

VOLUME 5
ORGANIZATIONAL INNOVATION & MANAGEMENT REFORM
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CHAPTER 1. DEFENSE REFORM INITIATIVE

Background

Secretary Cohen introduced the Defense Reform Initiative (DRI), in November 1997, to pursue fundamental reform in how the Defense Department conducts business. The scope of the DRI has broadened over time while the priority and need for reform is unchanged in its importance.

The DRI Report released in 1997 identified four pillars of defense reform:

Re-engineer; Consolidate; Compete; and, Eliminate.

Over time these four pillars have evolved and reform efforts in the Department are now organized around our major business processes:

- ◆ Quality of Life;
- ◆ Financial Management;
- ◆ Competition;
- ◆ Infrastructure Reduction;
- ◆ Acquisition;
- ◆ Logistics; and,
- ◆ Cyberspace.

As some reform initiatives reach their goal and other, new initiatives begin, the structure of the DRI will continue to evolve. The purpose and underlying principles, however, remain the same: providing a consistent point on the horizon toward which the DoD leadership can steer as they move on the road to reform.

Reform Memoranda and Directives. One very visible sign that the Defense Reform Initiative is aggressively applying to the Department the key business principles of American Industry can be found in Management Reform Memoranda (MRM's) and Defense Reform Initiative Directives (DRID's). To date, the Department has issued a total of 17 Management Reform Memoranda and 52 Defense Reform Initiative Directives covering a wide range of issues for changing the way the DoD does business. As of September 2000, action on two-thirds of these are complete. Many of the early Directives dealt with downsizing in OSD. These downsizing efforts are complete. Many of the open Directives deal with process changes that are currently underway.

A. STREAMLINING

Having themselves reduced, restructured and reengineered since the height of the Cold War, America's Armed Forces now find themselves buttressed by support organizations

that have failed to affect proportionate changes. As a result, there is an adverse imbalance in efficiencies between the warfighters and those who support them.

Reducing the Size of Headquarters Staffs. The experience of American business is instructive. Commercial sector reforms demonstrate that business practices require reengineering headquarters staff. Toward that end, Secretary Cohen made a series of decisions to reduce and restructure DoD headquarters elements -- the Office of the Secretary of Defense (OSD) staff, the Defense Agencies, the DoD Field Activities, and the Joint Staff. Three central principles guided efforts to streamline the Department. First, Department headquarters should be flexible enough to deal with future challenges. Second, OSD should focus on corporate-level tasks. And third, operational management tasks should be pushed to the lowest appropriate level.

The Secretary of Defense was committed to reengineering headquarters staffs at all levels. Toward this end, he reduced and restructured the staffs nearest to him -- the Office of the Secretary of Defense and the Joint Staff. The Secretary directed that OSD staff be cut by one-third by the end of fiscal year 1999. This was accomplished.

The Joint Staff will be reduced by 29 percent by fiscal year 2003. Defense Agencies are moving forward with reductions of 21 percent by fiscal year 2001. This goal was adjusted in the fiscal year 1999 Budget. Field Activities will exceed their required 36 percent reduction. Lastly, Military Department Headquarters will be reduced by an additional 10 percent by fiscal year 2003.

The Defense Reform Initiative also mandates staff cuts for the Headquarters of Military Departments and Major Commands. By 2003, the Headquarters staffs of the Military Departments and Major Commands will be reduced 10 percent from fiscal year 1998 levels. Taken together with previous reductions begun in the early 1990s, the Headquarters components of the Military Departments and the Combatant Commands will reduce their Headquarters staffs by a total of 29 percent and 22 percent, respectively.

Reducing the Numbers of Committees. In 1997, Defense Reform Initiative (DRI) noted that over 550 boards, commissions and working groups existed throughout the Department. While perhaps individually advantageous at the time of their creation, the aggregate effect of so many committees and boards involving so many employees resulted in too many hours not spent on core missions and functions. The Defense Reform Initiative immediately eliminated 22 boards and committees. The DRI also called for a 25 percent decrease in the total number of committees remaining.

The Department exceeded this goal by reducing the number of committees to 338... a 40 percent reduction. Periodic reviews and reassessments continue to ensure that the number of committees remain under control, and that existing committees remain relevant and focused on their primary goals. More importantly, the reviews will help the Department maintain its 40 percent reduction.

B. CREATING THE DEFENSE THREAT REDUCTION AGENCY

The Defense Reform Initiative includes efforts to re-align the Department of Defense to meet more effectively the evolving threats to the United States, threats quite different than those of the past. Among those of greatest concern is that posed by the production, proliferation and use of weapons of mass destruction – chemical, biological and nuclear weapons.

In November 1997, the Department's efforts to address this threat were divided among three separate agencies and the Office of the Secretary of Defense, an approach ill-suited to today's world. As part of the DRI, Secretary Cohen directed the creation of a single organization to carry out programs designed to address proliferation and counter threats posed by weapons of mass destruction. The Defense Threat Reduction Agency or DTRA became operational in October 1998.

Reporting to the Under Secretary of Defense for Acquisition and Technology, DTRA consolidates and transforms the efforts of the On-Site Inspection Agency, the Defense Special Weapons Agency, the Defense Technology Security Administration and some missions and responsibilities of the Office of the Assistant to the Secretary of Defense for Nuclear, Chemical and Biological Defense Programs.

A Threat Reduction Advisory Committee of distinguished outside scientists, executives and former government leaders was created to advise and assist DTRA on a wide range of matters. DTRA is now the cornerstone of the DoD's efforts to confront and control weapons of mass destruction.

C. CREATING THE JOINT SPECTRUM CENTER

On March 23, 1998, the Deputy Secretary of Defense directed the creation of the Joint Spectrum Center in Defense Reform Initiative Directive (DRID) 31. DRID 31 realigned the duties and responsibilities in the spectrum management area being performed throughout the Department as follows:

- The Office of the Assistant Secretary of Defense for Command, Control, Communications and Intelligence (OASD (C3I)) designated a Special Assistant for Spectrum Management to be the DoD focal point for spectrum management, with a staff of three individuals, to carry out the policy, planning, and oversight functions associated with DoD spectrum;
- The Director, Defense Information Systems Agency (DISA), established an office of spectrum analysis and management, assigned appropriate resources to coordinate joint spectrum matters, and assisted OASD(C3I) in conducting strategic spectrum planning; and

- The Military Departments, while continuing to fund their personnel and administrative support, co-located their respective frequency management offices with the DISA office of spectrum analysis and management. This co-location facilitated mutual coordination and the development of joint positions for DoD spectrum management. While Military Department personnel continued to report to their respective Departments, they coordinated with the DISA office of spectrum analysis and management for joint spectrum management issues.

Beyond the high-level guidance put forth in DRID 31, assigned functional areas for the Joint Spectrum Center include, but are not limited to:

- Serving as the DoD spectrum management focal point and authority for international (ITU and NATO) and national policy, planning, and oversight;
- Overseeing the DoD Electromagnetic Compatibility Program (EMCP);
- Developing policy to support DoD spectrum requirements;
- Providing spectrum management policy guidance to DISA OSAM, the MILDEP Spectrum Management Offices, and the Joint Spectrum Center (JSC);
- Providing policy guidance to the JSC;
- Serving as the Chair and regularly convening the Spectrum Management Review Group (SMRG) which serves as the Defense Spectrum Oversight Working Group;
- Representing the Department on spectrum matters in National and International forums;
- Interfacing with Congress, the Administration, and Federal agencies on spectrum issues; and
- Participating in the development of interagency and international agreements relating to spectrum.

