United States Government Accountability Office

GAO

Report to Congressional Committees

March 2012

DEFENSE HEADQUARTERS

Further Efforts to Examine Resource Needs and Improve Data Could Provide Additional Opportunities for Cost Savings

GAO-12-345

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GAO Accountability * Integrity * Reliability

Highlights

Highlights of GAO-12-345, a report to congressional committees

Why GAO Did This Study

The Department of Defense's (DOD) headquarters and support organizations have grown since 2001, including increases in spending, staff, and numbers of senior executives and the proliferation of management layers. In 2010, the Secretary of Defense directed DOD to undertake a departmentwide initiative to reduce excess overhead costs. In response to a mandate, GAO evaluated the extent to which DOD (1) examined its headquarters resources for efficiencies and (2) has complete and reliable headquarters information available for use in making efficiency decisions. For this review, GAO analyzed documents and interviewed officials regarding DOD's headquarters resources and information.

What GAO Recommends

GAO recommends that DOD continue to examine opportunities to consolidate organizations and centralize functions and services and revise DOD Instruction 5100.73 to include all headquarters organizations, specify how contractors performing headquarters functions will be identified and included in reporting, clarify how components are to compile information needed to respond to headquarters reporting requirements, and establish time frames for implementing these actions. DOD concurred with GAO's first recommendation and partially concurred with GAO's second recommendation.

View GAO-12-345. For more information, contact John Pendleton at (404) 679-1816 or pendletonj@gao.gov.

What GAO Found

The Department of Defense (DOD) has taken some steps to examine its headquarters resources for efficiencies, but additional opportunities for cost savings may exist by further consolidating organizations and centralizing functions. For purposes of the Secretary of Defense's efficiency initiative, DOD components were asked to focus in particular on headquarters and administrative functions, support activities, and other overhead in their portfolios. DOD's fiscal year 2012 budget request included several efficiencies related to headquarters organizations or personnel. GAO found that these efficiencies generally fell into two categories: (1) consolidating or eliminating organizations based on geographic proximity or span of control and (2) centralizing overlapping functions and services. The DOD efficiencies that GAO reviewed to reduce headquarters resources are expected by DOD to save about $2.9 billion through fiscal year 2016, less than 2 percent of the $178 billion in savings DOD projected departmentwide. GAO's work indicates that DOD may be able to find additional efficiencies by further examining opportunities to consolidate organizations or centralize functions at headquarters. DOD may not have identified all areas where reductions in headquarters personnel and operating costs could be achieved because the department was working quickly to identify savings in the fiscal year 2012 budget and used a top-down approach that identified several targets of opportunity to reduce costs, including headquarters organizations, but left limited time for a detailed data-driven analysis. In February 2012, DOD proposed $61 billion in additional savings over fiscal years 2013 to 2017, but provided limited information as to what portions of these savings were specific to headquarters. Without systematic efforts to reexamine its headquarters resources on a more comprehensive basis, DOD may miss opportunities to shift resources away from overhead.

An underlying challenge facing DOD is that it does not have complete and reliable headquarters information available for use in making efficiency assessments and decisions. According to GAO's internal control standards, an agency must have relevant, reliable, and timely information in order to run and control its operations. DOD Instruction 5100.73 guides the identification and reporting of headquarters information. However, GAO found that this instruction is outdated and does not identify all headquarters organizations, such as component command headquarters at U.S. Africa Command and certain Marine Corps headquarters. Also, although some of the services and functions performed by contractors could be considered as headquarters activities, the instruction does not address the tracking of contractors that perform these functions. DOD has delayed updating the instruction to allow time for components to adjust to the statutory changes enacted by Congress in 2009 that created new headquarters reporting requirements. According to DOD officials, ever-changing statutory reporting requirements have contributed to DOD's failure to report to Congress about the numbers of headquarters personnel. As the department did not have reliable headquarters data, DOD compiled related information from other sources to inform its 2010 efficiency initiative. Because of the short timelines given to identify efficiencies and limitations on the sharing of information, this information was not validated before decisions were made. As a result, some of the information used to identify headquarters-related efficiencies was inaccurate and some adjustments in resource allocations will have to be made during implementation to achieve planned savings. Looking to the future, until DOD has updated its instruction to ensure that it has complete and reliable headquarters data, the department will not have the information it needs, which could affect its efforts to direct resources to its main priorities during future budget deliberations.

Contents

Abbreviation

DOD Department of Defense.

GAO
Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

March 21, 2012

Congressional Committees

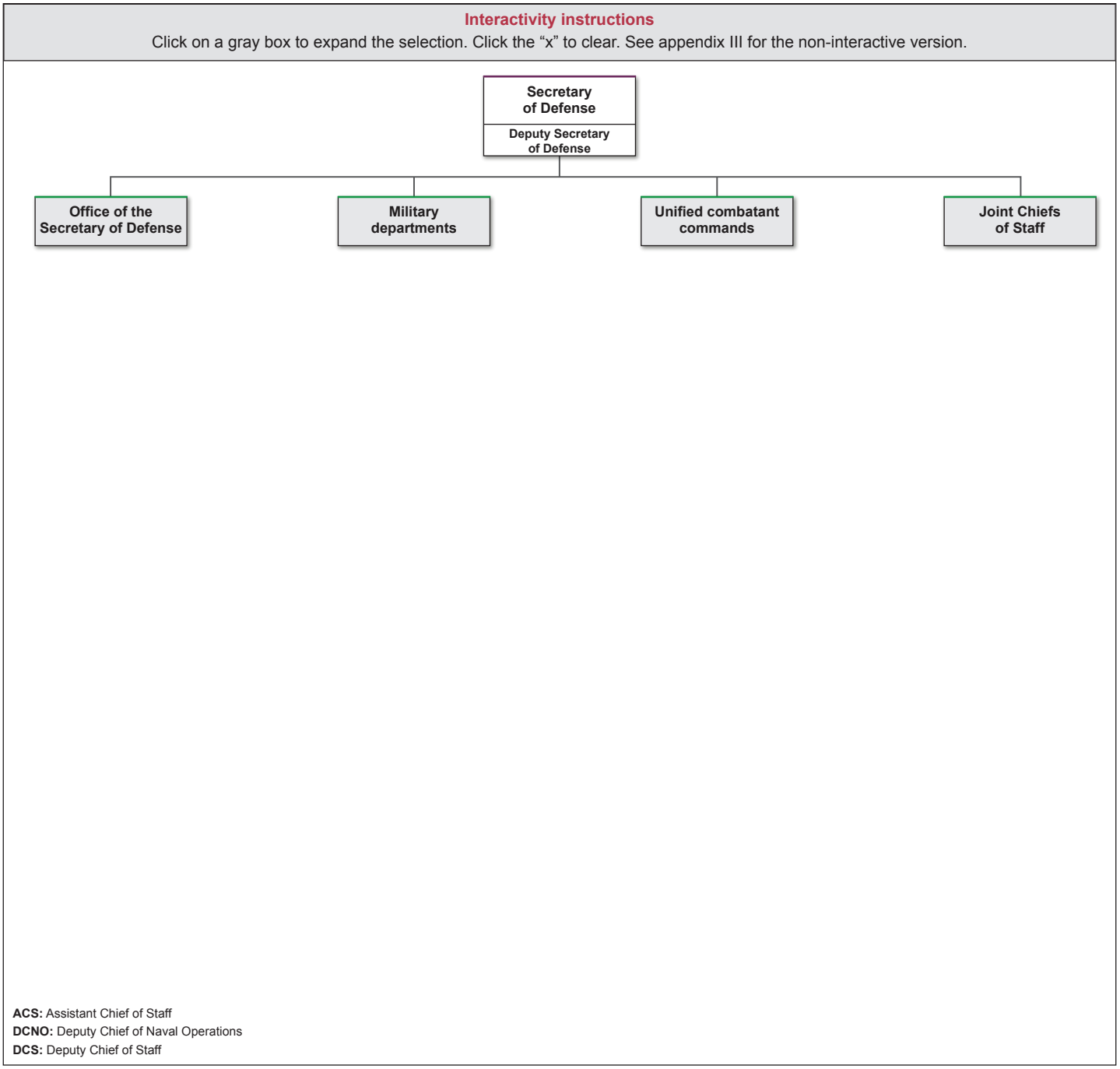
In 2010, the Secretary of Defense expressed concerns about the dramatic growth in the Department of Defense's (DOD) headquarters and support organizations that had occurred since 2001, including increases in spending, staff, and numbers of senior executives and the proliferation of management layers. In 2010, the Secretary of Defense also directed DOD to undertake a departmentwide initiative to assess how the department is staffed, organized, and operated, with the goal of reducing excess overhead costs and reinvesting these savings toward sustainment of DOD's current force structure and modernizing its weapons portfolio. This effort identified efficiency initiatives totaling about $178 billion in projected savings across the military departments and other DOD components from fiscal year 2012 through fiscal year 2016, about $24.1 billion of which is estimated to be achieved in fiscal year 2012. DOD's efficiency initiatives included a broad range of efforts, such as holding the civilian workforce at fiscal year 2010 levels; reducing the numbers of senior leaders, both officer and civilian; and reducing reliance on service support contractors. Some headquarters were planned to be closed and their missions and functions absorbed in other organizations, while others were reorganized. More recently, in January 2012, the administration released strategic guidance to direct defense priorities and spending over the coming decade. It lays out several principles to guide the development of DOD's force structure, such as reducing DOD's cost of doing business by finding further efficiencies in headquarters and other overhead.

DOD has multiple layers of headquarters management with complex, overlapping relationships. Such layers include, but are not limited to, the Office of the Secretary of Defense, the Joint Staff, and portions of the military departments, defense agencies, and DOD field activities. In DOD Instruction 5100.73, *Major DOD Headquarters Activities*, DOD defines those headquarters whose primary mission is to manage or command the programs and operations of DOD and its components, and their major military units, organizations, or agencies as major DOD headquarters

activities.[1] These headquarters are primarily responsible for overseeing, directing, and controlling subordinate organizations or units; these responsibilities include developing guidance, reviewing performance, allocating resources, conducting mid-to long-range budgeting, and, in the case of combatant headquarters, planning for the employment of U.S. military forces. See figure 1 for examples of DOD's multiple layers of headquarters organizations.

[1]Department of Defense Instruction 5100.73, *Major DOD Headquarters Activities* (Dec. 1, 2007).

Figure 1: Examples of DOD's Headquarters Organizations



Source: GAO analysis of DOD data.

Notes: Graphic is for illustrative purposes only; it is not intended to depict all organizations, their functions, or their legal or command and control relationships. In some organizations only the headquarters is considered a major DOD headquarters activity, while in other organizations only some personnel perform major DOD headquarters activities' functions.

Our prior work has shown that DOD has long-standing challenges identifying headquarters-related personnel and operating costs, which can affect DOD's ability to manage its resources. For example, in October 1997, we reported that the number of personnel and costs associated with major DOD headquarters activities were significantly higher than DOD reported to Congress because of inconsistencies in how DOD tracked major DOD headquarters activity data.[2] In subsequent work in February 1999 and September 2000, we reported that DOD continued to have problems accurately accounting for personnel and there were inconsistencies in how DOD was designating positions as headquarters.[3] In response, we made a number of recommendations to improve the accuracy of DOD's headquarters-related resources, to which DOD generally agreed.

A statutory mandate directs us to conduct routine investigations to identify federal programs, agencies, offices, and initiatives with duplicative goals and activities within departments and governmentwide.[4] In response to this mandate, this report evaluates the extent to which DOD (1) examined its headquarters resources for efficiencies and (2) has complete and reliable headquarters information available for use in making efficiency decisions.

