

**Section 921(b)(5)(B) of the John S. McCain
Fiscal Year 2019 National Defense Authorization Act
Report:**

Notice and Justification to the
Congressional Defense Committees
with Description of the Efficiencies to be Achieved



Office of the Chief Management Officer
October 1, 2019

The estimated cost of this report or study for the Department of Defense is approximately \$86,000 in Fiscal Years 2019 - 2020. This includes \$50 in expenses and \$86,000 in DoD labor.

Generated on 2019Sep23 RefID: 6-A5064E4

Table of Contents

I. Executive Summary	2
II. Notice and Justification Submitted Pursuant the John S. McCain National Defense Authorization Act for Fiscal Year 2019, Section 921(b)(5)(B), Requirements	3
III. Details of Reform Efforts within Fourth Estate Covered Activities	4
A. Civilian Resources Management	4
B. Real Estate Management	5
C. Logistics Management	5
D. Service Contracts Management	6
IV. Conclusion	7
Appendix A: Text of Section 921 of the FY19 NDAA	A-1

I. Executive Summary

This report responds to requirements in Section 921(b)(5)(B) of the National Defense Authorization Act (NDAA) Fiscal Year (FY) 2019 (Public Law 115-232). Specifically, the Department of Defense Office of the Chief Management Officer (OCMO) is directed to certify 25 percent savings in management activities from FY 2019 to FY 2020 in the four covered activities of civilian management, logistics management, services contracting, and real estate management. Further, OCMO is required to report by October 1, 2019, whether such reforms will create inefficiencies or other problems within DoD. OCMO is also required to specify a lesser percentage of savings that are determined to be necessary to achieve efficiencies in the delivery of covered activities if the 25 percent target cannot be met.

In order to meet Congressional intent, this report focuses on reforms and financial savings in the four covered activities within the Fourth Estate, including Defense Agencies and DoD Field Activities (DAFA). While the OCMO projects that it will not meet the 25 percent savings targets in all of the four covered activities in FY 2020 against the FY 2019 baseline, the OCMO forecasts an average 5 percent cost reduction for each of the covered activities in the Fourth Estate.

A 25 percent reduction is dramatic to any function in a single year. Specific conditions for the Department when considering such a reduction include:

- The Department is a complex enterprise that need to be mindful of cascading effects;
- The need to maintain inventory levels to meet military and wartime requirements;
- Limited authorities to quickly achieve reductions;
- Many meaningful changes require a system, process, or policy change before the reduction can take effect; and
- Full consideration of negative impacts to readiness.

To achieve this end, the OCMO, through its Fourth Estate Management Office (FEMO) and Reform Teams, continues to drive reform of enterprise business operations throughout the Department with a focus on shared services to improve mission execution. FEMO maximizes business optimization through centralized and optimized Fourth Estate business operations and stakeholder engagement. Additionally, the OCMO's Reform Teams will continue to focus on a structured review process to inform, assess, and support trade-off decisions regarding requirements, cost, schedule, and performance in the covered areas in the Fourth Estate and the entire Department.

In the months ahead, OCMO will provide supplementary details of the Department's reform progress in its forthcoming FY 2019 NDAA Section 921(b)(3) report, due January 2020. The Department welcomes the opportunity to further engage Congress on this important topic and is committed to continuing to reform its business systems and practices, and to undertaking the work necessary to achieve the agile, efficient, and lethal 21st century military necessary to defeat our adversaries.

II. Notice and Justification Submitted Pursuant the John S. McCain National Defense Authorization Act for Fiscal Year 2019, Section 921(b)(5)(B), Requirements

In April 2019, the OCMO provided an initial plan, schedule, and cost estimate for conducting reforms within the enterprise business operations of the DoD. This section of this document provides an initial assessment of the savings associated with the covered areas outlined in the April report. Additionally, this section of this document fulfills the requirements of the FY 2019 NDAA Section 921(b)(5)(B), details of which are provided below.

Pursuant to Section 921(b)(5)(B), the Chief Management Officer (OCMO) shall:

(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—

And further,

(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.

