Part II

Performance

Program Performance

The attacks of September 11, 2001, showed that the United States has entered a new and dangerous period. Enemies will seek to strike the United States and U.S. forces in novel and surprising ways. As a result, the United States must fight and win the present war against terrorism while preparing for future wars that will be notably different from those of the past century and even from the current conflict. Some believe that, with the U.S. in the midst of a difficult and dangerous war on terrorism, now is not the time to transform our Armed Forces. The opposite is true. Now is precisely the time to make changes. The attacks of September 11, 2001, lent urgency to this endeavor.

Transforming the U.S. Armed Forces is necessary because the challenges presented by this new century are vastly different from those of the last century or even the last 10 years. During the Cold War, America faced a relatively stable and predictable threat. The challenges of the 21st century are much less predictable. Future attacks could grow vastly more deadly than those on September 11, 2001. Surprise and uncertainty thus define the challenge the Department of Defense faces in this new century--to defend the nation against the unknown, the unseen, and the unexpected.

Transforming the Department means that we must change the annual performance goals that provide a baseline to achieving the long-range defense goals and objectives. The Department is working to develop measurable performance goals and objectives that measure performance at all levels of the Department and that reflect the new defense strategies and priorities. The resulting metrics will focus on results, and will ensure both that organizations are aligned with plans and execution, and that resources are aligned to missions and capabilities. Ensuring appropriate alignment of organizations and resources will help to streamline decision processes.

The Department cannot achieve the goals of the new defense strategy without a new approach to managing risk. The previous emphasis on near-term operational risk crowded out critically needed investments in people, in modernizing equipment, and in maintaining the defense infrastructure. The new defense strategy attempts to balance various risks by establishing a risk framework. This framework allows the Department to consider tradeoffs among fundamental objectives and fundamental resources constraints, and it reflects the Department's experience over the last decade in attempting to balance strategy, force structure, and resources. The risk framework includes the following four areas:

- **Force management risk** addresses the ability of the Department to maintain a quality workforce at a reasonable cost, to ensure sustainable military tempo and workforce satisfaction, and to shape the force of the future.
- **Operational risk** addresses the availability of ready forces to carry out its strategy and plans, and tracks critical needs, systems, people, sustainment, and infrastructure.

- **Future challenges risk** addresses progress toward innovative joint operations, the development of more effective organizations, and the definition of both future human capital skills and transformational capabilities.
- **Institutional risk** addresses the Department's goals of streamlining decision processes and achieving excellence in both acquisition and financial management, managing overhead and indirect costs, improving the readiness and quality of key facilities, and realigning support to the Warfighter via defense agencies and other means.

These risk areas will form the basis for the Department's new annual performance goals under the Government Performance and Results Act (GPRA). The Annual Defense Report that is scheduled to be submitted with the Department's FY 2004 budget will present the Department's risk management metrics and GPRA-required performance plan and program performance report. In the meantime, the Department has developed and begun implementation of programs to address each of the four risk areas.

Force Management Risk

During the past decade, the Department under-invested in its people, both in terms of compensation and quality of life factors such as housing. At the same time, the increase in deployments led to excessive operational tempo for units and excessive personnel tempo for service members. Together, these trends took a toll on military families and contributed to the reduced ability both to retain military personnel with key skills and leadership abilities and to reduced morale. This negative cycle illustrates the force management risk that the Department must monitor and control.

FY 2002 Accomplishments

A wide array of analytical studies and program initiatives are planned or underway to invest in the military and civilian workforce and to modernize and transform the training of the Armed Forces.

Military Human Resource Strategy

The Department's military personnel policies and programs must address the changing demographics and the expectations of a 21st century military force. To this end, the Department has embarked on a new approach to managing its military (Active and Reserve Component) force. The goal is to ensure that the Department operates with modern military practices to meet the needs of a modern force. Key elements of this plan are improvements in pay, recruiting and retention.

During FY 2002, in addition to a base increase of 4.6 percent, $1 billion was targeted to raise pay for mid-grade officers and noncommissioned officers (NCOs). All officers received a minimum raise of 5 percent, and all enlisted members a minimum of 6 percent. Raises of up to 10 percent were targeted to mid-grade officers and NCOs. Targeting pay raises supported retention efforts in grades that comprise the core of the Department's experienced talent. The Department has added $18.2 billion in FY 2002 - FY 2009 above the normal pay raise targeted at specific categories.

These actions, combined with the implementation of the Thrift Savings Program, continued reductions in out-of-pocket housing expenses (an additional $8.2 billion), initiation of Hardship Duty Pay to recognize service in arduous conditions, and improvements in Career Sea Pay, are the foundation of a compensation strategy for a 21st century military force.

The Department is currently conducting the first FY 2003 Retention Survey. The survey will give some insight and feedback on the effects of Special Pay and Incentive Programs on retention of the officer and enlisted force. Analysis of survey results will be conducted in the second quarter of FY 2003.

The Department has developed a comprehensive Military Human Resources Strategic Plan that recommends the best mix of policies and programs to ensure that the right number of personnel have the needed skills and abilities to carry out assigned missions effectively and efficiently. One element of the military human resources strategy is to establish opportunities for individuals to move between the Active and Reserve components. The Department is considering a number of initiatives that would facilitate this opportunity.

The Department is executing a series of near and mid-term actions over the next several years in order to best achieve the military human resource actions outlined in the strategic plan. Currently, ten studies have been funded and are in progress. Completion of the studies will provide information for the Department to further develop its human resources strategic plan. Some of the study objectives include: determining how to increase the willingness of the American public to recommend military service to our youth; developing pilot tests for lateral entry from the civilian sector to the military; comparing levels of pay of military members to comparable civilian occupations; assessing non-monetary incentives; identifying opportunities to improve retention by introducing sabbaticals; studying the interrelationship of variable officer career lengths; determining general and flag officer requirements; studying means of enhancing participation, portability, vesting and equity of military retirement alternatives.