To conduct this work, we selected and assessed DOD efficiency initiatives related to headquarters based on our analysis of information included with DOD's fiscal year 2012 budget request and the Secretary of Defense's *Track Four Efficiency Initiatives Decisions* memo. We selected efficiency initiatives affecting components within the military departments and the Office of the Secretary of Defense as well as the defense agencies, the DOD field activities, and the combatant commands. We did not include some headquarters-related efficiency initiatives within the scope of our review. For example, we did not include the

[2]GAO, *Defense Headquarters: Total Personnel and Costs Are Significantly Higher Than Reported to Congress,* GAO/NSIAD-98-25 (Washington, D.C.: Oct. 30, 1997).

[3]GAO, *Defense Headquarters: Status of Efforts to Reduce Headquarters Personnel,* GAO/NSIAD-99-45 (Washington, D.C.: Feb. 17, 1999), and *Defense Headquarters: Status of Efforts to Redefine and Reduce Headquarters Staff,* GAO/NSIAD-00-224 (Washington, D.C.: Sept. 6, 2000).

[4]Pub. L. No. 111-139, § 21 (2010).

disestablishment of Joint Forces Command because we have ongoing work examining this efficiency initiative. To assess the extent to which DOD examined its headquarters resources for efficiencies we obtained and analyzed documentary and testimonial evidence on selected headquarters-related efficiency initiatives announced by DOD, including the analysis conducted to identify headquarters-related resources and the approach taken to develop headquarters-related efficiency initiatives. To assess the extent to which DOD has complete and reliable headquarters information available for use in making efficiency decisions, we obtained and analyzed documentary and testimonial evidence from DOD components detailing the policies and procedures, as well as roles and responsibilities, for tracking and reporting headquarters personnel and operating costs. We also obtained and analyzed documentary and testimonial evidence on the processes and data DOD components used to identify their headquarters-related resources when developing selected headquarters-related efficiency initiatives. For details on our scope and methodology, see appendix I.

We conducted this performance audit from September 2010 to March 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

In September 2011, we reported on DOD's approach to examining itself for efficiencies, including the parameters used to guide the Secretary of Defense's efficiency initiative.[5] The initiative targeted both shorter and longer-term improvements in a wide range of areas across the department, including its organizational structure, business practices, and modernization programs, and instituted reductions to its personnel levels. As part of its fiscal year 2012 budget request, DOD projected savings of $178 billion to be realized over a 5-year period beginning in fiscal year 2012, as shown in table 1.

[5]GAO, *Streamlining Government: Key Practices from Select Efficiency Initiatives Should Be Shared Governmentwide*, GAO-11-908 (Washington, D.C: Sept. 30, 2011).

Table 1: DOD Efficiency Initiatives and Projected Savings Planned for Fiscal Years 2012 through 2016

Dollars in millions		
DOD efficiency initiatives	**Fiscal year 2012 savings**	**Fiscal years 2012-2016 savings**
Army efficiency initiatives	2,665	29,540
Navy efficiency initiatives	4,302	35,070
Air Force efficiency initiatives	3,384	33,284
Special Operations Command efficiency initiatives	389	2,280
Civilian workforce freeze	2,510	13,277
Defense agency, Office of Secretary of Defense and combatant command baseline review	1,334	11,237
Health system reforms	179	6,901
Service support contracts reduction	812	5,696
Joint Forces Command disestablishment	292	1,870
Reports, studies, boards and commissions reduction	275	1,249
Intelligence Community review	41	372
Business Transformation Agency disestablishment	98	337
Civilian Senior Executive position reduction	(4)	111
Assistant Secretary of Defense (Networks and Information Integration) and Joint Staff J6 (Command, Control, Communications, and Computer Systems) disestablishment	13	65
General/flag officer reduction	-	11
Economic and other adjustments (includes General Schedule pay freeze in fiscal year 2012)	7,841	37,141
Total	**24,131**	**178,441**

Source: Department of Defense Efficiency Initiatives Fiscal Year 2012 Budget Estimates.

Notes: DOD calculated these efficiencies by comparing the fiscal year 2011 President's Budget request to the fiscal year 2012 President's Budget request. While DOD is reporting these projected savings, we did not independently verify this information, including whether DOD's projections reflected cost savings or cost avoidances.

Of the $178 billion in projected savings proposed by the department, $100 billion identified by the military departments and Special Operations Command was reinvested in high-priority needs and the remaining $78 billion was reduced from DOD's budget from fiscal years 2012 through 2016. This reflects a 2.6 percent reduction from DOD's fiscal year 2011 budget submission over the same period. Some of these savings and reductions were from headquarters-related resources, such as personnel and operating costs.

DOD Instruction 5100.73 establishes a system to identify and manage the number and size of major DOD headquarters activities. As previously stated, the instruction defines major DOD headquarters activities as those headquarters whose primary mission is to manage or command the programs and operations of DOD and its components and their major military units, organizations, or agencies.[6] Since the mid-1980s, Congress has enacted statutory limits on the number of major DOD headquarters activity personnel, to include those in the Office of the Secretary of Defense; the headquarters of the combatant commands; the Office of the Secretary of the Army and the Army Staff; the Office of the Secretary of the Air Force and the Air Staff; the Office of the Secretary of the Navy, the Office of the Chief of Naval Operations, and the Headquarters, Marine Corps; and the headquarters of the defense agencies and DOD field activities.[7] In addition, Congress has enacted various reporting requirements related to major DOD headquarters activity personnel. As previously stated, our prior work has shown that DOD has encountered challenges both in identifying major DOD headquarters activity personnel and in reporting this information to Congress.

DOD's Efficiencies Include Headquarters-Related Reductions, but Additional Opportunities for Cost Savings May Exist

DOD has taken some steps to examine its headquarters resources for efficiencies, but additional opportunities for cost savings may exist by further consolidating organizations and centralizing functions. For the purposes of the Secretary of Defense's efficiency initiative, DOD components, including the military departments, were asked to focus in particular on headquarters and administrative functions, support activities, and other overhead in their portfolios. DOD's fiscal year 2012 budget request, describing its planned efficiency initiatives for fiscal years 2012 to 2016, included several initiatives related to headquarters organizations or personnel. Two organizations, Joint Forces Command and the Business Transformation Agency, were disestablished and some of their functions were absorbed in other organizations. DOD estimated that closing these two organizations would save approximately $2.2 billion

[6]Department of Defense Instruction 5100.73, *Major DOD Headquarters Activities*.

[7]Applicable limits to major DOD headquarters personnel are included in sections 143, 194, 3014, 5014, and 8014 of Title 10 of the U.S. Code. In some circumstances, statutory waivers, exceptions, exemptions, and authorities to adjust those limits may apply. For example, acquisition personnel hired under an expedited hiring authority are exempt from the statutory baseline personnel limitations, established under the previously mentioned sections of Title 10.

through fiscal year 2016. Table 2 provides other examples of headquarters-related efficiency initiatives DOD is implementing in the military departments and in other DOD components that we reviewed. See appendix II for a further description of these headquarters-related efficiency initiatives.

Table 2: Examples of Headquarters-Related Efficiency Initiatives DOD Is Implementing and DOD's Estimate of Personnel and Cost Savings

DOD component	Examples of efficiencies DOD is implementing	Estimated personnel and cost savings
Navy	Merging the U.S. Fleet Forces Command and U.S. 2nd Fleet staff because the missions of the two organizations were found to have converged over time, an integrated staff could better adapt to changing missions, and doing so would eliminate redundant personnel.	Eliminated 344 military positions for estimated savings of $10.5 million in fiscal year 2012 and expected cumulative savings of $100.8 million by fiscal year 2016.
	Reducing fleet shore personnel at U.S. Pacific Fleet and U.S. Fleet Forces Command based on the finding that more effective training has decreased shore manpower needs and personnel could be moved to higher-priority missions.	Reduced fleet shore military personnel by 5 percent for estimated savings of $88.3 million for fiscal year 2012 and expected cumulative savings of $858.1 million by fiscal year 2016.
Air Force	Removing Air Force installation service support functions, such as civil engineering, environmental quality and planning programs, real property programs, and family support services, among others, from commands and centralizing them at field operating agencies or Air Force headquarters.	Expected to eliminate 36 positions for an estimated savings of $2.4 million in fiscal year 2012 and expected cumulative savings of $148.1 million and 354 positions by fiscal year 2016.
	Consolidate two air and space operations centers and two numbered air forces with other Air Force commands by merging them to achieve greater oversight and reduce layers of headquarters management.	Eliminated three headquarters organizations and associated support staff removing 256 positions for an estimated savings of $4.8 million for fiscal year 2012 and total estimated savings of $143.7 million by fiscal year 2016.
Army	Streamlining installation management services and programs.	Reducing, eliminating, and rescoping services and programs across the Army's installations, with an estimated savings of $1.1 billion for fiscal years 2012 to 2016.
Office of the Secretary of Defense	Consolidating the Office of the Secretary of Defense for Policy's technical support and administrative and enterprise services by reducing contractors.	Reduction of 110 contractor personnel for an estimated savings of $14.6 million in fiscal year 2012 and expected cumulative savings of $77.7 million by fiscal year 2016.
Defense agency	Eliminating paper leave and earning statements, reducing manual processing through increase in electronic commerce, and eliminating contract and civilian personnel at Defense Finance and Accounting Service.	Elimination of 227 contract personnel and 6 civilian positions in combination with other efficiency initiatives for an estimated savings of $41.3 million in fiscal year 2012 and expected cumulative savings of $206.5 million from fiscal year 2012 to 2016.

DOD component	Examples of efficiencies DOD is implementing	Estimated personnel and cost savings
DOD field activity	Consolidate Washington Headquarters Service from 12 to 8 organizational elements by merging directorates that perform similar services and functions and eliminating lower-priority missions.	Elimination of 52 civilian positions for an estimated savings of $7.2 million for fiscal year 2012 and expected cumulative savings of $57 million for fiscal years 2012 to 2016.
Combatant commands	Reducing lower priority missions, consolidating staff functions at U.S. Northern Command and North American Aerospace Defense Command, eliminating support billets and reducing reliance on service support contractors.	Elimination of 13 support positions for an estimated savings of $12.6 million for fiscal year 2012 and expected cumulative savings of $87.8 million from fiscal year 2012 to 2016.
	Eliminating positions and reducing expenditures at headquarters by 10 percent at U.S. European Command by removing resources from lower-priority missions and programs.	Elimination of 86 military and civilian positions for an estimated saving of $17 million in fiscal year 2012 and $84.8 million by fiscal year 2016.

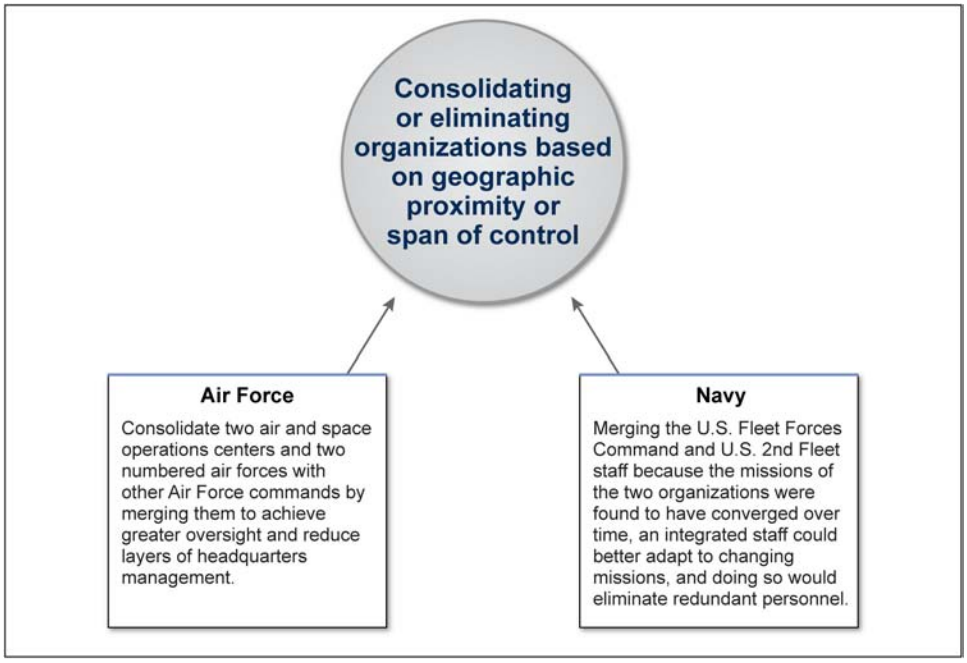
Source: GAO analysis of DOD data.