D. COMPETITIVE AND STRATEGIC SOURCING

In an era of changing security interests, the Department of Defense must reallocate funding to meet the needs of the warfighter. Improved business processes are no longer a luxury, but a necessity.

Strategic Sourcing is a program for performing functional assessments to determine if processes can be eliminated, improved or streamlined - regardless of whether the activities are commercial or inherently governmental in nature. For functions that are commercial in nature, the Office of Management and Budget's Circular A-76 and its Supplemental Handbook detail procedures for determining whether those activities should be performed by the Department of Defense, another federal agency, or the private sector.

In November 1997, the Department announced a goal to compete 150,000 positions between Fiscal Years 1997 and 2003 under the A-76 process. In 1999, the Department embraced the

broader concept of strategic sourcing. The Fiscal Year 2001 budget provides for the study of over 244,000 positions between Fiscal Years 1997 and 2005.

In Fiscal Year 1997, the number of positions competed under the A-76 process was just over 26,000. In Fiscal Year 1998, over 39,000 positions were studied, and in Fiscal Year 1999, almost 56,000. From Fiscal Years 1997 through 1999, over 121,000 positions were studied; leaving the Department well on the way to its goal of 244,000 by Fiscal Year 2005.

The Department expects this combined process will save approximately \$11.7 billion dollars from Fiscal Years 1997 to 2005. The commitment to achieving this goal is so strong that these projected savings have already been reallocated to other defense priorities, including force modernization.

E. TRANSFORMING ACQUISITION AND LOGISTICS

Begun prior to the creation of the Defense Reform Initiative, Acquisition Reform and Logistics Transformation were formally rolled into the DRI in 1998.

Acquisition Reform. To build a 21st century military capable of meeting 21st century missions, the Department of Defense must equip its Armed forces with the latest technologies and tools. This, in turn, requires an acquisition system that provides our forces with the highest quality goods in the most affordable and efficient fashion possible.

To that end, the Department started pursuing Acquisition Reform in 1991. This reform effort envisioned a reengineered acquisition system that focused on:

- managing suppliers, rather than supplies;
- providing high-quality support with fewer organizations based on tough performance parameters; and
- ensuring the public's trust and confidence in DoD.

Logistics Transformation. Building upon the logistic successes of world-class performance within the commercial sector, the Department of Defense is changing to a vision of integrated supply chains focused on meeting warfighter requirements at the point of need. To meet these requirements, DoD is moving to accomplish the following goals:

- Satisfy customer requirements at the point of need;
- Reduce cycle times to meet dynamic warfighting requirements;
- Replace large investments in infrastructure with information visibility, agility, and rapid transportation;
- Create robust partnerships with the commercial sector; and
- Reduce organizational echelons to only those that benefit the warfighter.

F. FINANCIAL MANAGEMENT REFORM

Implementing Effective Systems. The Department's approach for improving financial management is to move toward the target architecture of an integrated financial management system, comprised primarily of substantially compliant finance, accounting, and critical feeder systems. The strategy for achieving an integrated financial management system includes consolidating some systems and eliminating others that are not necessary.

Consolidation efforts are generally complete for the finance functions, and the accounting systems consolidations are still underway. As of September 2000, 76 finance and accounting systems were operating - down from 324 in 1991. The goal is to reduce the number of systems to 38 by 2005.

These consolidations achieve genuine benefits. For example, when all the DoD's one million civilian payroll accounts were consolidated into a single system, 26 separate systems were eliminated and 348 payroll offices closed. In 1999, a typical civilian payroll technician handled over 2,100 accounts, compared to 380 in 1991. These actions have led to an accuracy rate of over 98 percent for all military and civilian pay. The DFAS is developing improved metrics for measuring the accuracy and timeliness of payroll operations.

The Department's effort to integrate systems, however, is not simply to reduce the number. The consolidation, standardization, and modernization of the Department's financial management systems will enable the Department to eliminate its outdated non-compliant financial management systems. Accounting and finance systems are compliant when they substantially meet federal financial management system requirements, adhere to applicable federal accounting standards, and use the U.S. Standard General Ledger at the transaction level. The Department is expecting to eliminate all non-compliant systems by Fiscal Year 2005.

The DFAS Corporate Information Infrastructure, or DCII, established in 1997, is being implemented to help modernize finance and accounting systems and support future financial activities. DCII will support the use of common standard data for the collection, storage, and retrieval of financial information. It will also simplify and standardize DoD finance and accounting transactions. Included in DCII is an ambitious effort to standardize and share acquisition data. This will greatly improve the interactions between DoD procurement systems and the financial systems that process and account for payments of procurements.

Reengineering Business Practices. A critical aspect of the Department's financial management reform is to exploit successful business practices from both the private and government sectors. The goal is to make DoD business practices simpler, more efficient and less prone to error. A management oversight structure was developed to involve the Department's senior leaders in the financial improvement process. This structure includes a D-o-D Financial Management Steering Committee and Working Capital Funds Policy Board. These entities actively engage in approving and monitoring the Department's financial management reform.

Changes implemented by the Defense Finance and Accounting Service, or DFAS, as a result of competition studies have produced annual savings of \$23 million by streamlining administration, operations, facilities, and logistics, and by consolidating debt and claims

management and vendor payments. The Department is using public-private competition - the A-76 process - to improve functions and reduce costs. Currently, A-76 studies are underway in the several areas, such as transportation accounting, depot maintenance accounting, and civilian, retiree and annuitant payroll. To date, approximately one-third of the DFAS operations, measured in terms of costs, have been either outsourced, competed for outsourcing, or are being subject to an outsourcing competition.

The DFAS is promoting the paperless exchange of financial information through a variety of initiatives. Electronic Document Management and worldwide web applications are enabling on-line, real-time access to documents needed to perform bill paying and accounting operations. Electronic Funds Transfer, or EFT, is being used to reduce the cost and improve the accuracy and timeliness of disbursements. Over 98 percent of DoD civilian and military employees have their pay directly deposited into their personal bank accounts. The direct deposit participation rate for travel payments is 94 percent. In 1999, EFT accounted for about \$63 billion, or 90 percent of the total contract dollars disbursed by the Department.

Electronic Data Interchange, or EDI, is enabling the DFAS to send remittance information directly to vendors. The DFAS is currently processing EDI contracts and contract modifications into its finance and accounting systems. The DFAS also is implementing a web-based invoicing system that provides industry with an economical method to submit electronic invoices.

Through its Joint Electronic Commerce Program Office, the Department has fielded the web-based Central Contractor Registration, or CCR, that provides all DoD procurement and payment offices with a single source of valid and reliable contractor data. The CCR capability also helps the DFAS capture up-front contractor financial systems data that facilitates EDI and EFT payments. Finally, the Department is implementing the Defense Cash Accountability System, or DCAS. DCAS allows DoD to electronically collect and distribute disbursement voucher data. DCAS is expected to reduce the D-o-D disbursing cycle from over 90 days to forty-eight hours.