Quality of Life

The partnership between the American people and the military and their families is built on a tacit understanding that military families, as well as Service members, contribute enormously to the readiness and strength of America's Armed Forces. Unfortunately,

past practices no longer fulfill the needs of the modern military family. Military members are more educated and diverse. More military spouses work, and they are better educated than they were ten years ago. The Department's personnel policies and programs must address these changing demographics and the expectations of a 21st century military force.

To understand what is needed, the Department undertook a review of quality of life programs. The results of this review have charted a course for the future of these programs, to include: providing a world-class health care system, eliminating inadequate housing by 2007, and providing lifelong learning opportunities to our Service members.

Because 60 percent of Service members have family responsibilities, efforts will also address family programs, such as: spousal employment in a mobile lifestyle; affordable, high quality programs for child care and youth activities; and improvements in education for children, including funding to modernize school facilities and broaden curricula. The DoD Quality of Life Executive Committee continues to exercise oversight of quality of life transformation implementation strategies. Supplemental funds were provided to the Services for child care and emergency extended hours and the number of spaces available for the total program increased by 5,000. Military child development programs continue to be a model for the nation.

The Department revised its tuition assistance policy, effective October 2002, to provide substantially improved benefits; providing up to 100 percent of tuition costs per course up to the annual limit, and increasing each service member's annual tuition limit to $4,500. The Troops-to-Teachers program provided financial support to 25 state liaison offices and issued about $15 million in stipends to former Service members interested in pursuing a second career as elementary and secondary teachers. The DoD and the Department of Labor have partnered to increase the opportunities for military spouse employment and education/training opportunities, including a web page at http://www.milspouse.org.

The Department has continued support for the families of those killed and wounded in the September 11, 2001, attack on the Pentagon. A password-protected website was established to provide continuous information flow to the families on important issues. Additionally, families were encouraged to participate in events during the week of the One Year Observance ceremonies.

The Department developed and implemented several programs to assist the families of deployed troops. Family assistance services were made available 24 hours a day, 7 days a week, 365 days a year, as well as on-line, to over 200,000 service members and their families. A contingency crisis family assistance model for use by all Services has been readied in the event of mass casualties. The Department, in partnership with the Federal Trade Commission (FTC), launched the Military Sentinel web site, to collect and distribute data dealing with consumer fraud perpetrated against the military community.

The Department sponsored a Hispanics in Government Conference in San Antonio that focused on increasing representation of Hispanics in the DoD workforce. By conducting this conference, the Department improved marketing strategies and distributed information regarding DoD employment, business and partnership opportunities.

The FY 2002 budget included funding to modernize school facilities, provide better access to on-line learning opportunities, and broaden curricula at small high schools. The Department distributed $3.5 million to eligible school districts in support of the districts' financial needs related to services provided to military dependent students with severe disabilities. This program was authorized for the first time in FY 2002. Additionally, $30 million was distributed to 120 public school districts that are heavily affected by the enrollment of a large number of military dependent students.

The Department undertook major projects to modernize and construct new school facilities at 12 installations. Full-day kindergarten has been implemented in 126 schools and the Department of Defense Education Activity (DoDEA) Distance Learning Electronic School continues to grow. It provides learning opportunities to students in grades 9-12 with an emphasis on small high schools. DoDEA entered into a collaborative effort with the University of Hawaii to develop on-line summer school courses in reading and mathematics. During school year 2001-2002, DoDEA has continued to support small high schools with materials, training and resources. Each school received a reading support specialist, reading support lab and technology to support elementary-level students who are below the basic grade level reading, and high school students with mild to moderate special needs. Reading support classes were established in all 56 DoDEA schools.

In FY 2002, the Department sponsored a meeting of school district superintendents who manage schools that enroll a large population of military dependent students. The superintendents shared their best practices and established a basis for ongoing communication regarding the adjustment of military dependent students to new schools. The Department hosted a series of discussions with students, parents, military commanders, state and local leaders to identify and seek solutions for problems that military dependent students encountered because of the great frequency with which they are required to re-locate and change schools.

Readiness

Deployments are part of military life and have increased as the war on terrorism has unfolded; however, the Department is fully aware of the effects of excessive time away from home on the morale and quality of life. The Department also understands that these factors ultimately affect the readiness of Service members. In November 2001, the Department issued formal policy guidance to the Services for implementing Section 991 of Title 10 and Section 435 of Title 37 (PERSTEMPO legislation) to reduce personnel turbulence and control the amount of time service members were deployed.

In keeping with the spirit of the PERSTEMPO legislation, the Department is working to ensure service members are not choosing to leave military service because of excessive deployments. This has affected all of the Services. Frequent deployments place greater stress on both individuals and families. Unit commanders are challenged with managing and balancing military training requirements with the stability necessary for the long-term health of military families.

Training

Tomorrow's operational environment will be more joint, more multinational, more interagency and intergovernmental. To build a force more agile in addressing future threats in such environments, the Department is exploring fundamental changes to doctrine, organizations, training, leadership education, policy, and facilities.

Military training will be a key enabler for achieving the operational goals of DoD transformation. One of the principal goals of the future training strategy will be to develop a Joint National Training Center that will better support joint training and enhance force interoperability. Training ranges must be modernized and sustained to test and train our operators adequately on new weapons and weapon systems. Over the past decade, new limitations on the use of DoD ranges have significantly affected essential training and testing. The Sustainable Range initiative represents the Department's overarching response to those limitations. The effort to date has emphasized nine critical issue areas: (1) Endangered Species Act, (2) Unexploded Ordnance and Other Constituents, (3) Frequency Encroachment, (4) Maritime Sustainability, (5) National Airspace System, (6) Air Quality, (7) Airborne Noise, (8) Urban Growth, and (9) Outreach. Preliminary action plans have been developed for each of the nine issues. The Department has created an Integrated Product Team, led by the Office of the Under Secretary of Defense for Personnel and Readiness, to act as the DoD coordinating body for developing the strategy to preserve the military's ability to train.

