to develop procurement savings levers, the team continues its review of spend throughout the DoD with the support of professional business industry analysts providing business intelligence and insightful acquisition intelligence to form future agency-wide acquisition strategies, eventually supporting multi-agency collaboration through the implementation of category management.

Cost Estimates: Each sprint is estimated to cost \$11 million. The team plans to do a sprint per quarter through FY21 Q2.

[This page intentionally left blank]

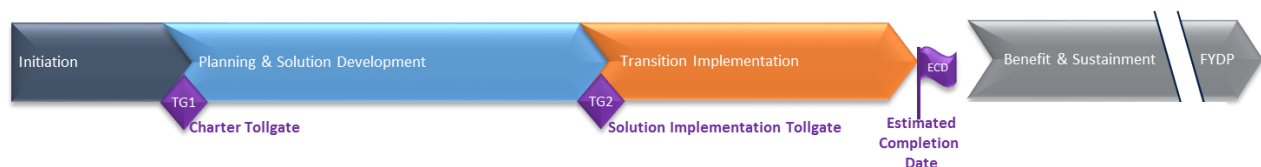
OVERVIEW OF TRACKING AND REPORTING MECHANISM FOR SECTION 921 COVERED ACTIVITIES

Reform progress is governed and tracked by the Reform Management Group (RMG). The RMG is responsible for the delivery of the Secretary of Defense's third line of effort, which is to reform the business functions of the Department, as documented in the 2018 National Defense Strategy (NDS). The RMG efforts to reform business processes of the Department will support responsible use of federal resources by allowing organizations to reallocate savings to increase lethality and improve readiness. The RMG is a deliberative body with the seniority and authority to make decisions affecting the business of the Department.

Under direction from the RMG, the enterprise business operations reform efforts will reduce, eliminate, and improve covered activities to increase efficiency and effectiveness of mission execution. The benefits of tracking and reporting include a clear demonstration to Congress and the public of the types of reforms implemented as well as the quantity of savings to be reallocated in support of readiness, lethality, or any other Departmental priority as directed by the Secretary or Deputy Secretary of Defense. Reform savings are tracked in two ways: 1) the Department will use a clear methodology to track progress, providing updates to the RMG as directed; and, 2) reforms are tracked and reported at two levels, the line of business level and the initiative level. The covered activities in this plan can span multiple lines of business, but any savings will only be noted in association with one line of business. The line of business level is an overall summary of activity from the individual supporting initiatives.

A reform initiative framework has been implemented to track and report progress of reform initiatives. The Reform Initiative Framework (Figure 2) provides structure for a disciplined and repeatable, result-oriented process.

Figure 2: Reform Initiative Framework



The framework establishes decision points at two tollgates. The decision points are supported by charters that define the initiative, coupled with a balanced scorecard set of key performance indicators (KPIs) to ensure success. The balanced scorecard KPIs measure the improvement from four perspectives: internal process, customer or stakeholder, financial and organizational capacity. The financial savings will be monitored through a validation process supported by the Under Secretary of Defense (Comptroller) (USD(C)). Progress is managed quarterly and tracked through established review sessions that include senior leadership from the OCMO and OUSD(C), with the outcomes presented to the RMG for final ratification.

**PLANS, SCHEDULES AND COST ESTIMATES
FOR FOURTH ESTATE REFORM:
THE DEFENSE AGENCIES AND DOD FIELD ACTIVITIES REVIEWS**

Problem Statement and Overview: The Defense Agencies and DoD Field Activities (DAFAs) of the Department play a critical role in supporting business operations and are intended to perform common supply and service functions for at least two DoD organizations. As such, the Office of the Chief Management Officer (OCMO) will independently approach the DAFA efficiency and effectiveness reviews to identify similar and/or duplicative activities among them.

The results of the DAFA reviews will provide information critical to improving enterprise business operations and shifting the Department toward the use of more shared enterprise services to conduct business operations. Using this data, OCMO will identify the DAFAs that are operating effectively and efficiently overall and others with functions that require further rationalization, to include the potential transfer of functions from one DAFA to another component within the Department for better management and execution. Focusing on the delivery of shared enterprise services ensures cohesive planning and execution of business operations while reducing the cost of those operations.