G. ELIMINATING EXCESS INFRASTRUCTURE

Base Realignment and Closure. Base Realignment and Closure, or BRAC, is the single most important reform initiative -- both because it is needed to shrink unnecessary Department infrastructure to match 21st century needs, and because it promises the greatest savings.

As a result of the first four rounds of BRAC, the Department of Defense will save \$14.5 billion dollars by 2001, with recurring savings of about \$5.7 billion each year thereafter. This money will be reapplied to critical, higher priority programs such as modernization and military readiness. The Department remains hopeful that it will be allowed to pursue two more rounds of base closure in the future. Please see Chapter 3 for more detailed information on this important initiative.

Disposal of Excess Facilities and Structures. Installation commanders are often forced to divert funds to operate and maintain obsolete and excess structures. These costs come at the

expense of more important requirements, and could be avoided by demolishing or disposing of the unnecessary facilities.

As detailed in the 1997 Defense Reform Initiative Report, the Military Services surveyed their installations and identified over 80 million square feet of buildings, including more than 8,300 individual structures that could be demolished in the near future. This is a sizeable amount...roughly equivalent to 12.3 Pentagons...and the Pentagon is one of the largest office buildings in the world. The Department needed to eliminate these excess structures and redirect the operations and maintenance funds being spent on them to higher priorities. The Department has also identified additional excess non-building structures -- such as towers and storage tanks - and is demolishing these as well.

During the first two years of this initiative, 1998 and 1999, the Department eliminated about 31 million square feet of excess space, exceeding the two-year goal of 25 million. The plan in 2000 is to eliminate an additional 15 million square feet, bringing the total to 40 million square feet of excess space eliminated. Progress to date indicates that the Department will again exceed its annual disposal goal. The Department estimates that projected cumulative savings from disposal through fiscal year 2003 will be \$160 million.

H. CREATING THE DEFENSE MANAGEMENT COUNCIL

Defense Management Council (DMC) was established as the Board of Directors to oversee the continued reengineering of the Department of Defense. The DMC ensures that reform initiatives directed by the Secretary of Defense are carried out, recommends reforms to the Secretary, and reviews the Defense Agencies' performance contracts. The DMC is a first - an attempt to create a "Board of Directors" of the senior military and civilian leadership of the Department to provide direction on a range of critical reform and reform-related issues. It has met, on average, once a month since its creation in December 1997.

The Deputy Secretary of Defense chairs the Defense Management Council. Membership includes:

- the Under Secretaries of Defense for Acquisition, Technology, and Logistics, Policy, Comptroller, and Personnel and Readiness;
- the Vice Chairman of the Joint Chiefs of Staff;
- the General Counsel;
- the Assistant Secretary of Defense for Command, Control, communications, and Intelligence;
- the Under Secretaries of the Army, Navy, and Air Force;
- the Vice Chiefs of Staff of the Army and Air Force;
- the Vice Chief of Naval Operations;
- the Assistant Commandant of the Marine Corps;
- the Director of Administration and Management; and
- the Director, Defense Reform Initiative.

The Coordinating Group for the Defense Management Council. The Coordinating Group (CG) is the staff arm of the Defense Management Council. The Coordinating Group reviews and prepares issues for DMC attention and resolution. The Coordinating Group consists of primary and alternate members representing their respective DMC principals.

CHAPTER 2. DEFENSE REFORM INITIATIVE BUSINESS CHANGES

A. ELECTRONIC COMMERCE/ELECTRONIC BUSINESS

The Defense Reform Initiative is aggressively applying to the Department the key business principles that American Industry has successfully used to become leaner and more flexible. One of the most important of these initiatives is the commitment to integrating Electronic Commerce or Electronic Business into every facet of DoD business.

Most of the Department's business affairs are paper intensive and, therefore, people intensive, expensive, and slow. The crushing weight of paper is felt in virtually every corner of the DoD's business operations – from contract administration to procurement to acquisition to finance to travel and payment operations. As a result, it was crucial that the Department rapidly transition to Electronic Commerce, thereby reducing Departmental overhead and also presenting a customer-friendly interface to private enterprises, including small businesses, that heretofore have found it difficult and expensive to do business with the Department.

The Joint Electronic Commerce Program Office (JECPO). The Joint Electronic Commerce Program Office (JECPO) was created in May 1998 to develop the DoD roadmap for, and facilitate the transition to, Electronic Commerce or EC. Serving as the Department's EC facilitator, JECPO has excelled in its efforts to establish a robust EC infrastructure, thereby allowing for promotion of internet-based business tools. JECPO's successes to date have been encouraging and are a testimony to the cooperation the organization has received from within the Department and from industry. The momentum has clearly been established. As technology evolves, all DoD organizations need to integrate EC tools into their business and management practices.

Department of Defense Electronic Mall (E-Mall). Under JECPO's direction, the DoD Electronic-Mall (E-Mall) began with the expansion of the Defense Logistics Agency's E-Mall and now provides "one-stop shopping" for all DoD employees. The Commodity and Service "corridors" contained therein allow DoD users virtually unlimited access to the goods and services needed to conduct operations. The E-Mall provides a single point of entry and search across all internet-based DoD electronic catalogs, as well as a growing number of commercial catalogs, for customers to buy both products and services. Purchases are simply placed through use of a government purchase card. There are currently 2.3 Million items in the E-Mall, and the sales in FY 99 totaled \$51.5 Million.

Paperless Contracting. Another important reform pursued through the JECPO is Paperless Contracting. The Paperless Contracting goal is to remove 90 percent of the paper from contract writing, administration, finance, and auditing. To facilitate the elimination of these paper-based contracting activities, the JECPO has assisted the contracting community in placing requirements, contracts, modifications, invoices, vouchers, and receiving reports on the World Wide Web. DoD accepted, and exceeded, Vice-President Gore's National Performance Review

goal of 50% paperless contracting transactions by year 2000; 83% of the Department's transactions are currently paperless.

New Business Opportunities Home Page. To support worldwide industry access to new DoD business needs, the JECPO created the New Business Opportunities Home Page. Industry partners, large and small, are able to use this home page to identify all DoD solicitations, bid on those desired, and see awards that have been made through the use of a single search engine.

Central Contractor Registry (CCR). Before conducting business with DoD, industry partners must be registered. This not only sets them up to do business with the Department, but also facilitates electronic payment. To do this, the JECPO created the Central Contractor Registry or CCR. The CCR is a central database containing DoD industry partners' procurement and financial information. The registration process is performed once for every business entity with annual renewals. The CCR is accessible on the Internet for registration and for inquiry to verify registration before making awards. Perhaps the most important feature of CCR is that it is easy for a small business to register and obtain or furnish information required to be a DoD business partner.

Purchase Card Program. Another Defense Reform initiative supported by the JECPO that has experienced success in streamlining the contracting process is the DoD Purchase Card Program. The goal was to have 90% of all DoD purchases under \$2500 made using the government-wide purchase card by the year 2000. The Department exceeded that goal. On July 20, 1998, use of the Government Purchase Card was authorized in DoD for non-procurement business areas such as training costs, medical services, non-appropriated fund payments, goods and services, and all military interdepartmental purchase requests. Before the purchase card, buying supplies and services was labor and paper-intensive, and often required numerous approvals. In Fiscal Year 1999, \$8.7 million transactions in the Department were made using the card resulting in savings of \$26 million. If we calculate a conservative \$20 savings per purchase card transaction, the DoD's cumulative minimum savings from Fiscal Year 1994 through Fiscal Year 1999, was \$175 million.