The Department's Advanced Distributed Learning (ADL) initiative is a collaborative effort among government, industry and academia. The goal is to ensure access to high-quality education, training, and job performance materials that can be tailored to individual needs. Training commands have created ADL programs and are increasing investments in advanced learning technologies to improve ways to provide individual and collective education and training. The National Guard has an ADL program to extend education and training resources across the local, state, and federal communities.

The Department has expanded authority to pay for college degrees and repay student loans and has launched a scholarship program for Information Technology professionals.

To enhance the use of the civilian-acquired skills of Reserve component members, the Department identified four new concepts, including: participation by Individual Ready Reserve, new/or expanded Service auxiliaries, a Direct Entry Program, and community-based partnerships. These concepts are currently being validated by the Services for

meeting shortages in such fields as language and culture, information technology, information assurance, and spectrum management. Pilot programs are being developed to test these concepts during FY 2004. Additionally, in August 2002, the Department completed a study that made several recommendations to capture civilian occupation information of Reserve Component members in order to make it easier to capitalize on these skill resources.

Health Issues

An essential element to recruiting and retaining quality personnel is a high-quality, affordable, convenient Military Health System (MHS). Sweeping legislative changes in the military medical benefit program were enacted in FY 2001 and 2002, expanding eligibility for TRICARE coverage and improving access to care. As a result, an increased percentage of the Department's budget is required for health care. The long-term ability of the Department to stabilize these costs will require new approaches to providing care within the Department and to strengthening relationships with other federal and private sector health care partners.

The recent acts of terrorism increased the Department's attention to medical surveillance, detection, response, and treatment following a nuclear, biological, or chemical attack. Renewed emphasis has been placed on training military healthcare personnel in recognizing symptoms of and refreshing treatment plans for exposure to chemical and biological agents. A high-level working group from DoD and the Department of Health and Human Services (HHS) is focused on improving defense against chemical and biological terrorism. The Department established a revised anthrax immunization policy that resumed military immunization while also setting aside vaccine stockpiles for civilian use through coordination with HHS. The DoD/HHS working group is also coordinating smallpox vaccination policies and providing access to government stockpiles.

To date, more than 60,000 Reserve and National Guard personnel have been called to active duty in response to the September 11, 2001, terrorist attacks. All are eligible for the same healthcare and dental benefits as other active duty Service members. For Service members activated for 30 days or more, their family members are also eligible for TRICARE. The recently introduced TRICARE Reserve Family Demonstration Project provides special benefits to Reserve Component families to preserve continuity of care with their existing healthcare providers. In addition, the FY 2002 National Defense Authorization Act amended Section 8906 of Title 5 to provide that reservists who are employed in the federal civil service workforce may have their Federal Employee Health Benefit premiums paid for by their employing agency when they are called to active duty for more than 30 days in support of a contingency operation.

The Military Health System seeks to create a stable business environment by ensuring that military medical facilities are fully funded and able to provide the best clinical and business practices. It is developing a new generation of managed care support contracts

that have greater financial predictability, are less cumbersome, create more competition and reduce administrative costs. DoD released its multi-year, multi-billion dollar Request for Proposal for the next generation of TRICARE contracts in August 2002 that would streamline the TRICARE structure, reduce administrative costs, and better align incentives for cost-effective, customer-sensitive performance. Also in 2002, DoD successfully implemented TRICARE For Life benefits for dual-eligible Medicare beneficiaries/military retirees. In addition to introducing benefits for 1.5 million people successfully, through careful management the Department also executed this program well under its budgeted amount, saving almost $1 billion in health care expenditures.

Civilian Human Resource Strategy

Civilian Human Resources Strategic Plan. The Department is taking a more strategic approach to managing its civilian employees and has published its first DoD Civilian Human Resources Strategic Plan. The Department plans to move away from an inflexible, longevity-based system of human resources management to one of greater accountability, flexibility, and opportunity.

Civilian Human Resources Management Best Practices Initiative. In FY 2002, the Under Secretary of Defense for Personnel and Readiness chartered a task force to identify the best human resources management practices. The task force reviewed nine DoD personnel demonstration projects covering more than 30,000 DoD civilians and several alternative personnel systems, such as the Federal Aviation Administration. The task force recommended a new system for white collar employees that retains the core values of the civil service system while energizing performance management by ending the role of longevity in pay, job changes, and reductions in force.

Defense Civilian Personnel Data System (DCPDS). This year, the Department completed deployment of the largest personnel management data system in the world--the Defense Civilian Personnel Data System (DCPDS)--as part of its Regionalization and Systems Modernization Program. DCPDS is capable of processing 1.75 million pay and benefit transaction combinations. The system generates all personnel transactions for civilian employees and interfaces fully with the department's automated payroll system. The overall objective of the Regionalization and Systems Modernization Program is to realize cost savings through the consolidation of DoD civilian human resource operations into a regionalized environment, based on standardized and reengineered business processes and supported by a single human resources information system.

Defense Leadership and Management Program (DLAMP). In response to Defense Component and participant concerns, DLAMP--the Department's groundbreaking program for developing civilian leaders--has been significantly restructured. It now provides leadership training, master's degree fellowships, and greater access to professional military education, reducing the cost of the program by one-third and cutting program length by one-half.

Student Loan Repayment. As part of the Department's initiatives to provide managerial flexibilities, policy was issued that allows all Defense Components to repay student loans up to $6,000 per year and a total of $40,000. Components began programming for payment of this important hiring incentive.

Operational Risk

The Department measures the degree to which U.S. forces are able to meet military objectives in the near term based on operational risk. To determine operational risk, the Department assesses its ability to defend the United States, deter forward in critical areas (i.e., maintain military forces at strategic locations overseas that can be rapidly deployed during a crisis), swiftly defeat aggression in overlapping major conflicts, and conduct a limited number of small-scale contingencies.