In compiling and comparing the headquarters-related efficiency initiatives from across the department, we found that the approach that was taken and level of detail differed markedly across the various DOD components. For instance, some DOD components focused on specific organizations and provided detail about planned actions, while others promised significant reductions but provided only broad descriptions of what is planned to achieve them. For example, the Navy provided detailed information on the number of positions that will be eliminated and estimated cost savings for the Navy's merger of U.S. Fleet Forces Command and U.S. 2nd Fleet staff. In contrast, the Army planned more than $1 billion in savings by streamlining its installation management services and programs but did not specify how this will be achieved.

In reviewing these headquarters-related efficiency initiatives, however, we found that they generally fell into two categories: (1) consolidating or eliminating organizations based on geographic proximity or span of control, and (2) centralizing overlapping functions and services (see figs. 2 and 3).[8]

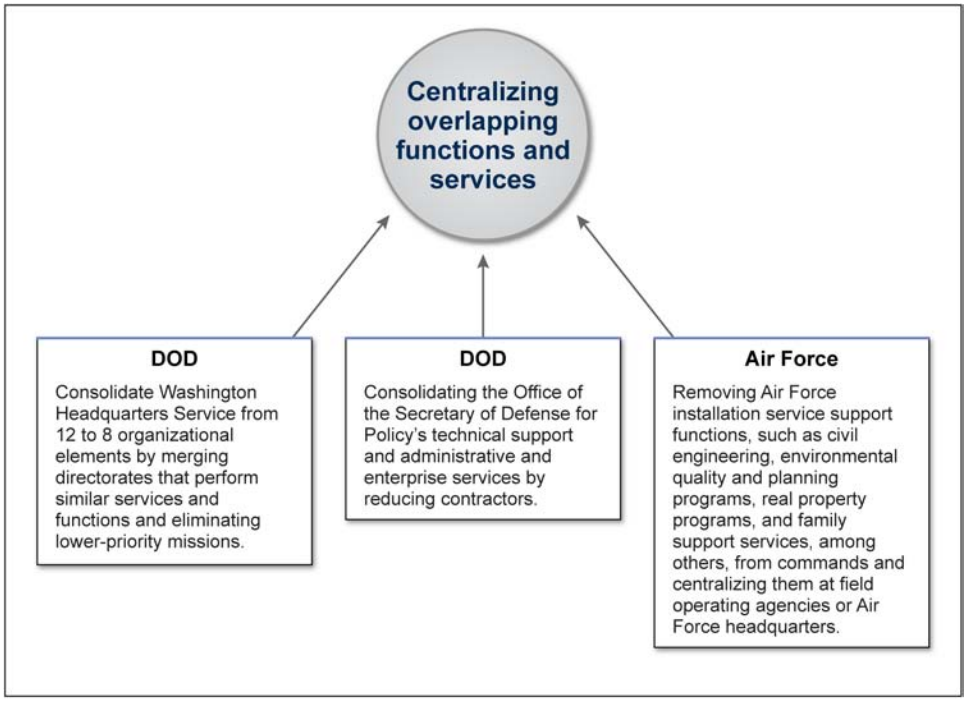
[8]Span of control refers to the number of subordinates or activities under the control of a single commander.

Figure 2: Examples of Headquarters-Related Efficiency Initiatives DOD Is Implementing by Consolidating or Eliminating Organizations Based on Geographic Proximity or Span of Control



Source: GAO analysis of DOD data.

Figure 3: Examples of Headquarters-Related Efficiency Initiatives DOD Is Implementing by Centralizing Overlapping Functions and Services



Source: GAO analysis of DOD data.

The DOD efficiencies that GAO reviewed to reduce headquarters resources are expected by DOD to save about $2.9 billion through fiscal year 2016, less than 2 percent of the $178 billion in savings DOD projected departmentwide. Our work indicates that DOD may be able to find additional efficiencies by further examining opportunities to consolidate organizations or centralize functions at headquarters. In its January 2012 strategic guidance, DOD recognized that it would need to find further efficiencies in headquarters and other overhead in order to meet the demands of the new strategy. To achieve these efficiencies, DOD could consider a number of different options, including reducing organizational layers, consolidating administrative offices, and simplifying management processes. However, the department does not have a definition of what constitutes overhead or standards for assessing headquarters resources. Given the size and complexity of the department, setting common standards would be difficult. Nonetheless, DOD officials we spoke with recognized that additional efficiencies could be achieved by further examination of headquarters resources. The

following are examples of areas that officials said DOD was considering for potential efficiencies.

- According to Navy officials, the Deputy Under Secretary of the Navy is having ongoing discussions with Navy components and conducting analysis to identify potential future efficiencies, such as consolidating or streamlining facilities management services and functions provided at various Navy installations. Officials commented that these issues are complicated and that as of December 2011, the estimates of the savings had not been determined.
- The Army is, among other things, implementing and integrating previous efforts approved by the Secretary of Army, such as planning to optimize materiel development and sustainment by eliminating overlapping or redundant responsibilities between the Army's program executive offices and the Army Materiel Command. The Army expects this effort to include reductions in personnel for an estimated annual savings of $3 billion by the end of fiscal year 2015.
- The Air Force is currently examining opportunities to provide better command and control over air and space operations centers. As of December 2011, Air Force officials could not provide further details regarding this effort because decisions were still pending.
- Defense Finance and Accounting Service officials are examining travel and supplies, postage and printing, and other areas to identify additional savings, which it estimates at $63 million by fiscal year 2017.

DOD may not have identified all areas where reductions in headquarters personnel and operating costs could be achieved because, according to DOD officials, the department was working quickly to identify savings in the fiscal year 2012 budget. To accomplish this quickly, DOD used a top-down approach that identified several targets of opportunity to reduce costs, including headquarters organizations, but left limited time for a detailed data-driven analysis. In February 2012, in DOD's fiscal year 2013 budget request, the department proposed an additional $61 billion in savings from fiscal years 2013 to 2017 through reductions in overhead and support requirements, and improved business practices. However, it provided limited information as to what portions of these savings were specific to headquarters and how they would be achieved. Without systematic efforts to reexamine its headquarters resources on a more comprehensive basis, DOD may miss opportunities to shift resources away from overhead.

Lack of Complete and Reliable Headquarters Information Hinders Efforts to Identify and Implement Efficiencies

DOD does not have complete and reliable major DOD headquarters activity data available for use in making efficiency assessments and decisions because the department continues to have challenges in identifying and tracking personnel and other resources devoted to headquarters. According to our internal control standards, an agency must have relevant, reliable, and timely information in order to run and control its operations.[9] In reviewing DOD's guiding instruction we found that it does not identify all current major DOD headquarters activity organizations or address the tracking of contractors that perform headquarters functions. DOD officials stated that they have delayed updating the instruction to allow time for components to adjust to the statutory changes enacted by Congress in 2009 that created new reporting requirements for major DOD headquarters activity personnel. According to DOD officials, the ever-changing statutory reporting requirements have contributed to DOD's failure to report to Congress about the numbers of headquarters personnel. As the department did not have reliable major DOD headquarters activity data, DOD gathered information from multiple sources to compile headquarters-related information for the Secretary of Defense's 2010 efficiency initiative. Some of the information DOD compiled to identify headquarters-related efficiency initiatives was inaccurate, and as a result, some adjustments will need to be made during implementation to achieve planned savings. Without a proper accounting of headquarters personnel and operating costs, to include contractors, DOD will not have complete and reliable information on the universe of headquarters resources. Complete and reliable headquarters information will be even more important in supporting an examination of DOD resources in light of changes in DOD's strategic priorities for the next decade.

The DOD Instruction Does Not Include All Major DOD Headquarters Activity Organizations or Address Tracking of Contractors

According to our internal control standards, an agency must have relevant, reliable, and timely information in order to run and control its operations. This information is required to develop external reporting and to make operating decisions, monitor performance, and allocate resources. Moreover, we have reported that accurate, timely, and useful

[9]GAO, *Standards for Internal Control in the Federal Government,* GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

financial management information is essential for sound management analysis, decision making, and reporting within DOD.[10]

DOD Instruction 5100.73, *Major DOD Headquarters Activities*, establishes a system to identify and manage the number and size of major DOD headquarters activities. The Director of Administration and Management, within the Office of the Secretary of Defense, is responsible for issuing guidance, as required, and maintaining the list of major DOD headquarters activity organizations. However, significant revisions to the instruction have not been made since 2007 and the instruction does not identify all current major DOD headquarters activity organizations. For example, Navy officials noted several Marine Corps components, which are parallel to Navy components in the major DOD headquarters activity functions they perform, are not included in the instruction. Also, the instruction does not reflect the component command headquarters of the Departments of Navy and Air Force at U.S. Africa Command, which were established in October 2008 and October 2009, respectively, and would likely be considered major DOD headquarters activities.

Additionally, the instruction does not explicitly address how and to what extent the thousands of contractors who work at headquarters around DOD should be included as part of its major DOD headquarters activity data. DOD has increasingly relied on contractors to provide a range of services at headquarters, such as management and administrative support, information technology, and base operations support.[11] Some of the services and functions performed by contractors could be considered part of major DOD headquarters activities. Our work over the past decade on DOD's contracting activities has noted the need for DOD to obtain better data on its contracted services and personnel to enable it to make more informed management decisions, ensure departmentwide goals and objectives are achieved, and have the resources to achieve desired

[10]GAO, *High-Risk Series: An Update*, GAO-11-278 (Washington, D.C.: February 2011).

[11]Headquarters-related activities performed by contractors would not include activities classified as inherently governmental functions that must be performed by federal employees. Examples of inherently governmental functions, set out in subpart 7.503 of the Federal Acquisition Regulation, include the direct conduct of criminal investigations, the conduct of foreign relations, the direction and control of intelligence and counterintelligence operations, the determination of agency policy, and the determination of federal program priorities for budget requests.

outcomes, which could include reducing overhead. In January 2011, we reported that further action was needed by DOD to better implement its requirements for conducting an inventory of its service contractor activities and made two recommendations, including that DOD develop a plan of action to collect manpower data from contractors.[12] In response to GAO's report, DOD has outlined its approach for collecting these data, but does not anticipate complete reporting until 2016.

The root of the problem is that DOD Instruction 5100.73, which guides the identification and reporting of headquarters information, is outdated. DOD officials stated that they have delayed updating the instruction to allow time for components to adjust to the statutory changes enacted by Congress in 2009 that created new reporting requirements for major DOD headquarters activity personnel. According to DOD officials, the ever-changing statutory reporting requirements have contributed to DOD's failure to report to Congress about the numbers of headquarters personnel. DOD is required to report major DOD headquarters activities annually in the *Defense Manpower Requirements Report*, which is to be submitted to Congress no later than 45 days after the President's budget.[13] Specifically, DOD is to report the number of military and civilian personnel assigned to major DOD headquarters activities in the preceding fiscal year and estimates of such numbers for the current and subsequent fiscal year. It must also include a summary of the replacement of contract work years providing support to major DOD headquarters activities with military or civilian personnel during the preceding fiscal year, including an estimate of the number of contract work years associated with the replacement of contracts performing inherently governmental or exempt functions. DOD must also report on the plan for continued review of contract personnel supporting major DOD headquarters activities for possible conversion to military or civilian positions in accordance with other legal requirements. Additionally, DOD

[12]GAO, *Defense Acquisitions: Further Action Needed to Better Implement Requirements for Conducting Inventory of Service Contract Activities*, GAO-11-192 (Washington, D.C.: Jan. 14, 2011).