Electronic Commerce Conference Working Groups (ECCWG). Last but not least, special mention needs to be made of the Department's partnership with Industry in the area of Electronic Commerce. On May 4 1999, Deputy Secretary Hamre hosted the Defense Reform Electronic Commerce Conference in the Pentagon. Over 120 Industry CEO's and Presidents attended the meeting. DoD was represented by an equal number of senior DoD managers. At the conference a number of recommendations were made concerning issues of common concern to both Government and Industry. The conference highlighted four issues of particular interest -- Information Security, Performance Measures, Incentives for Adoption of Electronic Business, and Software Quality and Interoperability Management. Four Working Groups of Government and Industry subject area experts were subsequently formed to tackle these issues -- one group per issue. They presented 29 recommendations to Deputy Secretary Rudy de Leon for consideration at a follow-up conference in the Pentagon on June 20, 2000. The Deputy Secretary has taken these recommendations and asked the Department's Chief Information Officer to draw up a plan to implement them.

B. REENGINEERING DEFENSE TRANSPORTATION

The current processes to document and pay for transportation services are inefficient, expensive, and administratively burdensome for both the Department of Defense and commercial carriers. That's why the Department is reengineering its transportation documentation and financial processes to reduce infrastructure, eliminate government-unique documents, and create a single documentation and billing process for all modes of transportation.

We are achieving these goals by using a third party bank to pay commercial transportation bills, and by eliminating government shipping documents such as government bills of lading and military manifests. The U.S. Bank's PowerTrack third-party payment system decreases the number of payment transactions that the Defense Finance and Accounting Service (DFAS) must process. The system also pays carriers within 3 days of confirmation that service was provided, and maintains an on-line auditable record.

Prior to the February 1999 implementation of the PowerTrack system, DFAS paid all transportation invoices. Between February and December 1999, the Department of Defense processed over 1.3 million Bills of Lading. DFAS processed 760,000 Government Bills of Lading using the "As-Is" process. After PowerTrack began processing in February, DFAS lost a significant portion of its bill of lading workload. As a result, PowerTrack paid 530,000 of the individual carrier bills of lading that DFAS would have otherwise paid. In turn, PowerTrack consolidated these 530,000 individual bills onto only 475 monthly bank invoices, using 7,500 lines of accounting, and submitted them to DFAS for reimbursement. The net result is DFAS only had to process 475 bills instead of 530,000.

Our objective is to transfer the entire carrier payment responsibility to PowerTrack, with DFAS paying only consolidated monthly bank invoices. As a result, DFAS will need a much smaller infrastructure to support transportation payments. Since February 1999, PowerTrack has processed nearly 41% of DoD domestic freight transactions. While DFAS is beginning to realize immediate savings, total savings envisioned by Management Reform Memorandum 15 will be attained once all shipments are processed through PowerTrack.

By using a third party system like PowerTrack, we can commit to paying carriers within three days after transportation services are provided. In fact, metrics collected from July to December 1999, show that by using PowerTrack just over 94% of the transactions are being paid in less than three business days, rather than 30 to 90 days as in the past. The Department is also eliminating 1.6 million government-unique transportation documents and replacing them with electronically generated commercial documents. These documents require less data, and they are the same documents that commercial carriers use for their commercial shippers. The end result is less administrative burden, and a standard process for our carriers.

C. IMPROVING ACCOUNTABILITY

Performance Measures. Results-driven performance management allows managers to track progress toward their goals, flag possible problems, and continuously improve. It also allows managers to identify priorities and allocate limited financial resources. During Fiscal Year 2000, the Defense Reform Office worked with DoD components to create performance measures for the various reform efforts. The project created 41 performance measures that focused on cost savings, process efficiencies, and improved customer service. These performance measures will help provide the information required to effectively manage the reform efforts in the Department.

Defense Agency Performance Contracts. Under the Defense Reform Initiative, performance contracts are filling a long recognized need for stronger Departmental oversight of, and increased accountability within, the Defense Agencies and separate Field Activities. In addition, performance contracts provide a needed vehicle to ensure greater customer participation in future planning at the Defense Agencies. As of Fiscal Year 2000, nine Defense Agencies have developed annual performance contracts outlining performance requirements and new initiatives agreed to by the organization, its customers, the Defense Management Council, and the Office of the Secretary of Defense.

In addition to requiring contracts, the DRI formed the Defense Agency Task Force, or DATF, consisting of executives from each organization with a performance contract and representatives from each Military Service, staff from the Office of the Secretary of Defense, and the Joint Staff. The DATF is an oversight body charged with providing direction and guidance to those involved in the performance contract process. Using working groups established for each organization and a steering group to give overall direction, the DATF provides progress updates and recommendations to the Defense Management Council regarding the contracts and results of performance against the contract metrics.

During January 1998, four organizations completed one-year performance contracts that covered Fiscal Year 1999. These organizations, the Defense Finance and Accounting Service, the Defense Contract Audit Agency, the Defense Logistics Agency, and the Defense Health Program, worked very closely with their customers and the staff in the Office of the Secretary of Defense to identify critical management metrics for use in the contracts.

During Fiscal Year 2000, significantly improved performance contracts were developed for a total of seven organizations using lessons learned from the Fiscal Year 1999 contract process. These contracts, in addition to being multi-year contracts covering fiscal year 2000 through 2005, include new reengineering actions to be taken by the organizations to improve the way certain business functions are performed.

Increased customer involvement was also stressed when drafting the Fiscal Year 2000 through 2005 performance contracts, as evidenced by the inclusion of "additional commitments" required of other Department of Defense Components. These additional commitments highlight the joint effort necessary, by both the service provider and their customers, to achieve success in meeting the stated contract performance goals.

For fiscal year 2001 and beyond, all nine of the organizations required to develop performance contracts will submit them to the DMC for approval. These contracts will coincide with long range planning documents submitted by each organization in May of every year and will be a linking tool between those long-term plans and the annual budget submission.

At the end of each Fiscal Year, the OSD staff will conduct a review of performance results against stated performance contract metrics. The review will highlight successes as well as problem areas and help both the organization and its customers improve communications, initiate joint solutions to problems, and develop improved metrics for future contracts.

Although the DRI only requires nine organizations to submit performance contracts to the DMC, other Agencies and Service entities are using the performance contract format to develop their own internal management tools. This effort has been supported by the Defense Agency Task Force whenever possible.

Performance contracts have achieved several important things already. First, the level of communications between the organizations and their customers has improved dramatically. Second, organizations submitting performance contracts must carefully articulate what their business areas are, who their customers are, and must assign appropriate resources to each business area. Finally, the Defense Agencies and Field Activities have available to them an important management tool that focuses on making continuous improvement in the way the Department of Defense conducts its business affairs.

D. PRIVATIZING HOUSING

A top Department of Defense priority - and among the most important aspects of our Service members' lives - is the quality of their housing. About a third of our personnel live in DoD-owned housing...much of it in need of revitalization or replacement. DoD owns about 300,000 housing units. Approximately 200,000 units are old and in need of extensive repair. However, using traditional military construction practices and funding, it would take 30 years and about \$16 billion dollars to improve them to an acceptable condition.