FY 2002 Accomplishments

Readiness Reporting

DoD has initiated a comprehensive reengineering of its current readiness reporting system. It is envisioned that the new system will allow measurement of the adequacy of the force to accomplish all of its assigned missions, not just major combat operations.

Land Forces

To meet near-term capability shortfalls, the Army is investing in advanced technologies and revising its doctrine, organizational designs, and leader development programs. The Marine Corps has developed the Expeditionary Maneuver Warfare (EMW) concept as a framework for the future. Capitalizing on the Corps' strength in maneuver warfare, EMW emphasizes the expeditionary and power projection capabilities that Marine forces provide for joint and coalition operations.

Aviation Forces

Aviation forces of the Air Force, Army, Navy, and Marine Corps are composed of fighter/attack, conventional bomber, and specialized support aircraft. The Department is providing resources to expand current capabilities and to build the capabilities necessary for the future. As an example, aircraft will rely increasingly on low observable technology to gain access to threat areas, and they will acquire targeting data--for their own weapons and the entire force--using new sensors and communication suites.

Additionally, tactical aircraft and bombers will employ smaller, internally-carried precision weapons, thus increasing the number of targets that can be attacked in a single mission.

Naval Forces

To bolster U.S. deterrent strength while providing a ready means of responding to crises worldwide, the Navy employs carrier battle groups, amphibious ready groups, submarines, surface combatants, and maritime patrol and reconnaissance aircraft. The Department is enhancing its overseas presence by stationing three attack submarines and by increasing carrier presence in strategic locations.

To counter various levels of threats and reduce operational risks, the Navy is developing improved surveillance, tracking, and area defense capabilities that will allow for continuous surveillance both on and below the surface of coastal waters.

Mobility Forces

Mobility forces--consisting of airlift and sealift forces, along with prepositioned equipment--move military personnel and materiel to and from operating locations worldwide. Mobility forces are a key component of the defense strategy, enabling the United States to maintain a forward deterrent presence and to conduct operations in distant places. To provide needed transport, the Department relies on military as well as commercial aircraft, cargo ships, and ground transportation systems. Through this combination of military and commercial assets, the Department maximizes efficiency in deploying and supporting forces abroad, while avoiding the cost of maintaining military systems that duplicate readily available commercial capabilities.

Special Operations Forces

Given their linguistic, cultural and political training, Special Operations Forces (SOF) make unique contributions to U.S. military operations. The diverse capabilities provided by these forces include specialized tactics, equipment, and training; foreign language skills; and flexible unit deployment options tailored to a wide range of missions. These forces--which include land, air, and maritime elements--play a key role in carrying out the military strategy and in supporting allies.

SOF units deployed in Afghanistan are coordinating humanitarian assistance operations, conducting psychological operations (such as leaflet drops and radio broadcasts), performing search and rescue missions, and helping to find targets for coalition aircraft. SOF are well suited for coordinating command, control, and intelligence information with allied headquarters and coalition forces; training indigenous forces such as the

Afghanistan National and the Philippine Armies; and being prepared to conduct other core missions such as counterterrorism, direct action, strategic reconnaissance, and unconventional warfare.

Reserve Components in the Total Force

Today's Reserve Components, comprised of the National Guard and Reserve forces, are an integral part of the defense strategy and day-to-day operations of the U.S. military. Since 1990, there have been six occasions on which the President has initiated an involuntary call-up of Reserve Component members to active duty, including the call-up after the events of September 11, 2001.

Within minutes of the September 11, 2001, attacks, National Guard and Reservists responded to the call to duty. They flew combat air patrols, patrolled the streets, and provided medical assistance, communications, and security at numerous critical sites across the country. Perhaps the National Guard's most visible support to civil authorities was to provide security at America's airports until additional security measures could be established. When the bombing in Afghanistan started on October 7, 2001, more than 30,000 reservists supported operations Noble Eagle and Enduring Freedom--the most Guard and Reserve personnel on active duty since Operation Desert Storm. By March 11, 2002, six months after the attacks, there were about 73,000 Reserve component members on duty. Guard and Reservists immediately integrated into operations across the full operational spectrum of the armed services. While Air Reserve personnel flew over Afghanistan, National Guard and Army Reserve personnel were participating in and supporting ongoing ground operations. Reserve component personnel from all services contributed by flying combat air patrols and providing force protection at home, enabling logistics support in neighboring countries, serving on ships in the Indian Ocean and delivering humanitarian supplies. Guard and Reservists continue to work with the active military components worldwide in ongoing operations in the Balkans, Operations Southern Watch and Northern Watch in Iraq, and port security in the Middle East.

The use of Guard and Reserve troops to support operational requirements has steadily grown from around 900,000 duty-days annually in the early 1990s to a sustained annual level of over 12 million duty-days since 1995, which equates to about 35,000 full-time personnel. Because of this increased participation, the Department's FY 2003 budget includes $2.34 billion in equipment procurement funding for the Reserve components, representing an increase of $680 million above the FY 2002 President's Budget. The FY 2003 budget demonstrates a concerted effort by the Department to apply more resources to the Reserve components' equipping needs, and to repair and replace the aging equipment currently in the inventory. It also reflects a conscious effort to improve interoperability of the Reserve components with the Active forces. Modernization of our Reserve forces is a cornerstone for integrating the Total Force. Properly equipping the Reserve components with interoperable, compatible, and up-to-date equipment is an important part of a capabilities based strategy.

Future Challenges Risk

For many years, a focus on near-term operational risk resulted in shortchanging preparations for the future. By the time pressing warfighting and readiness requirements were met, there was little funding or attention available for addressing the risk posed by less familiar and seemingly less urgent future challenges. September 11, 2001, demonstrated the danger of postponing preparations for the future. We must prepare now to anticipate future surprises and mitigate their effects.

The Department is moving forward on three fronts to manage future challenges risk. The first front is transformation, which is at the heart of the new defense strategy.