While the OCMO projects that it will not meet the 25 percent savings targets in all of the four covered activities in FY 2020 against the FY 2019 baseline, the OCMO forecasts an average 5 percent cost reduction for each of the covered activities in the Fourth Estate.

III. Details of Reform Efforts within Fourth Estate Covered Activities

The following elements describe realized and planned reform savings within covered activities of the Fourth Estate. This scope does not include additional expected efficiencies to be realized in FY 2020 through the ongoing Fourth Estate DAFA review process. Additionally, the scope does not include the expected impact of the ongoing Defense-Wide Review in support of the FY 2021-2025 Program and Budget Review.

A. Civilian Resources Management

Per the 2019 April Report, Civilian Resources Management (CRM) is defined as supporting force readiness and lethality through strategic workforce planning and management. CRM efforts pursue enterprise human resources management solutions throughout the Department. They are managed through Civilian Hiring Improvement, Regulatory Reform, and Human Resources Service Delivery initiatives and will be covered in the OCMO's January 2020 report.

Washington Headquarters Services. The Department has added Washington Headquarters Services (WHS) to its Fourth Estate Human Resources Management scope, as was communicated to Congress following OCMO's submission of its April 2019 initial plan. WHS is the enterprise shared service provider for the Office of the Secretary of Defense and Department of Defense that includes Human Resources Management, Facilities Management, and other management activities.

WHS continues to reorganize and adapt to NDAA statutory requirements as well as to better align with its mission as an enterprise shared service organization. The WHS FY 2019 Civilian Resources Management baseline and FY 20 percent savings target follows in the table below.

WHS FY 19 Civilian Resource Management Baseline and Target¹

Covered Activity	FY 2019 Appropriated Baseline	FY 2020 % Reform Target
Civilian Resource Management (WHS)	\$12.8M	30%

While the OCMO recognizes the Defense Logistics Agency (DLA) and Defense Finance and Accounting Service (DFAS) contribute to the Fourth Estate civilian resource management scope, additional analysis of the working capital fund will enable the OCMO to better establish FY 20 reform targets. OCMO will provide further details of civilian resource management efficiencies at DLA and DFAS in its January 2020 report.

¹ Source: FY 2020 Presidents Budget Request, Washington Headquarters Services

B. Real Estate Management

WHS initiatives provide the Real Estate Management baseline for this report². The new baseline and cost savings for Real Estate Management are reflected below. Real Estate Contracting Activities are included under Services Contract Management because they are included in existing category management team activities.

WHS Real Estate Management Baseline and Target³

Covered Activity	FY 2019 Baseline	FY 2020 % Reform Target
Real Estate Management (WHS)	\$1,189.5M	10.3%

C. Logistics Management

As stated in the OCMO’s April 2019 Report, the Department’s logistics baseline includes direct and indirect costs associated with its core Supply Chain Business, specific to DLA within the Fourth Estate. This baseline includes mission labor, HQ indirect labor, service contracts, as well as indirect costs such as IT, Installation Management, Human Resources, and Finance. Currently, DoD Financial Management Systems are designed for budgetary accounting and reporting and not to capture cost information. Therefore, the OCMO and DLA engaged with an outside consulting organization to establish fully burdened end-to-end costs for DLA in addition to providing industry benchmarks for similar activities.

DLA’s business is primarily comprised of procuring energy, direct-billed activities⁴, common goods, and weapons systems, with a total baseline overhead cost of approximately \$7.1B (\$1.2B appropriated funds) for FY 2019. For the purpose of this report as well as our near-term reforms for logistics and supply chain, we have elected to focus on the working capital fund-related areas of common goods and weapons systems, representing an FY 2019 cost baseline of \$2.53B and approximately 8 to 10 percent annual growth in volumes. This portion of the business is managed through a Defense Wide Working Capital Fund and any efficiencies gained will have a direct impact on the Services through a reduced cost recovery rate, thereby providing a more immediate benefit to support lethality and readiness.