In January 2000, Secretary Cohen announced a major 3-prong initiative to improve military housing, which includes the following components:

- Increase housing allowances to eliminate the out-of-pocket costs being paid by Service members for off-base housing in the United States;
- Increase reliance on the private sector through privatization; and
- Maintain military construction.

The first prong is intended to lower average out-of-pocket costs from 18.8 percent currently, to 15 percent next year, and eliminate them all together by Fiscal Year 2005. This will be

accomplished through a gradual increase in housing allowances, making more money available to Service members to pay for housing. Service members will realize an immediate impact from higher allowances, because it will improve the quality and availability of existing off-base housing options. The initiative also further strengthens ongoing efforts to eliminate DoD's inadequate on-base family housing by fiscal year 2010 through the increased use of privatization as well as traditional military construction, the last two prongs of this effort.

The DoD's Military Housing Privatization Initiative, which was signed into law in 1996, provides powerful tools to help acquire, operate and maintain DoD's housing. These tools help DoD decrease expenses and eliminate traditional costs by fundamentally revising the way we fund and build housing. The initiative also provides incentives to the private sector to better leverage private sector financing. Over 1,000 units were privatized in Fiscal Year 1998. Nearly 2,700 additional units were privatized in Fiscal Year 1999, bringing the cumulative total to about 3,700 units. The Department is working on privatizing an additional 24,300 units in Fiscal Year 2000, to reach a cumulative total of approximately 28,000.

Larger allowances increase the income available to private sector developers, improving the quantity and quality of privatized housing. The Department will continue to review and encourage housing privatization projects by each Service. The combination of increased allowances and expanded use of privatization will allow for more efficient use of current family housing construction funding, the third prong of Secretary Cohen's initiative. Increased availability of quality private sector options will relieve some pressure for on-base housing, reduce the need to maintain older, high cost units, and better allow resources to be devoted to improving and maintaining needed on-base housing.

Using all three prongs of Secretary Cohen's housing initiative together will greatly improve the availability and quality of living for our Service members, which will help us attract and retain top-quality personnel.

E. ENERGY MANAGEMENT

The Department of Defense spends over \$6 billion a year on energy - \$2.3 billion on its buildings and facilities alone. In fact, DoD consumes three-quarters of the total energy used by the Federal Government. By Presidential order, the DoD must decrease its consumption of energy and water. The President's goal: by 2010, DoD must reduce energy consumption in its buildings 35 percent below 1985 levels. The Department is also required to reduce associated greenhouse gas emissions, and to increase the use of renewable energy.

The Department has made great progress in meeting the President's goal, reducing energy consumption by more than 19 percent since 1985. The DoD is continuing to work toward the 2010 goal by upgrading existing buildings with energy efficient systems, and using new sustainable design techniques to increase the energy efficiency of new construction. The DoD also plans to privatize all availability utility systems. Currently, 312 systems are privately owned and operated, and 2,300 systems are being considered for privatization. Conveying utility

systems to the private sector will save money, enhance energy efficiency, and allow the Department to focus on overall energy use and costs.

Chapter 3 -- Creating the National Imagery and Mapping Agency

The National Imagery and Mapping Agency (NIMA) was established by the National Imagery and Mapping Act of 1996, effective 1 October 1996, under the National Defense Authorization Act for Fiscal Year 1997.

Creation of NIMA followed more than a year of study, debate and planning by the defense, intelligence and policy-making communities as well as the Congress. NIMA incorporates the Defense Mapping Agency, the Central Imagery Office, and the Defense Dissemination Program Office in their entirety; the mission and functions of CIA's National Photographic Interpretation Center; and the imagery exploitation, dissemination and processing elements of the Defense Intelligence Agency, National Reconnaissance Office, and Defense Airborne Reconnaissance Office.

By eliminating the organizational barriers among programs and members of the imagery and geospatial communities, NIMA creates an environment where resources and information can fuse to serve the expanding demands for imagery, and imagery-derived and geospatial information and products. The creation of NIMA and the mission with which it is charged represents a fundamental step toward achieving the Department of Defense vision of creating dominant battlespace awareness.

By centralizing responsibility for imagery, imagery analysis and geospatial information, NIMA will be better able than its separate predecessor organizations to exploit the tremendous potential of enhanced collection systems, digital processing technology and the prospective expansion in commercial imagery.

CHAPTER 4 -- REFORMING DEFENSE ACQUISITION PRACTICES

Background

DoD is in a new environment: (a) the acquisition budget has dropped by over 66% from 1986 and will remain at lower levels for the foreseeable future; (b) the nation no longer faces a monolithic threat but a number of asymmetrical threats; and (c) the greatest advances in technology are occurring in the commercial market place, where we have limited access. In this environment DoD must be the World's smartest, most efficient, and most responsive buyer of best-value goods and services that meet our warfighter's needs from a globally competitive industrial base. In order to operate in this new environment, we had to reform our acquisition practices.

Secretary Perry spearheaded reform with his vision statement, *Acquisition Reform - A Mandate for Change*. Based on Secretary Perry's vision, DoD led the effort to implement change, which ultimately led to the President's kick off for Acquisition Reform in October 1993 and resulted in the Federal Acquisition Streamlining Act of 1994 (FASA). On October 13, 1994, President Clinton signed FASA, making it easier for the government to acquire goods and services from the commercial market place. FASA made changes in procurement law by exempting the purchase of commercial products from several statutes and expanded the definition of a "commercial Product".

The Clinger-Cohen Act of 1996, which consisted of two parts, followed FASA. The first part is the Federal Acquisition Reform Act of 1996 (FARA) which made additional changes to increase government use of commercial products. FASA and FARA allowed for reduced government oversight, simplifying contracting procedures and bringing government practices closer to commercial practices.

The second part, legislation that furthered acquisition reform in information technology, is the Information Technology Management Reform Act (ITMRA) of 1996. ITMRA improved how federal agencies select and manage information technology resources. For DoD, it singled out the role of information technology and national security systems in improving DoD's operations and procedures. Investments in information technology must provide improvements in mission performance. In June 1997, Secretary Cohen named the Assistant Secretary of Defense for Command, Control, Communication and Intelligence as the Chief Information Officer for the Department and required each Military Department to appoint a CIO.

The commitment for reform continued with Secretary Cohen's submission of the Section 912(c) Report required by the National Defense Authorization Act for Fiscal Year 1998. This legislation required the Secretary to submit to Congress an implementation plan to streamline the acquisition organizations, workforce, and infrastructure. Secretary Cohen presented his Section 912(c) Report to Congress on 1 April 1998. In this report, Cohen provided the Department's actions to accelerate the movement to the new workforce vision. This plan included studies of fourteen different areas, including Command, Control, and Communications Integration;

Requirements and Acquisition; Integrated Test and Evaluation; Price-based Acquisition; and Future Acquisition Workforce. The findings of these section 912c studies became the basis for additional reforms and were reflected in policy changes.