The second front involves the redesign of the Department's strategic forces. While current forces were appropriate to address the Cold War threat, they are inadequate to meet future challenges. For example, many leaders of rogue states and terrorist organizations are intent on acquiring weapons of mass destruction. Unlike the leaders of the former Soviet Union, these new leaders are subject to few if any institutional restraints that might preclude the use of these powerful weapons. To respond to this new challenge, the United States is implementing a strategy that combines conventional and nuclear weapons, offensive and defensive systems, and a responsive infrastructure in ways that enhance the Department's credibility, reassure allies, defeat adversaries, and conform to American values.

The third front of the Department's efforts to manage future challenges risk is focused on space, information, and intelligence. The Department's capabilities in these areas contribute to all of the major operational goals identified in the new strategy. Because of their crosscutting contributions to transformation, these areas are receiving separate, sustained attention.

Together, the Department's initiatives along these three fronts constitute a concerted effort to manage future challenges risk.

FY 2002 Accomplishments

Transforming the Force

To provide focus to DoD's transformation agenda, the Department has identified six critical operational goals addressing the most significant challenges and opportunities the Department's forces may face in the future:

- Protecting critical bases of operations (U.S. homeland, forces abroad, allies and friends) and defeating nuclear, biological and chemical (NBC) weapons and their means of delivery;
- Stationing and sustaining DoD forces in distant environments and defeating threats in those environments;
- Denying sanctuary to enemies by providing continual surveillance, tracking and rapid engagement against mobile and fixed targets, at various ranges and in all weather and terrains;
- Using information technology and innovative concepts to develop a joint architecture and capability that includes a tailorable joint operational picture;
- Maintaining the security and capabilities of information systems in the face of attack and conducting effective information operations; and
- Enhancing the capability and survivability of space systems and supporting infrastructure.

Taken together, these six goals will guide the Department's military transformation efforts and improvements in our joint forces.

To lend momentum to the transformation effort, and to foster innovation and experimentation, the Secretary established the Office of Force Transformation within the Office of the Secretary of Defense. The foremost goal of the Office of Force Transformation will be to ensure that transformation efforts are fully linked to the broad elements of national and departmental strategy. The Director of Force Transformation will evaluate the transformation efforts of the Department, recommend steps needed to integrate the work of the Military Departments into other ongoing transformation activities, and monitor ongoing experimentation programs encompassing activities involving risk management and associated metrics.

Adapting U.S. Strategic Forces

While nuclear forces were indispensable in deterring aggression during the Cold War, a strategic posture that relies solely on offensive nuclear weapons is not sufficient to support today's defense policy goals. The Nuclear Posture Review (NPR), a comprehensive review of the U.S. nuclear posture conducted by DoD, concluded that the U.S. will need a broader range of capabilities to assure friends, dissuade adversaries, and deter, and if necessary, defeat foes. The Nuclear Posture Review shifts the basis for strategic forces planning from specific threats to emerging capabilities that could exploit U.S. vulnerabilities or confer advantages to adversaries. The new strategy transforms the existing U.S. strategic nuclear triad--intercontinental ballistic missiles (ICBMs), heavy bombers, and submarine-launched ballistic missiles (SLBMs)--into a new strategic triad composed of conventional and nuclear strike forces, active and passive defenses, and a robust infrastructure, supported by improved command, control, intelligence, and

planning systems. The new strategic force is designed to give the President and the Secretary of Defense a broad array of options to address a wide range of possible contingencies.

Investing in Space, Information and Intelligence

The Department of Defense is making a significant effort to improve our national capabilities in Space, Information and Intelligence (SII) to mitigate future risks. Over the Future Years Defense Program (FYDP), it has allocated an additional $30 billion in investments to transform these capabilities, which will greatly enhance the flexibility of our forces and improve our capacity to meet a wider range of contingencies.

Space Systems: The Space Commission (Report of the Commission to Assess United States National Security Space Management and Organization) recommended all DoD space responsibilities be consolidated under the Under Secretary of the Air Force. The Department is actively implementing this consolidation. The Department is seeking to improve environmental support to operational forces by partnering with allies, civil agencies and the commercial community to provide advanced satellite sensing systems. The Department continues to upgrade and improve the space surveillance network to detect, identify, catalog and track space objects, and to provide warning of dangerous or hostile space events.

Global Network. The Department is working to integrate all phases of the information cycle with operational decision-making and weapons systems processes. For example, in Afghanistan, real-time imagery from Predator unmanned aerial vehicles (UAVs), integrated with positioning information from global positioning systems (GPS), was datalinked to aircraft enabling them to strike high priority targets in minutes rather than hours or days. The Department is upgrading and developing additional capability for global communications, which is critical to transforming the way we fight.

Intelligence Initiatives. As the global network is built, it must be populated with quality information. Such information is the result of collecting the right data and being able to make the data available to a variety of users, to be processed and organized in different ways for different purposes, as user needs dictate. All available information, not just intelligence, must be brought to bear throughout the network. Systems need to be designed so that users only have to handle information once. Producers of information, wherever they may be, need to post what they know, as well as exploit what others have learned. Changes in airborne and space program plans, communications and interoperability are continuing to be implemented to provide data and information to the network. Our emphasis on UAVs and improving their intelligence collection capabilities resulted in the extensive warfighter support provided by Predator and Global Hawk UAVs in Afghanistan. We are continuing to expand the sensor and communication capabilities of those systems to improve the timeliness and effectiveness of the information they provide.

Information Assurance (IA) for Systems: The Department's strategy for protecting the Global Information Grid (GIG) (the Department's information infrastructure) is called Defense-in-Depth. Creating a coherent GIG architecture out of many legacy systems poses a significant challenge. To ensure the incorporation of security early in the design of new system acquisitions, DoD regulations now include the requirement for information assurance strategies for each acquisition program. The strategies are scrutinized at major acquisition milestones and are key considerations for program continuation. Legacy systems are subject to rigorous security certification and accreditation criteria for connection to both classified and unclassified networks.