[13]National Defense Authorization Act for Fiscal Year 2010, Pub. L. No. 111-84, §1109 (2009), codified at 10 U.S.C. §115a. The Defense Manpower Requirements Report is an annual report to Congress that provides DOD's manpower requirements, to include those for military personnel and civilians, as reflected in the President's budget request for the current fiscal year.

must report the amount of any adjustment in personnel limits made by the Secretary of Defense or the secretary of a military department and, for each adjustment made pursuant to section 1111(b)(2) of the fiscal year 2009 National Defense Authorization Act, the purpose of the adjustment.[14] DOD officials are aware of the reporting requirements and expect to report some major DOD headquarters activity data to Congress in the fiscal year 2012 *Defense Manpower Requirements Report*; however, it is unclear what information will be included in the report.

Some Information DOD Used to Identify Headquarters-Related Efficiency Initiatives Was Inaccurate and Some Resource Adjustments Will Be Made during Implementation

As the department did not have reliable major DOD headquarters activity data, DOD gathered information from multiple sources to compile headquarters-related information for the Secretary of Defense's 2010 efficiency initiative. The military departments used existing budget review processes to identify potential efficiency initiatives for fiscal years 2012 to 2016, while the Secretary of Defense established a temporary task force, chaired by his Chief of Staff, to identify specific areas in which immediate action could be taken departmentwide, such as holding the civilian workforce at fiscal year 2010 levels. Because of the short timelines given to identify efficiencies and limitations on the sharing of information imposed on personnel by DOD to prevent disclosure of the decisions, this information was not validated with the DOD officials responsible for implementing the decisions to ensure that it was accurate. As a result, some information used to identify headquarters-related efficiency initiatives was inaccurate and some adjustments in resource allocations will have to be made during implementation to achieve planned savings.

Some of the implementation challenges that resulted from inaccurate information were significant, involving hundreds of millions of dollars. The most prominent example we found was an Air Force efficiency initiative to consolidate installation support services, such as environmental quality and civil engineering services, real property programs and services, vehicle and fuel management, operational contracting, security forces, and some family services, at field operating agencies and Air Force

[14]Section 1111 of the Duncan Hunter National Defense Authorization Act for Fiscal Year 2009, Pub. L. No. 110-417 (2008), allows for the adjustment of statutory personnel limits to fill a gap in DOD's civilian workforce identified by the Secretary of Defense in a strategic human capital plan submitted to Congress or to accommodate increases in workload or modify the type of personnel required to accomplish work for purposes specified in section 1111(c) of the act.

headquarters. When initially developed in July 2010 as part of its preparations for the fiscal year 2012 budget, the initiative was estimated to save $685 million by eliminating 1,371 positions by fiscal year 2016. However, according to an Air Force official, the initial savings estimate was developed at senior levels on an extremely short time line and proved overly optimistic. According to Air Force officials, in December 2010, after further analysis by the Air Force staff was completed, the estimate was revised to a savings of $148.1 million by eliminating 354 positions by fiscal year 2016. Air Force officials told us that they now have to reduce operating costs or personnel from other functional areas to make up the $537 million difference in savings and the 1,017 difference in personnel reductions estimated as part of DOD's fiscal year 2012 budget. In other examples, we found DOD components had overestimated the number of personnel or incorrectly identified the amount of contractor-related resources at affected organizations, potentially affecting estimated savings.

Conclusions

With the long-term fiscal challenges facing the nation, additional efforts to find cost savings at DOD will likely be necessary. As DOD considers its future resources and the key military capabilities it will need to meet its new strategic priorities, the department will need to consider further efficiencies in overhead, such as personnel and operating costs at DOD headquarters. While DOD has taken some steps to trim its headquarters, these initial efforts were uneven across the department and modest in contrast to the defense budget. The savings DOD projected over 5 years from the headquarters reductions taken to date represent a small fraction of the defense budget over the same period. Additional headquarters-related efficiencies may be identified by further examining opportunities to consolidate organizations or centralize functions. To ensure that appropriate levels of resources are applied to overhead, it is critical for DOD to have complete and reliable information to use to inform its decision-making and prioritize its resources. Without updating its guiding instruction to ensure that it has complete and reliable data on headquarters personnel and operating costs, DOD will not have the information it needs, which could affect its efforts to direct resources toward its main priorities.

Recommendations for Executive Action

We recommend that the Secretary of Defense take the following two actions.

To further DOD's efforts to reduce overhead-related costs in light of the recent changes in DOD's strategic priorities, we recommend that the

Secretary of Defense direct the secretaries of the military departments and the heads of the DOD components to continue to examine opportunities to consolidate or eliminate military commands that are geographically close or have similar missions, and to seek further opportunities to centralize administrative and command support services, functions, or programs.

To improve DOD's ability to identify how many headquarters personnel it has, including military, civilian and contractor personnel, and improve the information Congress and DOD need to ensure that headquarters organizations are appropriately sized and overhead positions are reduced to the extent possible, we recommend that the Secretary of Defense direct the Director of Administration and Management, in consultation with the Under Secretary of Defense for Personnel and Readiness, to revise DOD Instruction 5100.73, *Major DOD Headquarters Activities*, to

- include all major DOD headquarters activity organizations,
- specify how contractors performing major DOD headquarters activity functions will be identified and included in headquarters reporting,
- clarify how components are to compile the major DOD headquarters activities information needed to respond to the reporting requirements in section 1109 of the fiscal year 2010 National Defense Authorization Act, and
- establish time frames for implementing the actions above to improve tracking and reporting headquarters resources.

Agency Comments and Our Evaluation

In written comments on a draft of this report, DOD concurred with our first recommendation and partially concurred with our second recommendation. DOD's comments are reprinted in their entirety in appendix IV. DOD also provided technical comments, which we incorporated into the report as appropriate.

DOD fully concurred with our recommendation that the Secretary of Defense direct the secretaries of the military departments and the heads of the DOD components to continue to examine opportunities to consolidate or eliminate military commands that are geographically close or have similar missions, and to seek further opportunities to centralize administrative and command support services, functions, or programs. In its comments, DOD stated that it would continue to assess its organizational structure and personnel to optimize output and eliminate inefficiencies.

DOD partially agreed with our second recommendation that the Secretary of Defense direct the Director of Administration and Management, in consultation with the Under Secretary of Defense for Personnel and Readiness, to revise DOD Instruction 5100.73, *Major DOD Headquarters Activities*, to (1) include all major DOD headquarters activity organizations, (2) specify how contractors performing major DOD headquarters activity functions will be identified and included in headquarters reporting, (3) clarify how components are to compile the major DOD headquarters activities information needed to respond to the reporting requirements in section 1109 of the fiscal year 2010 National Defense Authorization Act, and (4) establish time frames for implementing the actions above to improve tracking and reporting of headquarters resources. In its written comments, DOD stated that it concurs with the intent of this recommendation and supports the refinement and update of DOD Instruction 5100.73, *Major DOD Headquarters Activities*. It then separately addressed three elements of our recommendation—including all major DOD headquarters activity organizations, reporting on contractors performing major DOD headquarters activities, and clarifying how components are to compile these data to respond to reporting requirements.

With regard to including all major DOD headquarters activity organizations in the instruction, DOD stated that the department uses the designation of major DOD headquarters activities in DOD Instruction 5100.73 to identify and manage the size of organizations in order to comply with statutory limitations, not as a tool to manage the organizational efficiency of the department or its components. It further stated that shortcomings in the instruction have limited impact on the management of the department. As we noted in our report, the purpose of the instruction is to establish a system to identify and manage the number and size of major DOD headquarters activities, and the guidance does address statutory limitations. However, the instruction certainly has implications for the management of the department that extend beyond the need to comply with relevant statutory limits. For example, the instruction directs the department to take certain steps, including maintaining an approved list of major DOD headquarters activities, in order to provide a framework for implementing the DOD policy that major DOD headquarters activities shall be organized and staffed in a manner that permits the effective accomplishment of assigned responsibilities with a minimum number of personnel. Additionally, the department expressed concerns about revising the definition of major DOD headquarters activities in DOD Instruction 5100.73 because there are references to that definition in statute. However, we did not recommend that the department

revise the definition. As noted by the department, section 194 of Title 10 of the United States Code sets out limitations on military and civilian personnel involved in management headquarters activities or management headquarters support activities of the defense agencies and the DOD field activities. The statute specifies that the terms “management headquarters activities” and “management headquarters support activities” are to be defined as those terms were defined in the January 7, 1985, version of DOD Directive 5100.73. Our recommendation is not aimed at revisions to the definition; rather, as explained in our report, the recommendation is based on the fact that the list of major DOD headquarters activities found in enclosure 4 of the instruction is outdated. As such, we disagree with the assertion that updating the guidance consistent with our recommendations would in any way threaten the “foundational basis” prescribed by Title 10 or require statutory relief. Furthermore, we note that in addition to the administrative change from directive to instruction in 2009 mentioned by the department, other revisions have been made to the guidance since 1985, including changes made in 1999 revising the way the definitions of management headquarters activities, management headquarters support activities, and other terminology are presented.

With regard to specifying how contractors performing major DOD headquarters activity functions will be identified and included in headquarters reporting, DOD stated that it submitted a plan to the congressional defense committees in November 2011 for its Inventory of Contracts for Services that established both near-term and long-term actions needed to improve overall visibility and accountability of all contracted services, including those performed in support of major DOD headquarters activities. This plan and subsequent guidance issued in December 2011 describe the steps being taken to account for the level of effort of contracted support, based on the activity requiring the service. DOD also noted that aligning contract support with the requiring activity, as opposed to contracting activity, will ensure that the department can reflect contractor full-time equivalents, based on direct labor hours collected from contractors, supporting major DOD headquarters activities. While we support DOD efforts to improve visibility and accountability of contracted services, particularly those supporting major DOD headquarters activities, as noted in our report, DOD does not anticipate complete reporting on contractor manpower data until 2016. We continue to believe that DOD should make it a priority to obtain better data on its contracted services and personnel to enable it to make more informed management decisions, ensure departmentwide goals and objectives are

achieved, and have the resources to achieve desired outcomes, which could include reducing overhead.

With regard to clarifying how components are to compile information needed to respond to the reporting requirements for major DOD headquarters activity of Section 1109 of the fiscal year 2010 National Defense Authorization Act, DOD stated that it has incorporated this requirement into the *Defense Manpower Requirements Report*. The department stated that the DOD components reported aggregate civilian and military data for inclusion in the fiscal year 2012 *Defense Manpower Requirements Report* that will be included in the fiscal year 2013 report as well. The department also stated that a more accurate reflection of major DOD headquarters activity data is being incorporated into the annual Inherently Governmental and Commercial Activities Inventory. It further noted that the inventory guidance issued in October 2011 included the major DOD headquarters activity requirement and the fiscal year 2012 inventory will include these data. In its written comments, DOD stated that this revision will provide greater analytic capability for DOD function codes, manpower mix criteria, location of services, and specific unit/organization of billets designated as major DOD headquarters activities. Again, we support DOD's efforts to include major DOD headquarters activity data in the Inherently Governmental and Commercial Activities Inventory, but note that DOD did not provide a time frame for when the fiscal year 2012 inventory would be issued. Further, while DOD noted that it will include aggregate civilian and military data in the fiscal year 2012 and fiscal year 2013 *Defense Manpower Requirements Report*, neither of these reports has been issued, and we are therefore unable to determine whether the data were included.