DoD has achieved a large measure of success with acquisition reform. The Department has made a number of critical and historical changes that are now being institutionalized and beginning to bear fruit. As a result of Secretary Perry's *Mandate for Change*, FASA, Clinger-Cohen Act, and the Section 912c studies, the most significant initiatives are as follows:

A. FASA and FARA allowed us to reform the way we buy goods and services.

- **Implementation of FASA and FARA.** The Department led the effort within the executive branch to implement both FASA and FARA. For FASA, the Department formed 11 teams consisting of multi-functional experts from across the government. The teams produced 28 rules in less than 10 months while conducting 9 public meetings. They involved industry in the development of the rules and implemented training for our workforce.
- **Defense Acquisition Pilot Programs.** FASA provided special authorities for five Defense Acquisition Pilot Programs (DAPS) as a result of Fiscal Year 1995 Defense Authorization Act. The Fiscal Year 2001 Defense Authorization Act authorized continuation of the pilot programs through FY 2007. The five programs are: Joint Direct Attack Munition (JDAM); Fire Support Combined Arms Tactical Trainer (FSCATT); Joint Primary Aircraft Training System (JPATS); Commercial Derivative Engine (CDE); and Commercial Derivative Aircraft (CDA). The pilot programs were afforded statutory relief under provisions of the FASA. In addition, USD(A&T) designated certain medical, subsistence, and clothing items of the Defense Personnel Support Center and the C-130J Aircraft program as regulatory relief-only pilot programs. All seven of the pilot programs were granted regulatory relief by the USD(A&T). The pilot programs are realizing substantial progress in demonstrating that, through the use of commercial products and commercial practices, military items can be acquired with improved development and delivery schedules, at reduced cost, and with substantial gains in in-house efficiencies.
- **Commercial Items and Practices.** The Department has been championing the use of commercial items to meet its requirements whenever practical. The use of commercial items allows us to take advantage of the innovation offered by the commercial marketplace and ensures that we have access to state of the art technology while reducing our overall life-cycle costs, as in our Commercial Operation and Support Savings Initiative (COSSI). As important as the use of commercial items is the adoption of commercial practices when we buy goods or services, whether they are commercial or not. The use of commercial practices allows us access to vendors who would not otherwise do business with DoD. In many cases, the commercial practices of these companies are superior to the ones we call out in our military specifications and standards, thus improving the quality of the products we purchase.

giving us greater flexibility in dealing with support of those products and reducing the life-cycle costs. Equally as important is our encouragement to the companies that make up the DoD industrial base to move to commercial practices so they can be more competitive in the global market place.

- **Promoting and Streamlining the Use of the Government-wide Purchase Card.** With the creation of the micro-purchase threshold the Department had a unique opportunity to reduce the time and effort we expend to procure relatively low dollar value, low risk items and services. Through the use of the purchase card and the use of EC/EDI we order goods and services from our desktops and take delivery when it is needed, reducing our own internal costs of procuring and storing those items. This gives our managers greater flexibility in managing their limited resources and getting the mission done. We established a National Performance Review (NPR) Goal to simplify purchasing and payment through use of purchase card transactions for 90% of all DoD purchases.
- **Satellite Broadcasts -** Since 1996, the Department conducted and sponsored activities and events to train the acquisition community's workforce. Working with our industry partners and other federal agencies we have conducted training programs through the use of satellite broadcasts. These satellite broadcasts have proven to be an effective means to provide timely and accurate information about how DOD is changing the way it acquires needed goods and services. The satellite broadcasts included educational videos and an opportunity for workers in the field to ask questions, on the air, of a panel of experts from Government and industry in the various reform areas. Field response to these programs has been very positive. Training topics have included FASA implementation; the Simplified Acquisition Threshold and FACNET; the Single Process Initiative; the Overarching and Working-level Integrated Product Team Process; and Electronic Commerce/Electronic Data Interface; Multiple Award Task and Delivery order Contracts; FAR Part 15 rewrite; Performance Based Service Contracting; Market Research; Cost as an Independent Variable; and Earned Value Management, Oral Presentations, FAR Part 12 Commercial Acquisitions, Past Performance, and Contract Pricing. Our viewer participation includes both government and industry. The broadcasts are taped and subsequently distributed through the Acquisition Reform Communication Center. Guests on these broadcasts have included Secretaries Perry and Cohen and Deputy Secretaries Hammre and DeLeon.
- **Electronic Commerce/Electronic Data Interchange.** The Department led the effort in the Federal government on the implementation of electronic commerce/electronic data interchange (EC/EDI). The Department put together a team to identify where the biggest return from the use of EC/EDI was in the procurement process and to develop a plan for implementing EC/EDI throughout the Department. The team's recommendations were adopted and the Department has automated over 200 hundred contracting offices doing over 60% of the Department's contracting actions.

- **Acquisition and Logistics Reform Week:** This event was initially held for one day, with the first AR Day was held on May 31, 1996. The objective was to communicate the message of acquisition reform to our workforce and industry partners. A second event, was conducted in March 1997 and emphasized implementation of our acquisition reform. The first AR Week was held March 17-21, 1997 expanding the 1996 AR Day concept and focused on using teamwork as a catalyst for making acquisition reform the norm. Top leaders from the Department participated including Secretary Cohen and the Chairman of the Joint Chiefs of Staff General Shelton. For the first time, industry and civilian agencies participated in the development and delivery of training on government acquisition issues. In addition, the Department undertook to provide training to the entire acquisition community, DoD, civilian agencies and our industry counterparts. During this week, acquisition workforce members around the world will focus on implementation of our acquisition reform initiatives—the ones most critical to their team, and the work yet to be done in effectively applying them to the team's mission. Feedback from the Acquisition Workforce indicated that the value of Acquisition Reform Week was such that it should be scheduled on an annual basis.

B. Clinger-Cohen allowed us to reform the way we buy information technology.

- **Use and Collection of Past Performance.** Use of past performance in source selection was identified as one of the most important changes the Department could make to improve the quality of the products and services the Department purchased. Past Performance Information (PPI) is very useful in motivating contractors to improve their performance because of the potential use of that information in future source selections. It is equally useful as a means of communication, providing feedback and additional performance incentives for ongoing contracts. A contractor that delivers what the contract requires without extensive follow-up effort on our part is clearly delivering better value than a contractor that charges the same price, yet needs constant surveillance by our personnel to ensure performance. Through a business sector approach, we automated the collection of past performance information into a database where the information collected between sectors is available where appropriate. Additionally, we prepared a Past Performance Guide to assist contracting officers in the use and collection of this data.
- **Protest Reform.** Reforming the protest process for acquisitions within DoD was a priority for the Department. In the information technology arena, for instance, there wasn't a single major IT buy that wasn't protested. These protests required the dedication of substantial resources by both government and industry and in the final analysis more often than not, added little value to the government acquisition process. In addition, we did not do a good job across the Department in trying to resolve disputes over the pre-award process with our industry partners. This drove them in many cases to file a protest at the General Accounting Office in order to obtain information that would allow them to determine why they were not the successful offeror. By instituting regulatory reform and obtaining legislation, we have provided industry with more information earlier in the process, given them a process for

dealing directly with the contracting officer in resolving issues related to awards of contracts and reduced the frequency with which IT procurements are protested.

- **Other Transactions Authority.** The Defense Advanced Research Projects Agency was given authority in Section 845 of the FY 1994 National Defense Authorization Act to use "Other Transactions" (instead of commonly used contracts) for prototype projects that are directly related to weapon systems. "Other Transactions" are more flexible than contracts since many statutes do not apply. The Section 845 prototype authority was made available for Department-wide use on a trial basis in the FY 1997 Authorization Act. The FY 2001 Authorization Act continued its use through 2004, but added several limitations such as requiring the use of "non-traditional" defense contractors.