The DAFA review outputs will identify opportunities for improvements to service delivery and inform business enterprise performance metrics throughout the DAFAs, to include establishing or modifying existing performance metrics for each DAFA surrounding products and/or services provided. Ultimately, ensuring the DAFAs to deliver high-impact, efficient services will better support the warfighter and position the Department to meet future challenges.

The OCMO has begun conducting the DAFA efficiency and effectiveness reviews using a segmented approach. Reviews will be consistent for each of the three segments with a standardized method used to identify early wins that can be captured immediately. OCMO will focus on a diagnostic phase during DAFA reviews, and the detailed planning and value capture at scale phases will subsequently follow.

Of the 19 Defense Agencies and 8 DoD Field Activities, OCMO is starting by conducting diagnostic reviews on 15 Defense Agencies and 8 DoD Field Activities. At this time, four Defense Agencies under the Under Secretary of Defense for Intelligence (USD(I)) are being excluded from reviews, including: Defense Intelligence Agency (DIA); National Geospatial-Intelligence Agency (NGA); National Reconnaissance Office (NRO); and National Security Agency/Central Security Service (NSA/CSS). Reviews began in the first quarter of FY19 with Washington Headquarters Services and the Defense Logistics Agency.

Objectives: The DAFA reviews have three main objectives:

- 1) Identify Productivity Improvement and Savings Realization: Reduce DoD spend on enterprise business operations through the consolidation of duplicative functions, automation of effective business processes, elimination of non-value added activities, and improved contract management.
- 2) Improve Performance and Readiness: Increase the quality and timeliness of services and outputs with end-to-end process redesign, balanced score cards, and increased accountability for results.
- 3) Improve Customer Experience: Make DAFAs more responsive and easier to do business with by prioritizing customer journeys and increasing transparency with customers.

Approach: Informed leadership input is vital to DAFA review efforts. As such, the OCMO will work with oversight officials at all levels as the review efforts proceed – the OSD Principal Staff Assistants that exercise authority, direction, and control over the DAFAs, and individual DAFA Directors and leadership teams.

The OCMO team will interview and survey customers to understand the current state, true needs, and challenge areas. The standardized reviews will provide important data on each DAFA, identify opportunities for improvement to delivery of services, inform business enterprise performance metrics, and support the establishment or modification of the performance metrics of each DAFA with regard to the support provided to the Department.

The DAFA diagnostic reviews will start with an initial sprint to identify and execute quick wins while building a portfolio of initiatives that will increase productivity and capture value. Following the sprint, the DAFAs will conduct pilots and move to implementation and scaling of initiatives throughout the DAFA to realize improvements and savings.

Segmented Methodology for DAFA Reviews

The segmented methodology chosen by OCMO for efficiency and effectiveness reviews groups of the 23 DAFAs under one of three segments, including: the DAFAs that are primarily working capital funded; the DAFAs that are appropriation funded; and one DAFA in particular for healthcare in consideration of its annual budget and opportunities for reform.

1) DAFAs that are Primarily Working Capital Funded

Five of the DAFAs are primarily funded by working capital funds. Budgets for these DAFAs rely primarily on revenue generated from the sale of products and services as opposed to receiving full Congressional appropriations for the financing of operations. A focus on core business management processes will be the foundation for efficiency and effectiveness reviews for these DAFAs, which include:

- Defense Commissary Agency (DeCA);
- Defense Finance and Accounting Service (DFAS);
- Defense Information Systems Agency (DISA);
- Defense Logistics Agency (DLA); and
- Pentagon Force Protection Agency (PFPA).