Using DLA’s current published data for its FY19 Cost Recovery Rate (CRR) baseline of 11.5 percent and FY 2020 CRR target of 10.9 percent, the FY 2020 rate, if realized, will represent a 5.2 percent reduction in overhead costs charged to the military departments. As part of the external review of

² The Defense Contract Management Agency (DCMA) and WHS are working to realign DCMA real estate management outside of the NCR under WHS. Accordingly, WHS expects to continue to acquire lease space for new mission, as well as discontinue associated contracts. An update on this activity will be provided in the OCMO January 2020 Report. DCMA has a facilities baseline of \$58 million.

³ Source: FY 2020 Presidents Budget Request, Washington Headquarters Services

⁴ *Direct billed* activities include but are not limited to 1. Direct labor (e.g. buyers) who work on Military Department systems on 2. Execution of appropriated dollars and 3. Fee for service like Document Management Services (e.g. printing)

the DLA costing system, external third party consultants determined that – using the scope of common goods and weapons systems – a 25 percent reduction in management costs of these activities would create unacceptable risks to readiness.

To provide a meaningful analysis, the external consulting team developed an industry cost overhead benchmark of 2 to 4 percent as a comparison for evaluating DLA targets. In the private sector, a 2 to 4 percent year-over-year improvement for the same type of overhead costs is seen as best in class. While not achieving a 25 percent reduction, the projected CRR targets for DLA exceed an industry best-practice benchmark and fully support readiness needs.

Logistics Management Baseline and Target⁵

Covered Activity	FY 2019 Baseline	FY 2020 Reform Target
Logistics/Supply Chain	\$2.53B	5.2%

D. Service Contracts Management

As stated in the OCMO’s April 2019 report, the DoD Contract Management Reform Team is focused on a structured review process to inform, assess, and support trade-off decisions regarding requirements, cost, schedule, and performance for the acquisition of services. As previously highlighted, Real Property Contracting Activities are included in this section because they are included in existing category management team activities.

Services Contracting Management Baseline and Target⁶

Covered Activity	FY 2019 Baseline	FY 2020 % Reform Target
Services Contracting	\$7.72B	5.6%

Using industry benchmarks, contract management costs average approximately 8 percent of the value of the contract. Therefore, using \$7.72B spend as the services contracting baseline, the target opportunity for Services Requirements Review Boards (SRRB) contract management financial reform is $\$7.72B \times 8\% = \$0.62B \times 25\% = \$0.155B$.

However, the consultant-supplied data identified an industry standard savings of 5 to 7 percent of the total value of a contract by implementing category management techniques. Accordingly, a significant savings premium can be achieved over simply seeking to reduce contract management costs. Following this approach creates a potential savings opportunity of \$0.38B to \$0.54B.

As a result, the OCMO has focused Contract Management improvements around the total spend opportunity to provide the greatest savings to be redeployed toward National Defense Strategy

⁵ Source: Defense Logistics Agency

⁶ Source: SRRB

priorities. The DoD Contract Management Reform Team is focused on a structured review process to inform, assess, and support trade-off decisions regarding requirements, cost, schedule, and performance for the acquisition of services. The Office of the Secretary of Defense recently concluded its annual cycle of SRRB. Congressional mandate and policy drove the creation of SRRBs, and have helped establish a culture of oversight and a discerning review for articulated requirements.

IV. Conclusion

This report fulfills CMO's requirements for a notice and justification under Section 921(b)(5)(B) of the FY 2019 NDAA. In the months ahead, CMO will provide supplementary details of its progress in its forthcoming FY 2019 NDAA Section 921(b)(3) report, due January 2020. The Department welcomes the opportunity to further engage Congress on this important topic, and is prepared to provide a more detailed briefing of the DoD's shared service common data platform and suite of tools that is accelerating reform through a data-driven approach, as well as provide an overview of its enterprise-wide efficiencies identified beyond the four covered activities.

Appendix A: Text of Section 921 of the FY19 NDAA

Boxed text indicates which portion of Section 921 of the FY19 NDAA are covered in this report.

Information Referenced

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.