C. Secretary Perry's *Mandate for Change* reformed how we develop and produce systems.

- **Military Specification/Standard Reform.** As a forerunner of this reform, Under Secretary Deutch issued a policy memorandum on February 14, 1994, which recognized International Standards Organization (ISO) 9000 as a valid substitute for MIL-Q9858. However, the reform really began on June 29, 1994, when Secretary Perry approved the recommendations of the Military Specifications and Standards Process Action Team and issues a memorandum titled *Specifications and Standards – a New Way of Doing Business*. The intent of the recommendations was to move from reliance on detailed design specifications and process standards to stating requirements in performance terms. The Secretary's direction was to use performance specifications (either commercial or military) in new solicitations and contracts. If performance specifications could not be used because they were not cost effective, were not practical, or did not meet the users' needs, commercial design specifications should be used. Design specific military specifications and standards could only be used with a waiver by the Milestone Decision Authority. In September 1997 Under Secretary Longuemare further stated: "It is Department of Defense policy to not require standard management approaches or manufacturing processes in solicitations and contracts, but rather to rely on performance based requirements whenever practicable."
- **Rewrite of DoD Directive 5000.1 and DoD 5000.2 Instruction** – In 1996, the DoD 5000.1 and 5000.2 Defense Acquisition Policy manuals were re-written to match the guidance of Secretary Perry. The manual underwent a significant re-write and went from 1000 pages to 100 pages to reflect the streamlined process.
- **Single Process Initiative** - The Single Process Initiative (SPI) was an extension of military specifications and standards reform and enabled us to change numerous existing contracts simultaneously in contractor facilities. This allowed us to take advantage of single processes, which provide access to state of the art technologies, more efficient business processes and

reduced overhead costs. As of January 1998 we have accepted 829 initiatives at 273 contractor facilities and dozens more are under consideration.

- **Federal Acquisition Regulation (FAR) Re-write.** DoD formed a process action team (PAT) to study our pre-award process to determine what changes could be made to help us achieve our vision of being smarter, faster, better and cheaper in our acquisition system. A number of areas were studied where relatively minor changes would have a significant impact on the quality of our procurement process. The PAT recommendations include realigning our approval authority levels for sole source procurements, increasing communication in the pre-award process, providing offerors better and more timely debriefings, and eliminating offerors from the competitive range who did not have a good chance of getting the award. Most of the recommended changes were implemented in the rewrite of FAR Part 15.
- **Integrated Product & Process Development/Integrated Product Teams (IPPD).** (IPPD) and Integrated Product Teams (IPTs) would be used throughout DoD. IPPD is a widely defined management technique that brings together representatives from several disciplines in IPTs at the very start of a project. This allows for early-on and continuous insight by all stakeholders in a program. It also encourages team members to work together in an atmosphere of trust and cooperation to make a program successful. The IPT approach reduces the probability of raising last minute, major issues that could delay a program by integrating timely input from all team members with varied functional backgrounds. Through IPTs we do a better job in structuring programs to be successful, identify and resolve issues in a timely manner, and reduce the time it takes to go through the decision cycle. There are three types of IPTs. Overarching IPTs (OIPTs) provide top-level strategic guidance, functional area leadership, and a forum for issue resolution. Working Level IPTs (WIPTs), of which there can be several as determined by the requirements of each program, serve as a major advisory body to the Program Manager. Program-level IPTs (PIPTs) are formed between the program office staff and the contractor and, again, serve as an advisory body to the Program Manager.
- **Open Systems Initiative.** The Open Systems Approach is both a technical approach and a preferred business strategy that allows DoD to field superior combat capability quicker, and at a more affordable cost. Applying widely used interface standards in weapons systems will enable multiple sources of supply and technology insertion. Open systems are designed to improve performance and lower cost of weapons systems by taking advantage of competition and innovation in the commercial market. They mitigate obsolescence by facilitating technology insertion. In addition, open systems serve to insure that we always have access to cutting edge technologies and products, and prevent DoD from being locked into proprietary technology. In a global market, everyone, including potential adversaries, will gain increasing access to the same commercial technology base. The military advantage goes to the nation that has the best cycle time to capture the very best commercially available technologies, incorporate them in weapons systems, and get them fielded first. Moreover, since coalition operations with U.S. Allies place a high premium on interoperability, it is

essential that DoD systems are compatible and can be sustained through a common logistics support structure. Open systems specifications and standards promote standard interfaces and interoperability with our Allies.

- **Defense Acquisition Deskbook.** The Defense Acquisition Deskbook is an automated reference tool that provides acquisition information for all functional disciplines and for all Services and DoD Agencies. It is designed to provide easy access to the most current acquisition information. Since release of the operational test version in May of 1996, the Deskbook has grown from 30 to 250 megabytes of information, from a CD distribution of 1,000 to orders for 27,000 (includes Deskbook CDs provided to government personnel and those sold through the Government Printing Office), and boasts a user community of approximately 500,000 across OSD, the Services and Agencies, and Industry. The Defense Acquisition Deskbook is an automated reference tool that provides acquisition information for all functional disciplines and Services and DoD Agencies. It is designed to provide easy access to the more current acquisition information.
- **Streamlined Testing.** Secretary of Defense Perry outlined five themes to reform and improves the test and evaluation process and better supports streamlined acquisition. These themes are:
 1. Early tester involvement, especially the operational tester, in the development of a system to identify potential problems early so that they can be addressed as the system is being designed.
 2. Combining development test (DT) and operational test (OT) activities to enable more efficient use of test resources.
 3. Combining testing with training or field operations to reduce the cost of testing as well as improved its realism.
 4. The use of modeling and simulation (M&S) to support resolution of test issues has migrated to the Simulation, Test and Evaluation Process (STEP) where M&S tools used in system design are being used to resolve test issues.
 5. Test personnel and organizations participation in the ACTD process to assist ACTD planning and evaluation and to support ACTD transitions to acquisition at advanced milestones.
- **Advanced Concept Technology Demonstrations.** The Advanced Concept Technology Demonstration (ACTD) program is designed to address early the doctrine and the concept of operations needed to fully exploit new capabilities. The objective of this program is to address critical military needs by building field-able prototypes and providing them to the operational forces so they can make an assessment of military utility in realistic combat environments. To make this assessment, the user must integrate the capability into the organization and must develop the doctrine, operational concepts, tactics and procedures to take advantage of the capability. They must also train both the operators and their command structure. In an ACTD, the test of military utility is performance after being integrated in the field.