Institutional Risk

The fourth element of the Department's formal risk management framework is institutional risk. Just as the Department transforms its military capabilities to meet changing threats, it must also change how it works and what it does. The Department must do more to ensure that its people can focus their talents on defending America, and that they have the resources, information, and freedom to perform.

While technology has transformed private sector organizations in recent years, DoD has fallen behind. The Department's acquisition process is based on numerous complex rules that slow the acquiring of products, services and weapon systems. This restricts the Department's investment in the industrial base to a limited of companies that choose to bid under these complex rules.

The Department's financial systems are decades old and incompatible with one another. This impacts the timeliness and accuracy of financial statement reporting and providing decision-makers with meaningful information.

The Department estimates there is between 20 to 25 percent more installation and facilities capacity than needed. This wastes billions of dollars per year that could be used elsewhere.

FY 2002 Accomplishments

During the past year, the Department has begun the process of systematically analyzing and addressing the sources of institutional risk. In order to revitalize the Defense establishment and reduce institutional risk, the Department is instituting programs to:

- Modernize DoD business processes;
- Improve the management of acquisition, technology, and logistics;
- Properly size and modernize DoD installations and facilities; and
- Spur innovation in the industrial base.

Modernizing Business Processes

The Department is reducing headquarters staffs and is working to realign or consolidate overlapping functions of the Office of the Secretary of Defense (OSD), the Services, and the Joint Staff. As of September 30, 2002, DoD Components had achieved aggregate personnel reductions of 11.1 percent. Changes to doctrine and structure, as opposed to past practices of meeting specific numeric targets, are enabling the Department to streamline headquarters staffs. The Department's fundamental headquarters streamlining objective is to return military resources to operational units. The USD(AT&L) has begun streamlining the Defense Acquisition Board (DAB) process, including the elimination of almost half of 72 acquisition-related advisory boards.

Additionally, the Department has taken steps to outsource and shed non-core warfighting responsibilities. Examples of initiatives in this area include the military housing privatization program and the privatization of utility systems on military installations. Based on the success of these early efforts, the Department will pursue additional opportunities to outsource.

The USD(C), in consultation with the USD(AT&L) and the Chief Information Officer (CIO), is overseeing the Department's financial management modernization efforts. As a first step, in FY 2002 the USD(C) initiated a $100 million project to create a DoD-wide architecture for how the Department's business processes will interact. This enterprise architecture will guide the development of all financially related processes and systems throughout the Department.

Improving the Management of Acquisition, Technology and Logistics

A cornerstone to DoD's ability to fight and win wars globally is the ability to acquire material and to deploy, employ, and recover forces and material rapidly. Acquisition, technology, and logistics excellence is paramount to achieving that objective.

The Department has promulgated a new acquisition process. This new model emphasizes (1) rapid acquisition with demonstrated technology, (2) time-phased requirements and evolutionary development, and (3) integrated test and evaluation.

DoD is improving the management of acquisition and technology programs to accelerate the fielding of weapon systems. The average time from program initiation to initial operational capability for a weapon system has been over nine years, with some new platforms taking as many as 20 years to field. DoD has adopted a new model for system development that uses an evolutionary acquisition development process. The goal is to provide the best technology available to the warfighter sooner while continuing to develop improvements for future system integration and fielding.

DoD is also learning from the best practices in both the public and private sectors. For example, a recent alliance between industry and the Department resulted in reduced delivery times of spare parts (from 200 to 15 days), eliminated $14 million in inventory, and lowered purchase prices by $3.3 million per year for the next 12 years.

Sizing and Modernizing DoD Installations and Facilities

For too long, the Department had neglected its facilities, and modernization efforts had been postponed, jeopardizing their long-term health. The Department's FY 2001 Installations' Readiness Report showed 68 percent of the facility classes assessed by Component Commanders were rated as having serious deficiencies or not supporting mission requirements. The Department invested additional money in FY 2002 to renew and revitalize facilities--cutting almost in half the previous replacement rate of 192 years. This progress was significant and moved the Department closer to its goal of a 67-year replacement cycle (equivalent to a commercial industrial standard).

In addition to overall DoD facilities, the quality of military housing declined over the past decade. Recognizing the link between safe, adequate housing and the retention of high caliber personnel, the Department established FY 2007 as its goal to eliminate all inadequate military family housing through military construction, privatization, and increases in the basic allowance for housing.

Spurring the Industrial Base

DoD's industrial partners are critical to the nation's success. If the Department is to provide U.S. fighting forces with the very best equipment, then the country must have a healthy, competitive, and innovative industrial base to design, produce and support that equipment. Competition is central to driving innovation within the industrial base. To increase competition, the Department is exploring ways to encourage more companies to compete for DoD contracts.

The Department is investing in research and development and in production programs, to ensure that DoD will be able to fight and win 21st century wars. The Department is exploring methods to promote the entry of less traditional suppliers into the defense industrial base to work alongside our legacy suppliers. Our challenge is to match innovative capabilities and companies with the defense strategy, and provide bridges – not barriers – to their participation.

President's Management Agenda

In August 2001, the President issued the President's Management Agenda, which outlines specific goals and strategies to address the federal government's most pressing management issues. The full report is available on the Internet at http://www.whitehouse.gov/omb/budget/fy2002/mgmt.pdf.

An Executive Branch Management Scorecard is used to show how well a department or agency is executing the management initiatives, and where it scores at a time against the overall standards for success. The standards for success were developed by OMB and are available on the Internet at http://www.whitehouse.gov/omb/memoranda/m02-02standards.pdf. The scorecard employs a simple grading system: green for success, yellow for mixed results, and red for unsatisfactory. There are two sides to the scorecard: current status against the standards for success, and progress in implementing the initiatives. The progress side of the scorecard tracks whether a department's work plan for the initiatives is being successfully executed according to established timetables.

The Department performs its own internal assessment against the initiatives and forwards its findings to OMB for comment and discussion. The Department's status and progress ratings against the President's management goals in the five government-wide initiatives are depicted in the chart below.