2) DAFAs Funded by Appropriations

There are an additional 18 DAFAs funded by Congressional appropriations. During the diagnostic reviews, DAFAs will undergo cross-cutting, end-to-end functional process reviews to evaluate cross-cutting processes. Diagnostic reviews will follow a scalable approach. These DAFAs include the four for which USD(I) is the PSA but are not currently being reviewed:

- Defense Advanced Research Projects Agency (DARPA);
- Defense Contract Audit Agency (DCAA);
- Defense Contract Management Agency (DCMA);
- Defense Human Resources Activity (DHRA);
- Defense Legal Services Agency (DLSA);
- Defense Media Activity (DMA);
- Defense POW/MIA Accounting Agency (DPAA);

- Defense Security Cooperation Agency (DSCA);
- Defense Security Service (DSS);
- Defense Technical Information Center (DTIC);
- Defense Technology Security Administration (DTSA);
- Defense Threat Reduction Agency (DTRA);
- DoD Education Activity (DOD EA);
- DoD Test Resource Management Center (DOD TRMC);
- Missile Defense Agency (MDA);
- Office of Economic Adjustment (OEA);
- Space Development Agency (SDA); and
- Washington Headquarters Services (WHS).

3) Healthcare DAFA

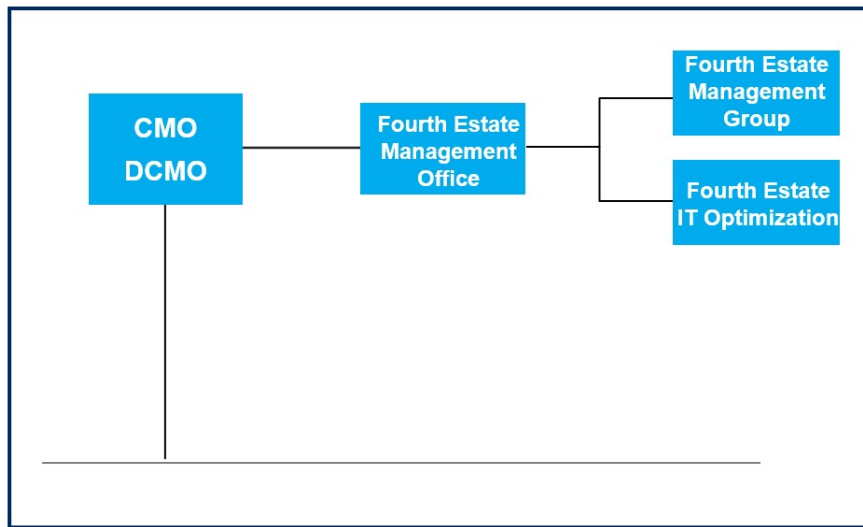
Because the Defense Health Agency (DHA) is a unique Defense Agency with broad reform efforts underway, Healthcare was singled out as an individual segment. DHA is consolidating healthcare within this Defense Agency to increase the quality of healthcare and ensure warfighters are medically ready to deploy.

With manpower planning and centralization underway, DHA will raise standards, strengthen accountability, and lift the administrative burden off doctors, thus, enabling them to spend valuable time treating warfighters instead of on administrative activities. A management framework was implemented to accelerate consolidation of DoD medical care into DHA, and guidance was published that will standardize patient primary and specialty care, and a single contract was implemented for the procurement of professional medical services. Finally, DHA will transition from four healthcare systems to one, which will eliminate stove-piped healthcare management systems enhancing and accelerating savings opportunities.

Establishment of the Fourth Estate Management Office

The Fourth Estate Management Office consists of both the Fourth Estate Management Group and Fourth Estate Information Technology Optimization Group. The office is working to drive reform of enterprise business operations throughout the DAFAs with a focus on shared services to improve mission execution (Figure 3). The Director of the Fourth Estate Management Office leads planning and transformation initiatives and provides executive leadership and guidance to seven full-time equivalent staff. The Management Office will review the DAFAs for consistency with revised business processes and internal functional consistency. The office seeks to maximize business optimization through centralized and optimized Fourth Estate business operations and stakeholder engagement. Ultimately, there will be a simpler governance structure which will be a core group of decision makers with extreme role clarity and decision authority.

Figure 3: Fourth Estate Management Office Organizational Chart



Approaches to DAFA Reform

OCMO will oversee both individual DAFA reviews and end-to-end functional process reviews for the 23 DAFAs specified. However, depth and breadth of efficiency reviews will vary according to DAFA complexity and mission function. Three reform approaches are being taken throughout DAFAs, to include: Category Management, End-to-End Functional Process Reviews, and Individual DAFA Reviews.