Despite DOD's concerns, we continue to believe that it is important for DOD to take actions to revise the instruction to include all major DOD headquarters activity organizations, specify how contractors will be identified and included in headquarters reporting, and clarify how components are to report this information as well as establish time frames for implementing these actions to improve tracking and reporting of headquarters resources.

We are sending copies of this report to interested congressional committees, the Secretary of Defense, the Under Secretary of Defense for Personnel and Readiness, the Director of Administration and Management, the Deputy Chief Management Officer, and the secretaries

of the military departments. In addition, this report is available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (404) 679-1816 or pendletonj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix V.

John Pendleton, Director
Defense Capabilities and Management

List of Committees

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

The Honorable Kent Conrad
Chairman
The Honorable Jeff Sessions
Ranking Member
Committee on the Budget
United States Senate

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

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

The Honorable Paul Ryan
Chairman
The Honorable Chris Van Hollen, Jr.
Ranking Member
Committee on the Budget
House of Representatives

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

Appendix I: Scope and Methodology

We conducted this work in response to a statutory mandate that directed us to conduct routine investigations to identify federal programs, agencies, offices, and initiatives with duplicative goals and activities within departments and governmentwide.[1] This report evaluated the extent to which the Department of Defense (DOD) (1) examined its headquarters resources for efficiencies and (2) has complete and reliable headquarters information available for use in making efficiency decisions.

To conduct this work, we selected and assessed DOD efficiency initiatives related to headquarters based on our analysis of information included with DOD's fiscal year 2012 budget request and the Secretary of Defense's *Track Four Efficiency Initiatives Decisions* memo. We used the *Department of Defense Efficiency Initiatives Fiscal Year 2012 Budget Estimates* justification book to select two efficiency initiatives affecting each of the military departments based on their relevancy to headquarters. Using this sample of headquarters-related efficiency initiatives, we chose to interview components responsible for implementing the selected efficiency initiatives based on the amount of savings they are responsible for achieving. We used the Secretary of Defense's *Track Four Efficiency Initiatives Decisions* memo to select two combatant commands and one organization from each of the following: the Office of Secretary of Defense, the defense agencies, and the DOD field activities. We selected organizations rather than specific efficiency initiatives because their estimated personnel and cost savings reflected several DOD efficiency initiatives, including the defense agency, Office of Secretary of Defense, and combatant command baseline review and the service support contracts reduction. We selected the organizations based on the amount of estimated personnel cuts and savings they were responsible for achieving. The efficiency initiatives and organizations we selected are further discussed in appendix II.

To assess the extent to which DOD examined its headquarters resources for efficiencies, we obtained and analyzed documentary and testimonial evidence on selected headquarters-related efficiency initiatives announced by DOD, including the analysis conducted to identify headquarters-related resources and the approach taken to develop headquarters-related efficiency initiatives. To assess the extent to which

[1]Pub. L. No. 111-139, § 21 (2010).

DOD has complete and reliable headquarters information available for use in making efficiency decisions, we obtained and analyzed documentary and testimonial evidence from DOD components detailing the policies and procedures, as well as roles and responsibilities, for tracking and reporting headquarters personnel and operating costs, such as DOD Instruction 5100.73, *Major DOD Headquarters Activities*.[2] We also obtained and analyzed documentary and testimonial evidence on the processes and data DOD components used to identify their headquarters-related resources when developing selected headquarters-related efficiencies.

In addition to conducting interviews with the components responsible for executing selected efficiency initiatives, we collected documentary and testimonial evidence from the military department's deputy chief management offices, financial management and budget offices, and other DOD components that were involved in developing the efficiency initiatives directed by the Secretary of Defense and included as part of DOD's fiscal year 2012 budget request. We interviewed officials, and where appropriate obtained documentation, at the organizations listed below:

Office of Secretary of Defense

- Office of the Director of Cost Assessment and Program Evaluation
- Office of the Under Secretary of Defense for Policy
- Office of the Director of Administration and Management
- Office of the Under Secretary of Defense for Personnel and Readiness
- Office of the Under Secretary of Defense (Comptroller)

Joint Staff

- Manpower and Personnel Division

Combatant commands

- U.S. European Command
  U.S. Northern Command

[2]Department of Defense Instruction 5100.73, *Major DOD Headquarters Activities* (Dec. 1, 2007).

Defense agency

- Defense Finance and Accounting Services

DOD field activity

- Washington Headquarters Services

Department of the Air Force

- Office of the Under Secretary of the Air Force, Deputy Chief Management Officer
- Office of the Deputy Chief of Staff for Logistics, Installations and Mission Support
- Office of the Deputy Chief of Staff for Manpower, Personnel and Services, Directorate of Manpower, Organization and Resources
- U.S. Air Forces in Europe
- Air Combat Command
- Air Education and Training Command
- First Air Force (Air Forces North)
- Third Air Force (Air Forces Europe)
- Air Force Real Property Agency
- Air Force Services Agency
- Air Force Center for Engineering and the Environment

Department of the Army

- Office of Deputy Under Secretary of the Army
- Office of the Assistant Secretary of the Army (Financial Management and Comptroller), Office of the Director, Army Budget
- Office of the Assistant Chief of Staff for Installation Management
- U.S. Army Installation Management Command, Headquarters
- U.S. Army Installation Management Command, Atlantic Region
- Office of the Deputy Chief of Staff for Programs, Directorate of Program, Analysis, and Evaluation
- Office of the Deputy Chief of Staff for Personnel, Directorate of Plans and Resources
- Office of the Assistant Secretary of the Army for Manpower and Reserve Affairs
- U.S. Army Europe
- U.S. Army North

Department of the Navy

- Office of the Deputy Under Secretary of the Navy, Deputy Chief Management Officer

- Office of the Deputy Chief of Naval Operations (Manpower, Personnel, Education and Training)
- Office of the Deputy Chief of Naval Operations (Integration of Capabilities and Resources)
- Office of the Assistant Secretary of the Navy (Financial Management and Comptroller), Office of Budget
- Headquarters, Marine Corps
- U.S. Marine Forces Europe
- U.S. Naval Forces Europe
- U.S. Fleet Forces Command
- Naval Air Systems Command
- Navy Reserve Force Command
- U.S. Pacific Fleet

We conducted this performance audit from September 2010 to March 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Descriptions of Headquarters-Related Efficiency Initiatives

For this review, we selected and assessed headquarters-related efficiency initiatives specific to the military departments as well as organizations affected by DOD-wide efficiency initiatives, discussed in detail below. The efficiency initiatives we reviewed did not include all the headquarters-related efficiency initiatives DOD has announced. We chose to review the efficiency initiatives based on the organizations affected as well as the estimated number of personnel and the amount of cost savings involved.

Military Departments' Efficiency Initiatives

As part of the Secretary of Defense's efficiency initiative, the military departments and Special Operations Command were instructed to find at least $100 billion in savings from fiscal years 2012 to 2016 that could be reinvested in force structure and modernization efforts, starting with the fiscal year 2012 budget. Some of these initiatives included reductions to headquarters personnel and operating costs, as shown below.

Department of the Navy: Merging U.S. Fleet Forces Command and U.S. 2nd Fleet Staff

Under this Navy initiative, U.S. 2nd Fleet was disestablished and its staff was merged into U.S. Fleet Forces Command. Prior to this merger, U.S. 2nd Fleet was responsible for training, certifying, and providing maritime forces to respond to global contingencies while U.S. Fleet Forces Command served to provide operational and planning support to the combatant commanders and worked with U.S. Pacific Fleet to organize, man, train, maintain, and equip Navy forces. The Navy found that the missions of the two organizations had converged over time, and decided that an integrated staff could better adapt to changing missions than two separate staffs and the merger could eliminate redundant personnel. As a result of the merger, U.S. Fleet Forces Command now assumes both its previous responsibilities as well as U.S. 2nd Fleet's former missions. The efficiency initiative eliminated one Navy flag officer at the rank of vice admiral, 160 active component positions, and 184 reserve component positions. The consolidation resulted in estimated savings of $10.5 million in fiscal year 2012, with expected cumulative savings of $100.8 million by fiscal year 2016. The consolidation began in May 2011 and was functionally completed on September 30, 2011.

Department of the Navy: Reducing Fleet Shore Command Personnel by 5 Percent at U.S. Pacific Fleet and U.S. Fleet Forces Command

Under this Navy initiative, shore military positions at both U.S. Pacific Fleet and U.S. Fleet Forces Command were eliminated and personnel associated with these positions were redirected to higher-priority missions, including filling personnel shortages of operational ships at sea. Navy officials stated that new capabilities and systems on operational ships, such as ballistic missile defense, have led to increased manpower requirements at sea. Additionally, more effective training has decreased shore manpower needs, freeing up manpower for operational ships at sea. The associated funding for the reduced shore military positions, $88.3 million, has been removed from the budget for fiscal year 2012. From fiscal years 2012 to 2016, the expected cumulative savings is $858.1 million.

Department of the Air Force: Consolidating Installation Support Services at Field Operating Agencies and Air Force Headquarters

This is an Air Force initiative to consolidate installation support services at Air Force headquarters and field operating agencies, which are Air Force components that perform specialized activities in support of Air Force-wide missions. To achieve the estimated personnel and cost savings, the Air Force is consolidating environmental quality and civil engineering services, real property programs and services, vehicle and fuel management, operational contracting, security forces, and some family services by shifting positions from major command staffs that provide these services to field operating agencies or Air Force headquarters and eliminating others. Planning for the implementation of this initiative is still underway and implementation will be phased from fiscal years 2012 to 2016. When initially developed in July 2010 as part of the Air Force's preparations for the fiscal year 2012 budget, the initiative was estimated to save $685 million and eliminate 1,371 positions by fiscal year 2016. However in December 2010, after further analysis was completed, the estimate was revised to eliminate 354 positions by fiscal year 2016 along with a savings of $2.4 million in fiscal year 2012 and $148.1 million by fiscal year 2016. The Air Force may now have to reduce operating costs or personnel from other functional areas to make up the $537 million difference in savings estimated as part of DOD's fiscal year 2012 budget.

Department of the Air Force: Consolidating Air and Space Operations Centers and Numbered Air Forces

This is an Air Force initiative to consolidate air and space operations centers in Europe and in the continental U.S. and to inactivate numbered air forces. Numbered air forces provide operational leadership to subordinate units, such as wings, or are designated as component numbered air forces that perform operational and warfighting missions for U.S. combatant commanders. Air and space operations centers provide command and control of Air Force operations and coordinate with other

components and military services. The Air Force consolidated the 617th Air and Space Operations Center, which supports U.S. Africa Command, with the 603rd Air and Space Operations Center, which supports U.S. European Command, resulting in the elimination of 55 positions and one headquarters organization, resulting in a savings of $4.2 million in fiscal year 2012 and a cumulative savings of $37.8 million from fiscal years 2012 to 2016. The consolidation was completed on October 1, 2011. Air Force officials stated that the transition has gone smoothly because personnel in these organizations had practiced being integrated while executing military operations in Libya as part of Operation Odyssey Dawn. The merged organizations will now provide operational and command and control support to both combatant commands. The Air Force planned to consolidate the 601st and 612th Air and Space Operations Centers, supporting U.S. Northern Command and U.S. Southern Command, respectively; however, this was formally halted on August 30, 2011, by Air Force officials in favor of developing an Air Force-wide solution to provide more effective operational command and control. As of December 2011, Air Force officials could not provide further details regarding this solution because decisions were still pending. The Third Air Force (Air Forces Europe) and the 17th Air Force (Air Forces Africa) are also being consolidated with the headquarters of U.S. Air Forces in Europe, thereby eliminating one headquarters organization and 183 positions for a cumulative savings of $95.1 million from fiscal years 2012 to 2016. This effort is estimated to be completed by May 2012. The 19th Air Force, which supports Air Education and Training Command, will be consolidated with the command's headquarters, thereby eliminating 18 positions and saving $0.6 million in fiscal year 2012 with cumulative savings of $10.8 million by fiscal year 2016. This initiative is to be completed by June 2012. Although Air Education and Training Command has identified 18 positions to be eliminated, this effort was initially designed to eliminate 40 positions. Air Education and Training Command has informed Air Force leadership that some of these personnel were performing safety- and compliance-related inspections and could not be eliminated; therefore Air Force leadership is considering adjusting the number of positions that may be removed.