Initiative	DoD Status Rating (September 30, 2002)	DoD Progress Rating (September 30, 2002)
Human Capital	Yellow	Green
Competitive Sourcing	Red	Yellow
Financial Management	Red	Green
Expanding E-Government	Red	Green
Integrating Budget and Performance	Red	Green

Human Capital

People are our most important asset. The Defense workforce has changed over the last several decades, however. U.S. military and civilian personnel are more educated and diverse. More military spouses work, and they are better educated than they were ten years ago. DoD's personnel policies and programs must address these changing demographics and the expectations of a 21st century military force. Toward these ends, we have formulated comprehensive strategic human resources plans for both our civilian and military personnel.

Civilian Personnel

Twelve years of downsizing have resulted in skills and age imbalances in the Department's civilian workforce. Sixty-six percent of the civilian workforce will be eligible to retire by 2006. The Department will have to compete with the private sector for quality replacements. Existing rules under which the civilian workforce is managed are inflexible--a stark contrast to the private sector recruiting environment where technology is revolutionizing the workplace, and where work-life balance issues are becoming more important as retention factors.

The Department has developed a Civilian Human Resources Strategic Plan using a balanced scorecard approach. The balanced scorecard is a strategic management tool that provides financial and operational measures tied directly to our vision, values, goals, and objectives. The Plan maps out the reform of human resources programs, systems and practices with objectives that include delayering, improving decision-making, and increasing supervisory span of control.

The Civilian Human Resources Strategic Plan is designed to determine the tools, policies, programs and compensation strategies needed for the future. The plan questions current management practices, and indicates whether the practices are based in law, policy, or tradition. The plan establishes a framework to develop metrics and standards for success. As a living document, the strategic plan does not presume to answer all of the questions, but rather provides a roadmap for the future.

Military Personnel

The policies the Department applied to successfully manage military personnel over the past 50 years will not necessarily support the transformed force of the future. Current rules designed to maintain a youthful, vigorous force, often encourage or require members to retire while they are at the peak of their talents and skills. Replacement costs for these highly trained, experienced personnel in the modern force are high. Human capital management must focus on recruiting the right kinds of people and retaining those high value assets for longer periods of service. Policies to develop the officer corps need to encourage a proper balance between solid grounding in operational art, meaningful exposure to joint operations, and sufficient tenure in key leadership jobs.

The Department has developed a comprehensive Military Personnel Human Resources Strategic Plan that focuses on determining the best mix of policies and programs to ensure that the right number of personnel have the requisite skills and abilities to carry out assigned missions effectively and efficiently. It focuses on recruiting the right number and quality of people; developing, sustaining, and retaining the force; transitioning members from active service; and preserving programs that maintain long-term capability. It addresses issues such as no-term enlistments, longer tours, fewer moves, expanding promotion windows, adjusting retirement for longer service,

expanding entry programs, and enabling a seamless flow between Active and Reserve Components. The ultimate goal is to ensure that the Department has modern military personnel practices to meet the needs of a modern military force.

Competitive Sourcing

Public-private competition creates significant improvements in performance and cost savings. The competitive sourcing initiative strives to achieve greater efficiencies through the competition of sources and simplification of procedures. While a significant portion of federal employees perform tasks that are similar to those found in the private sector, rarely, if ever, are they subject to the pressures of the marketplace.

The Administration is aggressively encouraging market-based competition throughout the government, and simultaneously working with the private sector and federal employee unions to find long-term solutions to reform the currently cumbersome process governing competitions.

The Department of Defense has the largest competitive sourcing program in the federal government, with a competition goal of 226,000 positions. The Department will meet the OMB immediate goal of competing 15 percent of these positions by FY 2003.

Financial Performance

Improving financial management is critical to ensuring accountability. Federal managers need accurate and timely information for sound decision-making, but have neither. Through the financial performance initiative, the Administration seeks to ensure that federal financial systems produce accurate and timely information to support operating, budget, and policy decisions, and thus improve accountability to the American people. To accomplish these objectives, OMB is working with federal agencies to improve the timeliness, enhance the usefulness, and ensure the reliability of financial reporting.

The Department of Defense is actively pursuing a comprehensive financial management modernization program that will reengineer business processes and consolidate or replace more than 1,800 disparate systems that initiate transactions with a financial impact; feed necessary information from a functional system to a financial management system; or calculate, consolidate or produce financial reports. Detailed information regarding this program is contained in the Financial Management Improvement Plan later in this report.

Expanded E-Government

The purpose of the E-Government initiative is to make better use of technology to better serve citizens and improve government efficiency, cutting government's time to make decisions from weeks or months to hours or days. The E-Government initiative requires agencies to focus Information Technology (IT) spending on improving mission performance, reducing duplication, ensuring information security, and cooperating across traditional agency stovepipes.

The Department has submitted complete business cases for 180 major IT projects. These systems represent about $11 billion of a total IT investment of $26 billion. We have improved the quality of our business case submissions and are proud to say that our projects are within 90 percent of their cost, schedule, and performance targets.

We are on schedule for the development of the Financial Management Enterprise Architecture, which will provide the business component of the Department's Global Information Grid Enterprise Architecture.

We are actively engaged in eight of the 24 E-Government initiatives: (1) International Trade Process Streamlining; (2) Consolidated Health Informatics; (3) Integrated Acquisition Systems; (4) E-Clearance; (5) E-training; (6) Recruitment-one-stop; (7) Enterprise Human Resource Integration; and (8) E-payroll. We believe we have potential solutions in each of these areas, and are working with the managing partners to facilitate use of these solutions by other government agencies.

Budget and Performance Integration

The initiative to integrate budget and performance has an important purpose--to improve programs by focusing on results. Dollars will go to programs that work; those programs that do not work will be reformed, constrained, or face closure. As measures improve, dollars will go to programs that yield the best results for each dollar spent.