1) Category Management

Category Management and contract clean sheeting best practices are being applied and implemented at scale throughout the DAFAs. Teams execute 90 day sprints for the purpose of identifying saving opportunities in specific categories of spend or contracts, which pertain to both goods and services. Each of the 90 day sprints assess approximately 30 categories with the average category being between \$500 million and \$1 billion in size. Each sprint will cost approximately \$11 million.

2) End-to-End Functional Process Reviews

End-to-end (E2E) functional process reviews and redesigns will be conducted to evaluate cross-cutting processes. An E2E process can be a business flow that spans the organization identifying opportunities for consolidation and lean redesign within specific reform areas: Human Resources, Financial Management, Information Technology, Procurement, Logistics, and Facilities/Real Property. Through these reviews we will establish and implement the use of balanced score cards for each function is critical to establishing accountability.

3) Individual DAFA Reviews

The DAFAs will be reviewed individually with the intent of reforming opportunities across productivity/cost, quality, and responsiveness/ customer experience. It will enable the DAFAs to rethink how work is accomplished and be accountable through balanced score cards. Depth and breadth of reviews will vary according to DAFA complexity, mission function, and NDAA requirements.

DAFA Review Phases

The DAFA optimization and transformation reviews focus on the diagnostic phase covering approximately 60-120 days. After this phase, outputs for the DAFAs will include a baseline from which to highlight successes, identify opportunities, and draw comparisons with other organizations. Other outputs include detailed identification of reform opportunities and early actions and wins; prioritization of reform opportunities and implementation plan; and a balanced score card with target metrics and Key Performance Indicators (KPIs).

During this phase, the Department expects “early wins” based on an assessment of ease of implementation and payoff in terms of cost reduction and productivity improvements. Early wins will be captured immediately for the purpose of generating savings and improving performance and productivity, allowing the Department to begin organization improvements.

In these early win areas, the team leaders will complete initial business process re-engineering and initial enterprise standards.

The OCMO will remain engaged with stakeholders throughout all phases to fully comprehend the current state, true needs, and challenges to develop a plan for transitioning to the future state. The OCMO will work side-by-side with each DAFA to co-create the solution by taking advantage of existing knowledge and capabilities. The three phases for DAFA reviews include the following:

1) Diagnostic Phase (60-120 days)

The Diagnostic Phase considers DAFA guiding missions, functions and services, and outputs generated for customers while considering both performance and productivity. During this phase it will be determined whether work processes are efficient in relation to outputs in terms of cost, manpower, and time. It is essential to gauge whether the DAFA outputs are satisfying their customers and helping fulfill their mission before moving the next phase:

- Quickly establish baseline of spend, outputs, and process flows
- Consolidate transformation efforts and analyses already underway
- Size and prioritize opportunities
- Determine potential for cross-cutting shared services
- Build actionable plans to capture value

2) Detailed Planning Phase (60-120 days)

This phase will determine the end-state and how the value at stake can be rapidly captured:

- Identify and immediately implement quick wins
- Deploy pilots for key initiatives requiring validation
- Stand up shared service models when applicable

3) Value Capture at Scale (12-18 months)

This phase will consider how value capture can be accelerated, as well as how the targets and milestones will be met:

- Expand key initiatives throughout the Fourth Estate
- Set up accountability structures for initiative execution

DAFA Review Performance Metrics

Meaningful performance metrics are imperative for DAFA efficiency and effectiveness reviews as they enable reform leads to baseline performance, set targets and monitor progress, assess performance over time, identify drivers of success or failure, and demonstrate intermediate progress for multi-year initiatives. The OCMO will develop performance metrics for the DAFA reviews that focus on fewer, simpler, common outcome metrics that will show actual results. Reform teams will be held accountable with the establishment and implementation of balanced score cards. Some key attributes of the performance metrics to be developed include the following:

- Fewer, simpler, common outcome metrics, focused on measureable results
- Clearly defined plans and timelines with milestones and points of accountability for each step in the process
- Central point (CMO) for tracking and integration – even when execution is distributed
- Establish timeline with milestones for each high-priority initiative (within 30 days)
- Jointly align on traceability for value capture

DAFA Review Schedule

The OCMO initiated DAFA efficiency and effectiveness reviews under three primary functional review areas that will build upon one another, including HR, finance, and IT. Other functions being reviewed include procurement, real property, and logistics. These functional areas enable DAFA reviews to be conducted in parallel over next eleven months (Figure 4). The sequence of Fourth Estate sprints is designed to systematically enable quick wins and sustainable change.