Department of the Army: Streamlining Installation Management Services and Programs

This is an Army initiative to reduce, eliminate and re-scope services and programs across the Army's installations, with an estimated cumulative savings of $1.1 billion ($456 million in fiscal year 2015 and $667 million in fiscal year 2016). Services and programs to be reviewed include human resources, information technology, logistics, public works, and security, and other services provided on Army installations. On August 29, 2011,

the Army established the Installation Management Reform Task Force—which includes representatives of the Army commands and organizations, such as the Army Installation Management Command—to assist in streamlining installation management and reducing overhead costs, among other things. Specifically, the representatives of the task force are responsible for conducting a detailed analysis of the services provided on Army installations. In September 2011, the Army began its holistic review of installation services and infrastructure costs to evaluate opportunities to develop efficiencies, among other things. Army commands, such as the Installation Management Command, were directed to seek ways to reduce shared contracted services or eliminate services and programs perceived to be of little value to reduce costs. They are also looking at the effects of reduced population (both military and civilians) on the demands for installation services. According to officials at the Office of Assistant Chief of Staff for Installation Management, the office leading this efficiency initiative, they are in the early stages of identifying the services and programs to be reduced, eliminated, or re-scoped, and the effort is scheduled to be executed in fiscal year 2015 and fiscal year 2016.

Defense-wide Efficiency Initiatives

As part of DOD's efficiency initiative, the Secretary of Defense directed a series of initiatives designed to reduce duplication, overhead, and excess across the department. For example, the Secretary directed components of the Office of the Secretary of Defense, the Joint Staff, combatant commands, the defense agencies, and DOD field activities to conduct baseline reviews of how they use personnel and budgetary resources to carry out their missions in order to rebalance resources. This and other departmentwide efforts were projected to yield about $78 billion in savings through fiscal year 2016. The efficiencies for the components discussed below originate from both the baseline reviews and other departmentwide efficiency initiatives.

Office of the Under Secretary of Defense for Policy

The Office of the Under Secretary of Defense for Policy is a component of the Office of the Secretary of Defense that advises the Secretary of Defense on the formulation of national security and defense policy. To identify efficiencies, the Office of the Under Secretary of Defense for Policy conducted a study that found its ratio of administrative support to senior executives was 3 to 1, which was above the industry standard; it therefore determined that it could make reductions in administrative overhead. The Office of the Under Secretary of Defense for Policy cut 68 technical support contractors and 42 administrative support contractors for an estimated savings of $14.6 million in fiscal year 2012, and

expected cumulative savings of $77.7 million from fiscal years 2012 to 2016. Officials with the Office of the Under Secretary of Defense for Policy stated that the component is on target to meet all directed initiatives.

Defense Finance and Accounting Service

The Defense Finance and Accounting Service is a defense agency that provides finance and accounting services for the DOD civilians and military members. It is enacting several efficiencies and plans to eliminate 227 contractor positions and six civilian positions. Additionally, it is planning to eliminate paper leave and earning statements that it provides to DOD personnel and reduce manual processing of transactions by increasing electronic commerce to pay for contractor mission support. The associated savings for these initiatives, $41.3 million, has been removed from the budget for fiscal year 2012. From fiscal years 2012 to 2016, the expected cumulative savings is $206.5 million. Although the associated funding of $41.3 million has been removed for fiscal year 2012, officials said that 100 percent elimination of paper leave and earning statements and increase in e-commerce transactions depend on the demands of the agency's customers.

Washington Headquarters Services

The Washington Headquarters Services is a field activity organization that supplies administrative support services across the department, such as information technology, facilities management, and human resources. According to Washington Headquarters Service officials, they identified the efficiencies by focusing on critical services and devolving noncritical and completed missions. The Washington Headquarters Services reduced the number of organizational elements it has from 12 to 8 by merging directorates that performed similar services and functions. It combined its Information Technology Management and Office of the Secretary of Defense Networks directorates to form the Enterprise Information Technology Services directorate. The former directorates of Defense Facilities and Pentagon Renovation were combined to form Facilities Services, while three directorates that performed similar administrative functions were consolidated to form the Enterprise Management directorate. Through these efforts, Washington Headquarters Services will eliminate a total of 52 civilian positions and generate an estimated savings of $7.2 million for fiscal year 2012 and an expected cumulative savings of $57 million from fiscal years 2012 to 2016. Officials said the associated funding has been removed for fiscal year 2012 and, as of January 2012, 50 of the 52 civilian positions have been removed.

U.S. Northern Command

U.S. Northern Command is a unified combatant command whose mission is to conduct homeland defense, civil support, and security cooperation. U.S. Northern Command is implementing several efficiencies, to include eliminating lower-priority functions, consolidating U.S. Northern Command's and North American Aerospace Defense Command's staff functions, eliminating 13 additional support billets, and reducing reliance on service support contractors. According to officials, these actions have resulted in an estimated savings of $12.6 million for fiscal year 2012 and expected cumulative savings of $87.8 million from fiscal years 2012 to 2016. To achieve the efficiencies, U.S. Northern Command reviewed low-priority tasks and eliminated manpower and other associated costs such as supplies and computer support. Officials said civilian positions have been eliminated and phased contract reductions will be complete by September 2013.

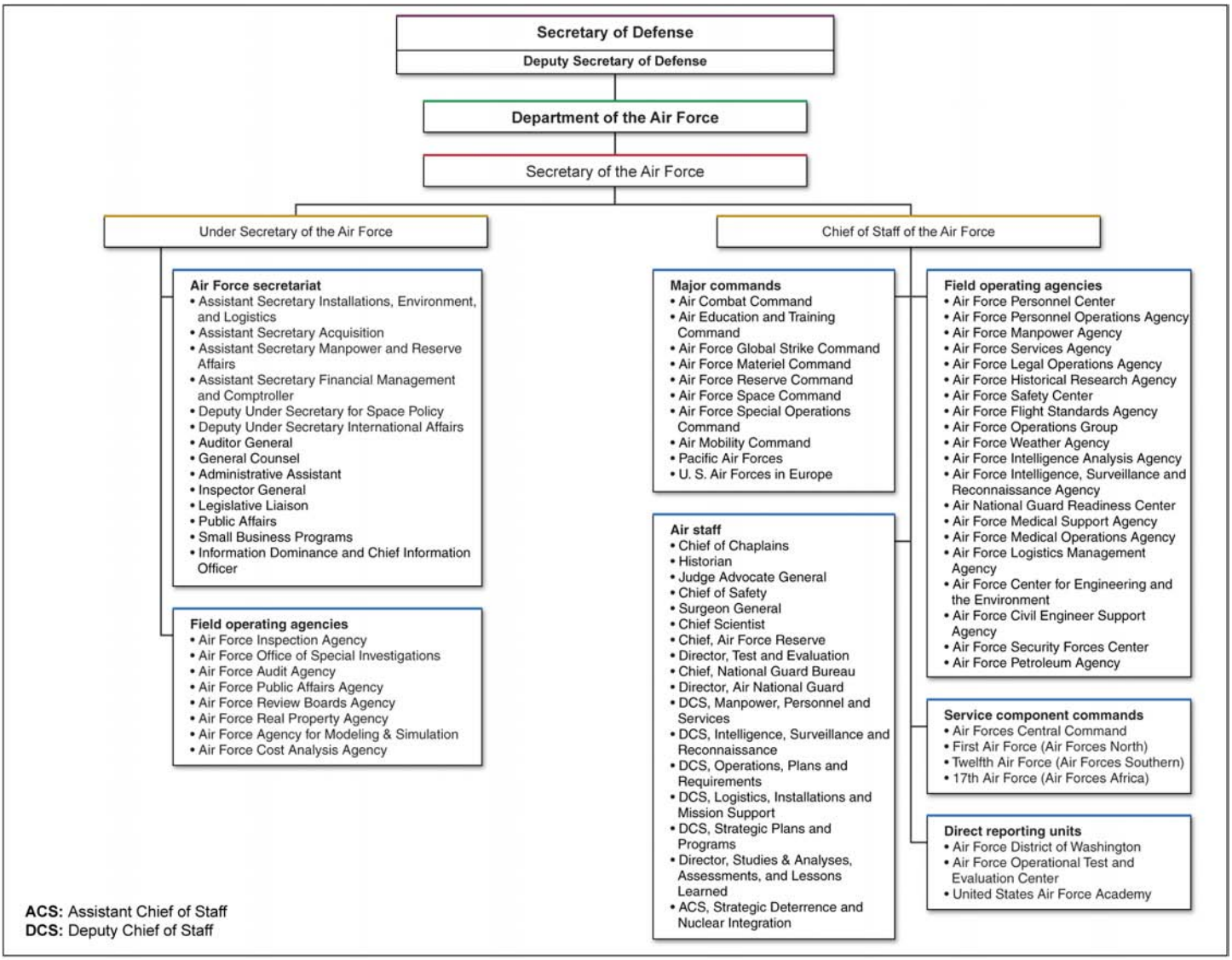
U.S. European Command

U.S. European Command is a unified combatant command whose mission is to conduct military operations, international military engagement, and interagency partnering to enhance U.S. and transatlantic security. U.S. European Command has implemented several efficiencies to achieve savings. The command reorganized its headquarters to promote interagency cooperation by realigning staff and reduced headquarters manpower and expenditures by 10 percent by realigning resources to higher-priority missions. These actions were estimated to eliminate 86 military and civilian positions and save $17 million in fiscal year 2012, with expected cumulative savings of $84.8 million by fiscal year 2016. According to officials, U.S. European Command has already completed the reorganization of its headquarters, and the funding for the eliminated positions has been removed from the fiscal year 2012 budget.

Appendix III: Examples of DOD's Headquarters Organizations

Figures 4 through 9 contain the information on DOD headquarters organizations presented in noninteractive format.