- Education of the Workforce.** A solid foundation for the education of the workforce has been established under the Defense Acquisition Workforce Improvement Act (DAWIA). The Defense Acquisition University, using its consortium of schools, has established 81 courses with over 1200 offerings educating approximately 35,000 members of the workforce per year. The material in these courses is work performance specific and incorporates all of the Department acquisition reform initiatives. The courses are moving from the traditional classroom delivery at the schools to on-site where the workforce is located. DAU is developing modern technology distance learning methods for teaching these courses. The first course using distance learning technology on the internet is available to our students. This is only a start and more work needs to be done to evaluate all course for technology based instruction.
- Civil-Military Integration (CMI).** Increased integration between the civilian and military sides of the business world is required for fully reforming how the Department procures services and products. CMI initiatives are varied in nature, but the primary areas are with Performance Based Service Contracting, FAR Part 12 Rewrite and Packaging Reform. The Under Secretary for Acquisition, Technology and Logistics released a policy on April 5, 2000 that at a minimum, 50% of service acquisitions, measured in both dollars and actions, are to be performance based by the year 2005. Service based requirements are to be articulated using the desired end result, rather than required methods of performance. FAR Part 12 is the federal regulation on the purchase of commercial items. It implements the Government's preference for the acquisition of commercial items contained in FASA by establishing acquisition policies more closely resembling those of the commercial marketplace and encouraging the acquisition of commercial items and components. As the Department increasingly utilizes commercial practices, the FAR Part 12 Rewrite will continue to streamline government procurement making acquisition professionals more efficient in the acquiring of goods and services. In Packaging Reform, the Department is pursuing pilot programs to allow participants the flexibility of packaging in accordance with commercial standards, in lieu of military packaging specifications. Pilot participants report significant savings in cycle time and packaging material cost reductions.
- Career Development and Rotations.** On May 29, 1996 Under Secretary Kaminski established the Civilian Career Development program in OUSD(A&T), to be administered by the Director, Acquisition Program Integration. The Civilian Career Development Program is an opportunity for OUSD(A&T)'s career civilian staff members to seek out and complete developmental assignments in government or industry. The intent is for developmental assignments to be flexible, tailored to individual and organizational needs, and broadly based. The program is entirely voluntary. This program helps both the overall OUSD(A&T) organization and the individual members of the career staff to accomplish two key objectives. First, it will increase organizational productivity and effectiveness by providing A&T with a broader perspective and increased appreciation for diverse mission requirements. Second, it will broaden the experience base of the A&T career staff. The career development program

will provide an opportunity for A&T employees to refresh their skills, learn more about other organizations, and gain additional career experience.

D. Section 912c Studies reformed how we manage our processes.

- **Section 912c Report.** In carrying out the defense strategy for the 21st century, Secretary Cohen outlined fundamental reform in how the Department conducts business by implementing a revolution in business affairs. Five focus areas were studied in the areas of: 1) Restructure of Research, Development and Test; 2) Restructure of Sustainment; 3) Increase Acquisition Workforce Education and Training; 4) Move to Integrated, Paper-Less Acquisition; and 5) Future Focus areas.
- **Section 912c Studies.** From the five focus areas outlined by Secretary Cohen, a total of fourteen studies were chartered with key experts from across the Services and OSD, and often including members from industry and other government agencies. These studies and their final report or policy release dates are as follows: 1) Development of an Implementation Plan to Streamline Science & Technology, Engineering, and Test and Evaluation Infrastructure with the final report dated July 1999; 2) Establishment of a Joint Command & Control Integration/Interoperability Group with the final report dated October 1999; 3) Establishment of a Study Group to Implement Reengineered Product Support Practices within the DoD with the final report dated July 1999; 4) Establishment of a Study Group on Program Manager Oversight of Life-Cycle Support, better known as the Section 816 Report to Congress, dated February 1999; 5) A Plan to Accelerate the Transition to Performance-Based Services released in June 1999; 6) Continuous Learning for the Defense Acquisition Workforce policy dated December 1999; 7) Commercial Business Environment: Accelerating Change final report of November 1999; 8) Implementation Plan to Recruit, Develop, Reward & Retain Technology Leaders final briefing dated July 2000; 9) Future Workforce final report released in April 2000; 10) Moving to a Paper-Free Contracting Process by 1 January 2000 and addendum policy written in July and May 1997; 11) Transition to a Digital Environment for Acquisition Programs policy and guidance dated July 1997; 12) Establishment of a Study Group to Analyze Implementation of Price-Based Acquisition within the DoD final report dated November 1999; 13) Summary of the Defense Science Board Task Force on Test and Evaluation final report dated September 1999; and 14) Establishment of an Oversight & Steering Group to Review the Adequacy of the Requirements Generation System to Fulfill Current & Future final report dated August 1999.
- **Road Ahead.** On 2 June 2000, Under Secretary J.S. Gansler, USD(AT&L), released The Road Ahead -- Accelerating the Transformation of DoD Acquisition & Logistic Processes and Practices. The report provides highlights of several of the key Section 912c studies and provides a roadmap to continue future reform efforts.
- **Rewrite of DoD Directive 5000.1 and DoD 5000.2 Instruction.** On October 23 2000, Deputy Secretary of Defense DeLeon signed the revised DoD Directive 5000.1 and the Department published the new DoD 5000.2 Instruction and Regulation. This rewrite of

DoD's basic guidance for the acquisition of major systems was intended to accomplish several things: rapid acquisition with demonstrated technology; time-phased requirements and evolutionary development; integration of acquisition and logistics; integrated test and evaluation; interoperability; cost as a requirement that drives design, procurement, and support; and increased competition.

The greatest impact of these changes will be increased flexibility and a greater emphasis on proven technology. There are multiple process paths to entering system acquisition, depending on the maturity of the technology. A system must achieve proven technology before entering systems level work at Milestone B and full system demonstration must be completed before committing to low rate production at Milestone C. Hopefully, this will relieve some pressure on the program managers by allowing them to fully develop technology before it is integrated into a system. Another area that will be impacted is considering total ownership cost early in the process to allow design tradeoffs to occur early on to help lower support costs.

- **Transforming Acquisition and Logistics.** To successfully transform the acquisition process, DoD has established three strategic goals. The goals are to quickly field high-quality defense products through reduced cycle times; lower the total ownership cost of defense products; and reduce the overhead cost of the acquisition and logistics workforce and infrastructure. The DoD 5000 policy for systems acquisition rewrite will address integration of acquisition and logistics early in the process to stress the importance of designing in cost effective support into the design.

To meet the challenges of Joint Vision 2010, DoD is transforming logistics from the mass model of the 20th century to a highly flexible, lean model for the 21st century. Building on the commercial sector's logistic successes of world-class performance, DoD envisions integrated supply chains that focus on meeting warfighters' requirements at the point of need. To meet these requirements, DoD is moving to replace a large infrastructure with information and rapid transportation, reduced cycle times based upon commercial practices, and limited echelons within the process to those that clearly demonstrate value.

- **Acquisition Workforce Task Force.** The Department of Defense (DoD) is on the precipice of a crisis that the rest of the public and private sectors will also encounter—an age-related talent drain. More than 50 percent of the Acquisition Workforce will be retirement eligible by 2005 requiring a surge in recruiting at all levels. While addressing this challenge, the Department has a unique opportunity to change its civilian workforce culture. DoD must attract quality people by offering them quality work; work that is challenging, satisfying and important.

A number of factors have combined to change the education, training, and experience requirements that will be needed to serve in the DoD Acquisition Workforce in the 21st century. First, outsourcing, base closures, and technological innovations have created a need

for a more multi-functional, multi-skilled worker with advanced education and broad acquisition experience. Second, DoD has experienced a smaller candidate pool and fierce competition with private industry to hire the same people. Third, the present workforce is out of balance with respect to the number of mid-career level acquisition professionals available to replace the aging workforce. Unless immediately addressed, this situation will leave many acquisition organizations without the talent and leadership needed to move into the 21st century.