Functional reviews of DLA and WHS began during the first quarter of FY19 with the HR functional review of DLA stretching into the second quarter of FY19. DLA was selected for review during the first quarter, due to its broad geographic area and comprehensive mission set. The WHS review set the foundation to enable Fourth Estate reform, especially shared services consolidation. DLA enables broadening of impact throughout the Department considering the Military Services and other DAFAs.

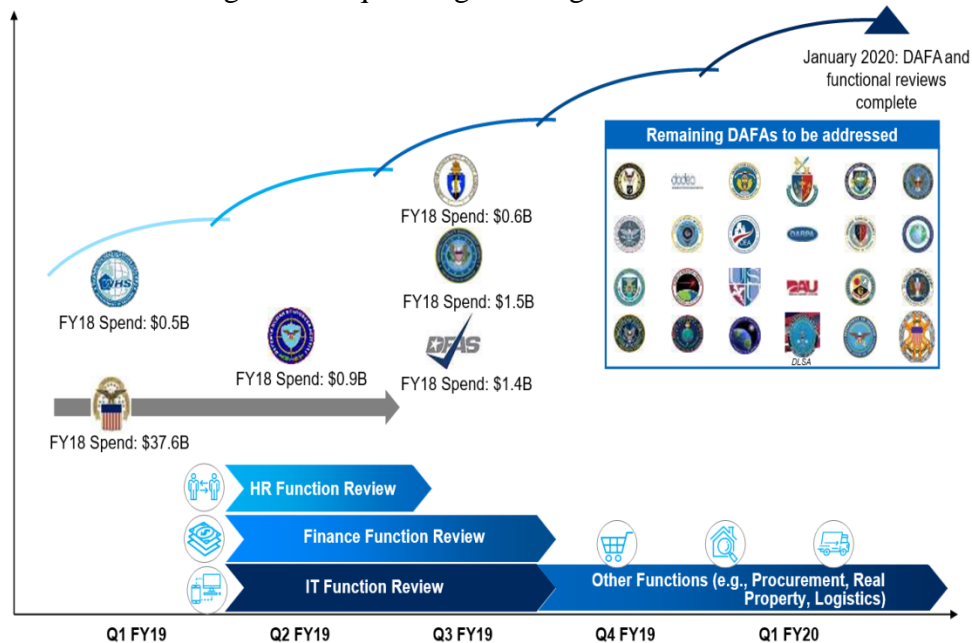
Building on the foundation developed during the DLA and WHS reviews, the OCMO will review of DHRA and DISA. The DISA review will provide the analytical backbone for decision-making while DHRA will enable the HR functional review. Both of the DAFAs provide human resources services for the Department.

The DHRA review will provide a comprehensive look at the HR enterprise business function throughout the Fourth Estate with the intent to implement a common shared service model. Given DHRA's budget of nearly \$900 million and billet count around 1,230 people, the OCMO plans to complete a review of DHRA within ten weeks consisting of two weeks of preparation and one sprint over an eight week period.

The third wave of functional reviews will evaluate DCAA, DCMA, and DFAS. In accordance with Section 925 of the FY 2019 NDAA, the OCMO will work with the two contracting defense agencies simultaneously to conduct a joint review of DCAA and DCMA functions with a focus on validating specific missions and functions of the defense agency. With USD(C) being the PSA for DCAA and DFAS and USD (A&S) the PSA for DCMA, the OCMO will work with

both during the DAFA reviews.

Figure 4. Sequencing for Diagnostic Reviews



DAFA Review Cost Estimates

As the PSA over WHS, the OCMO funded the WHS diagnostic review at a cost of \$1,226,079. DLA (or A&S) covered the cost of their review through a DLA contract vehicle. A conservative estimate established for conducting DAFA diagnostic reviews was approximately \$1.6 million per deep dive. Each future DAFA review will require the use of a competitive contract among blanket purchase agreement holders.