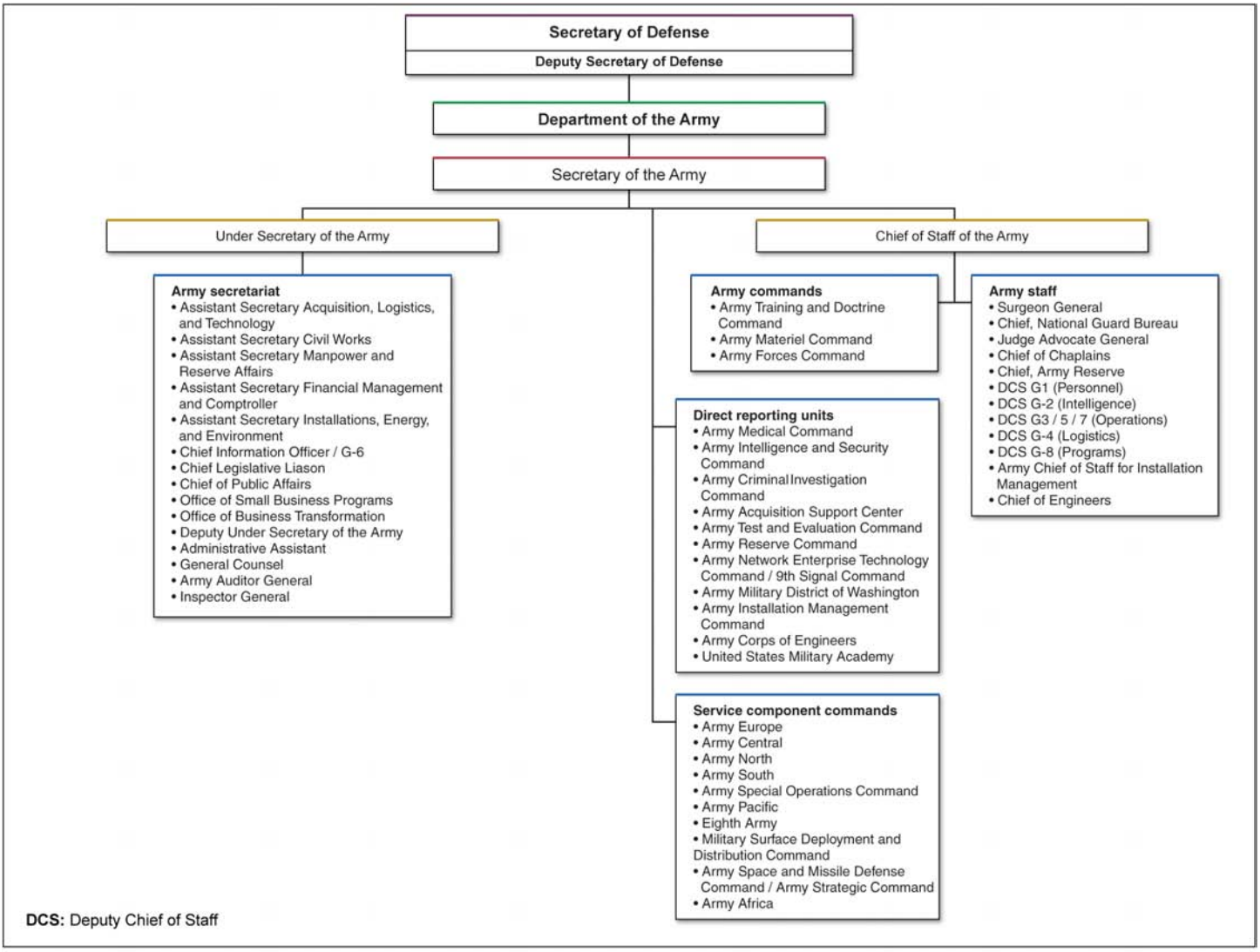
Figure 4: Department of the Air Force



Source: GAO analysis of DOD data.

Notes: Graphic is for illustrative purposes only; it is not intended to depict all organizations, their functions, or their legal or command and control relationships. In some organizations only the headquarters is considered a major DOD headquarters activity, while in other organizations only some personnel perform major DOD headquarters activities' functions.

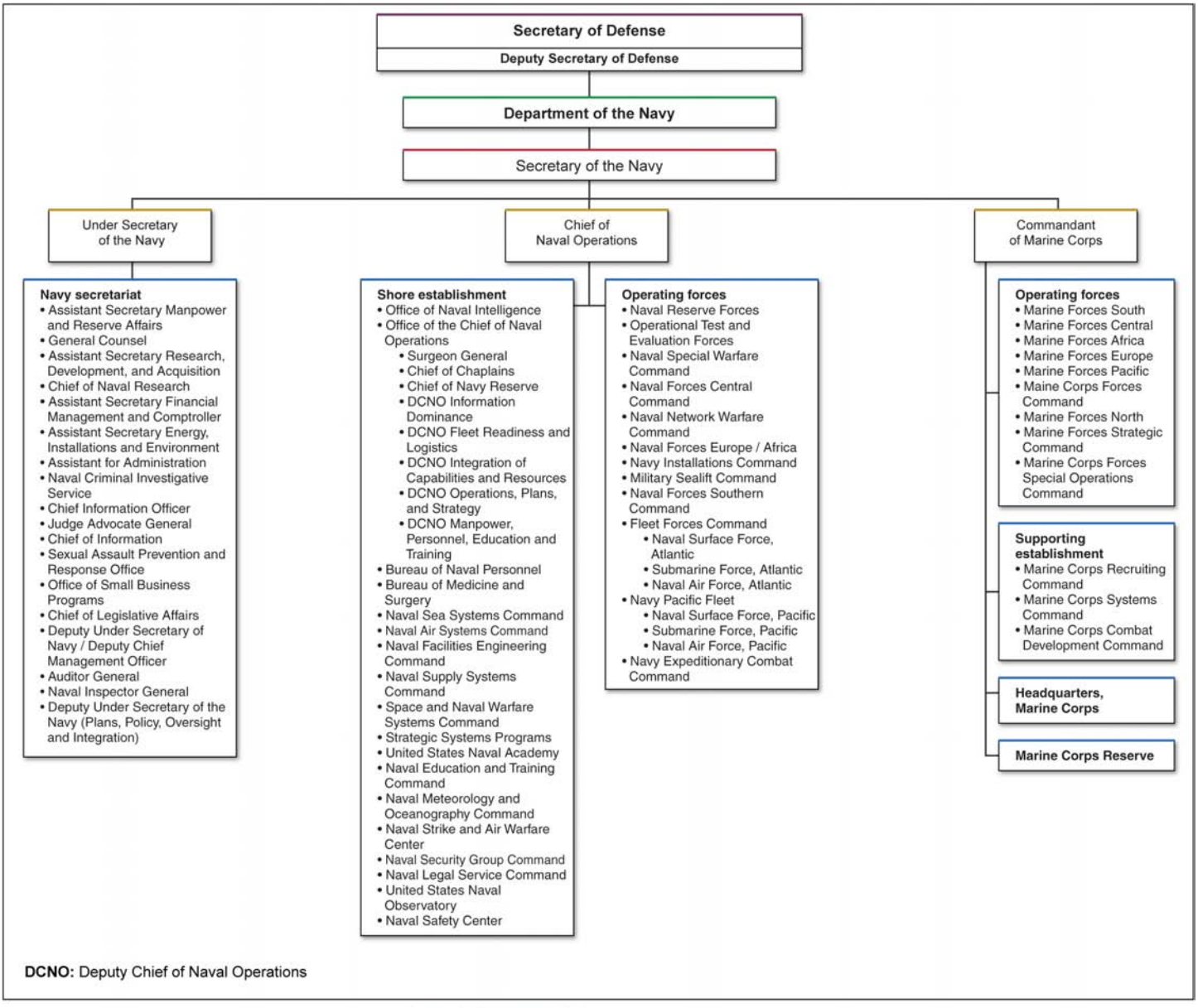
Figure 5: Department of the Army



Source: GAO analysis of DOD data.

Notes: Graphic is for illustrative purposes only; it is not intended to depict all organizations, their functions, or their legal or command and control relationships. In some organizations only the headquarters is considered a major DOD headquarters activity, while in other organizations only some personnel perform major DOD headquarters activities' functions.

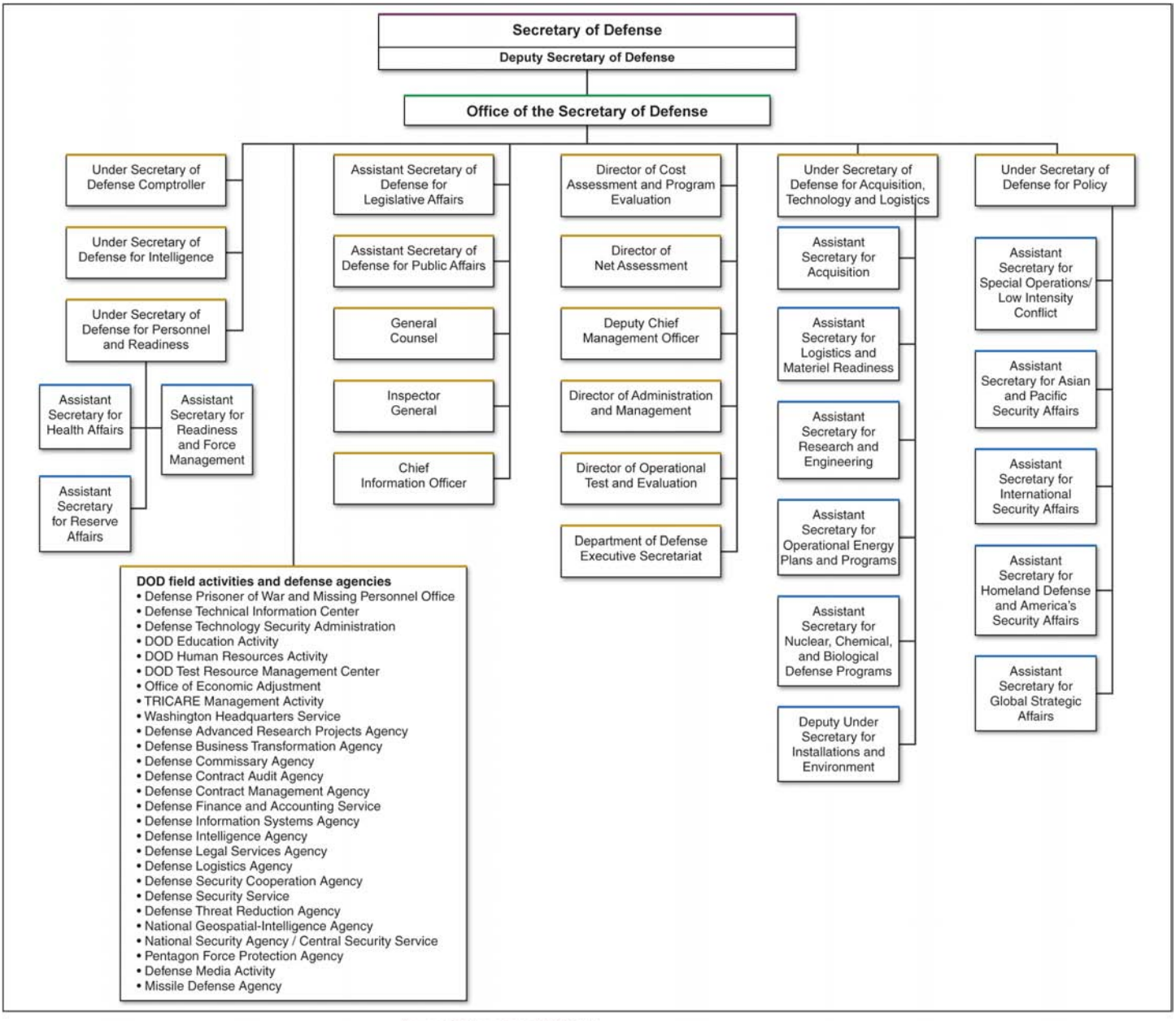
Figure 6: Department of the Navy



Source: GAO analysis of DOD data.

Notes: Graphic is for illustrative purposes only; it is not intended to depict all organizations, their functions, or their legal or command and control relationships. In some organizations only the headquarters is considered a major DOD headquarters activity, while in other organizations only some personnel perform major DOD headquarters activities' functions.

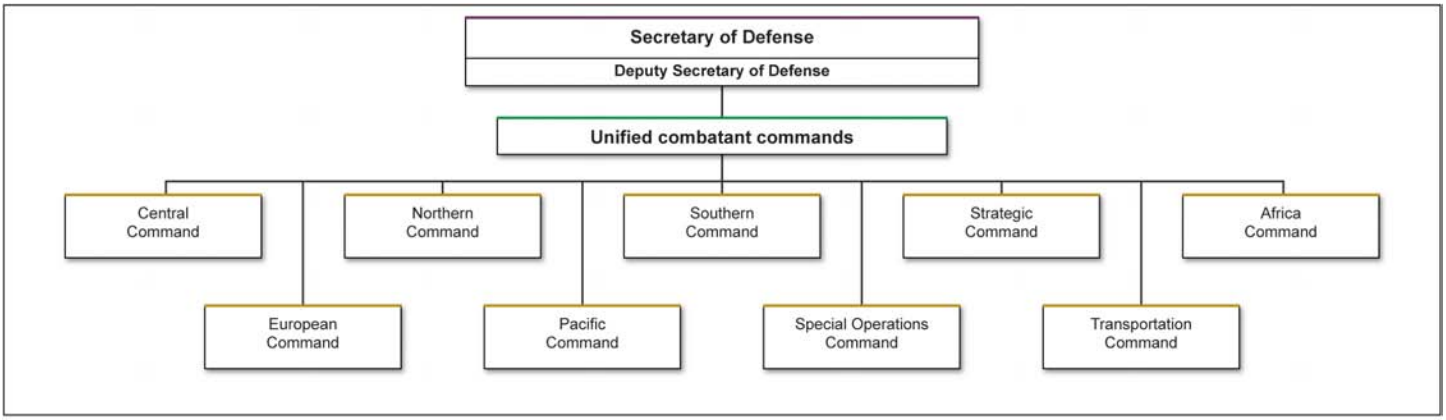
Figure 7: Office of the Secretary of Defense



Source: GAO analysis of DOD data.

Notes: Graphic is for illustrative purposes only; it is not intended to depict all organizations, their functions, or their legal or command and control relationships. In some organizations only the headquarters is considered a major DOD headquarters activity, while in other organizations only some personnel perform major DOD headquarters activities' functions.

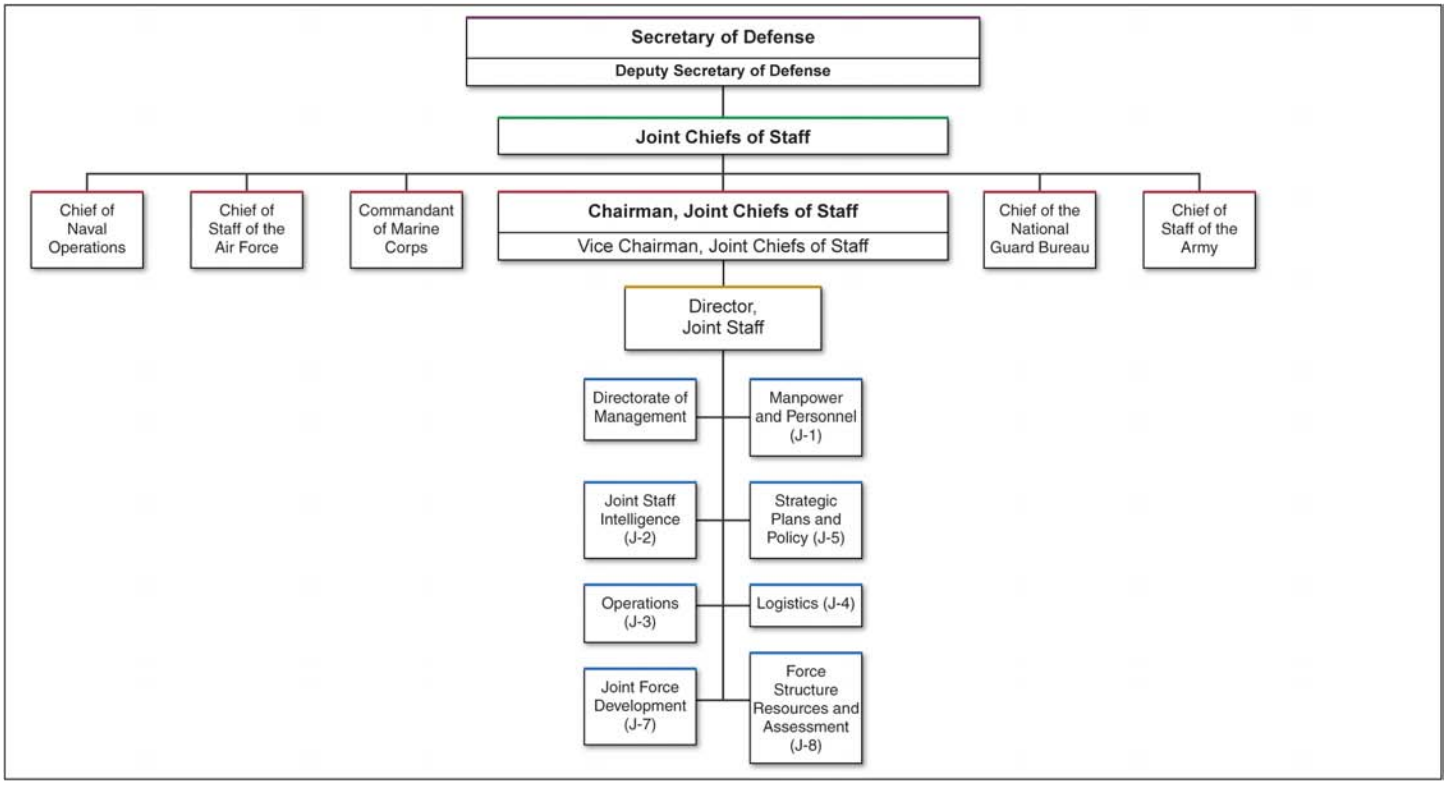
Figure 8: Unified Combatant Commands



Source: GAO analysis of DOD data.

Notes: Graphic is for illustrative purposes only; it is not intended to depict all organizations, their functions, or their legal or command and control relationships. In some organizations only the headquarters is considered a major DOD headquarters activity, while in other organizations only some personnel perform major DOD headquarters activities' functions.

Figure 9: The Joint Chiefs of Staff



Source: GAO analysis of DOD data.

Notes: Graphic is for illustrative purposes only; it is not intended to depict all organizations, their functions, or their legal or command and control relationships. In some organizations only the headquarters is considered a major DOD headquarters activity, while in other organizations only some personnel perform major DOD headquarters activities' functions.

Appendix IV: Comments from the Department of Defense

DEPUTY CHIEF MANAGEMENT OFFICER
9010 DEFENSE PENTAGON
WASHINGTON, DC 20301-9010

MAR 9 2012

Mr. John H. Pendleton
Director, Defense Capabilities and Management
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Pendleton:

This is the Department of Defense (DoD) response to the Government Accountability Office (GAO) draft report GAO-12-345, "DEFENSE HEADQUARTERS: Further Efforts to Examine Resource Needs and Improve Data Could Provide Additional Opportunities for Cost Savings," dated February 10, 2012, (GAO Code 351629). The Department concurs with the first recommendation and partially concurs with the second recommendation contained in the draft report.

The Department appreciates the opportunity to respond to your draft report. We look forward to your continued cooperation and dialog toward our common goal of finding opportunities for cost savings throughout the Department of Defense. Should you have any questions, please contact Mr. Bryan Kitchens, 571-372-3182, bryan.kitchens@osd.mil.

Sincerely,

Elizabeth A. McGrath

Enclosure:
As stated

GAO DRAFT REPORT DATED FEBRUARY 10, 2012
GAO-12-345 (GAO CODE 351629)

"DEFENSE HEADQUARTERS: FURTHER EFFORTS TO EXAMINE RESOURCE NEEDS AND IMPROVE DATA COULD PROVIDE ADDITIONAL OPPORTUNITIES FOR COST SAVINGS"

DEPARTMENT OF DEFENSE COMMENTS TO THE GAO RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommends that the Secretary of Defense direct the secretaries of the military departments and the heads of the DOD components to continue to examine opportunities to consolidate or eliminate military commands that are geographically close or have similar missions, as well as seek further opportunities to centralize administrative and command support services, functions, or programs.

DoD RESPONSE: Concur.

The Department of Defense (DoD) is organizationally dynamic and seeks opportunities to realign personnel and organizations to support evolving operations, missions, and threats. The Department is continually assessing its organizational structure and personnel to optimize output and eliminate inefficiencies and will continue to do so.

RECOMMENDATION 2: The GAO recommends that the Secretary of Defense direct the Director of Administration and Management, in consultation with the Under Secretary of Defense for Personnel and Readiness, to revise DOD Instruction 5100.73 *Major DOD Headquarters Activities* to:

- Include all major DOD headquarters activity organizations;
- Specify how contractors performing major DOD headquarters activity functions will be identified and included in headquarters reporting;
- Clarify how components are to compile the major DOD headquarters activities information needed to respond to the reporting requirements in section 1109 of the fiscal year 2010 National Defense Authorization Act; and
- Establish timeframes for implementing the actions above to improve tracking and reporting headquarters resources.

DoD RESPONSE: Partially concur.

While the Department concurs with the intent of this recommendation and supports the refinement and update of DOD Instruction 5100.73 *Major DOD Headquarters Activities*, the Department uses the designation of Major DoD Headquarters Activities (MHA) in DoDI 5100.73 to identify and manage the size of organizations in order to comply with statutory limitations, not as a tool to manage the organizational efficiency of the Department or its components. Shortcomings in the Instruction have limited impact on

the management of the Department. Without statutory relief, any changes to the definition of MHA would make it difficult to comply with section 194 of title 10, United States Code which limits the total number of military or civilian personnel that may be assigned or detailed to permanent duty in the MHA. This section incorporates by reference the definition of MHA in the January 7, 1985 version of DoD Directive 5100.73. In 2009 the DoD Directive 5100.73 was administratively changed to an Instruction but did not change the existing definition of MHA for the purposes of compliance with section 194. It would be difficult to update the issuance without losing the foundational basis prescribed by title 10. The MHA designation is a tool for Congressional oversight. The Department has other means to manage resource expenditures, including planning, programming, budgeting, and execution of fiscal and manpower resources through prioritization of requirements.

With regard to the recommendation that the Department improve contractor identification for MHA, the Department submitted a plan to the Congressional defense committees in November 2011 for its "Inventory of Contracts for Services" that established both near- and long-term actions needed to improve overall visibility and accountability of all contracted services, including those performed in support of MHA. This plan, and subsequent guidance issued in December 2011, describes the steps being taken to account for the level of effort of contracted support, based on the activity requiring the service. Aligning contract support with the requiring activity (as opposed to contracting activity) will ensure the Department can reflect contractor full-time equivalents, based on direct labor hours collected from contractors, supporting MHA.

With regard to the recommendation to meet the reporting requirements for MHA of Section 1109 of the National Defense Authorization Act for FY 2010, the Department has incorporated this requirement into the Defense Manpower Requirements Report (DMRR). Aggregate civilian and military data was reported by Components for inclusion in the FY2012 DMRR and will be included in the FY2013 DMRR as well. A more accurate reflection of MHA is being incorporated into the annual Inherently Governmental and Commercial Activities (IG/CA) Inventory. The IG/CA Inventory guidance issued in October 2011 included the MHA requirement and the FY2012 IG/CA inventory will include MHA data. This revision will provide greater analytic capability for DoD function codes, manpower mix criteria, location of services, and specific unit/organization of billets designated as MHA.

Appendix V: GAO Contact and Staff Acknowledgments

GAO Contact

John Pendleton, (404) 679-1816 or pendletonj@gao.gov

Staff Acknowledgments

In addition to the contact named above, Patricia Lentini, Assistant Director; Erin Behrmann; Pat Bohan; Grace Coleman; Richard Geiger; Jeffrey Hubbard; Cynthia Saunders; John Van Schaik; Angela Watson; K. Nicole Willems and Weifei Zheng made key contributions to this report.