The Department is adopting a DoD-wide approach to establishing performance outputs and tracking performance results. This approach is based upon the Secretary's Risk Management Framework introduced in the Department's *Report of the 2001 Quadrennial Defense Review*. The QDR adapted the balanced scorecard concept to the Department and provided a management framework to help defense managers balance investment priorities against risk over time. The Department developed supporting scorecards for the Budget and Performance Integration initiative. Beginning in February 2003, each DoD Component will be graded on its status and progress in:

- Displaying the linkage of plans-outputs-resources in budget justification materials;

- Expanding the treatment of metrics in the FY 2004 congressional justification materials; and
- Establishing a quarterly system of reporting on progress made towards the performance goals.

For FY 2003, Components will be required to associate performance metrics with at least 20 percent of the resources requested each year (FY 2004 - FY 2009). For the FY 2005 President's Budget, DoD Components will be required to associate 60 percent of the resources requested with performance metrics. In the FY 2006 budget, this requirement increases to 80 percent; and for FY 2007 and beyond, 100 percent of the resources requested will be associated with performance metrics.

Financial Management Improvement Plan

Objective and Scope

The Secretary of Defense has initiated a comprehensive business management transformation program for the Department, known as the Financial Management Modernization Program. As a result, the Department is currently undergoing a major reevaluation of the ways in which it performs its business and financial management operations. The centerpiece of this initiative is the development of a Department-wide financial management enterprise architecture. The development effort has begun and will continue until April 2003, when implementation begins. An initial "strawman" of the final "To-Be" architecture was delivered in October 2002.

The enterprise architecture will be a "blueprint" describing the Department's future business processes. The "blueprint" and its associated transition plan will be the basis for financial transformation in the Department.

Vision for Financial Transformation

To realize its goal of managing the Department in an efficient, business-like manner, the new administration is placing an unprecedented emphasis on transforming the Department's business processes and management information systems. Early in his tenure the Secretary of Defense sponsored a high-level, yet thorough agency-wide review designed to recommend improvements in the way the Department conducts its financial management operations. Known as the Friedman Study[1], it recommended a Department-wide financial management vision and suggested specific areas upon which special focus should be placed.

Drawing on the suggestions made in the study, the Secretary subsequently articulated his vision for financial management in the Department: **Financial Management should focus on a single objective - delivering relevant, reliable, and timely financial information on a routine basis to support management decisions.**

As stated earlier, the first step towards achieving the Secretary's vision will center on the development of a Department-wide financial management enterprise architecture. The architecture will describe an improved business support environment and the *requirements* for business process and information systems solutions for the Department.

[1] *Transforming Department of Defense Financial Management: A Strategy for Change*, April 13, 2001.

It will also describe how the Department will comply with federal mandates and requirements.

Developing and implementing a Department-wide financial management enterprise architecture will be a huge stride on the road to achieving the Secretary's vision. Using the architecture, the Department will begin building business processes and management information systems that will integrate financial and programmatic functions. Thus, the financial management environment of the Department's future will consist of cutting-edge business processes supported by integrated management information systems. The Secretary's vision for financial transformation will have an impact on almost all activities in the Department. Ultimately, it will affect most of the Department's business processes, people, and information systems.

Strategy for Transformation

Scope of Financial Transformation

The scope of the Secretary's transformation initiative encompasses those Defense policies, processes, people, and systems that guide, perform, or support all aspects of financial management within the Department.

Financial management activities include those found not only within the accounting and finance functional areas, but also in functional areas such as acquisition, inventory management, property management, personnel, and health care. The reason for such a large scope is the simple fact that most of the Department's financial information is generated and used outside the functional areas commonly associated with accounting and finance. Indeed, most of the Department's managers--those who have the greatest need for better financial information--work in functional areas other than accounting or finance.

Approach to Financial Transformation

The focal point of the Financial Management Modernization Program is the development and implementation of a Department-wide enterprise architecture. Transformation also includes updating the Department's financial policies and enhancing the skills of its financial workforce.

The Financial Management Modernization Executive Committee provides guidance and oversight to the Program. This committee, which meets quarterly, is chaired by the USD(C) and is comprised of the Department's senior leadership and is at the head of the Program's extensive governance structure. Upon completion of the Financial Management Enterprise Architecture development and the overall Department-wide business transformation strategy, the Executive Committee will ensure that information

systems comply with the architecture's requirements. These requirements will also include applicable Federal financial management systems and accounting requirements.

Financial Management Enterprise Architecture

Implementing the Secretary's vision requires an agency-wide approach to coordinating the disparate and complex business processes and systems modernization efforts now underway throughout the Department. The most effective way to control these diverse efforts is to develop and implement a Department-wide financial management enterprise architecture that is consistent with the Department of Defense Chief Information Officer's Information Technology architecture--that prescribes how the Department's financial and nonfinancial feeder systems and business processes will interact."

A well-conceived agency-wide financial management enterprise architecture will guide investments in business processes and their associated management information systems. The financial management enterprise architecture will capture the full breadth and depth of the Department's mission-based mode of operations, using necessary models, diagrams, and narrative.

Objectives

The objectives of the architecture effort have been chosen to fit the recommendations made in the Friedman Report--and to directly support the Secretary's vision. Some of the key objectives in developing a Department-wide financial management enterprise architecture are:

- Transforming and standardizing the Department's business processes and information systems by employing leading private industry business processes wherever possible;
- Eliminating redundant databases, systems, and interfaces;
- Including systems having the ability to collect cost information--specifically collecting cost information by project, business line, or weapon system life cycle;
- Including systems designed to produce financial and cost management information targeted to meet specific performance goals and metrics;
- Developing and implementing business processes and information systems that incorporate the accounting and systems requirements mandated by the FFMIA.

Execution

DoD awarded a contract for the architecture's development in April 2002. A draft of the future architecture was delivered in October 2002. The overarching architecture and

Transition Plan will be completed by April 2003. Implementation of the architecture will begin at that time. The Transition Plan will include some preliminary implementation dates. At present, the Department has funded approximately $92 million in FY 2002 and $92 million in FY 2003 for completion of the architecture development. The full cost of implementing the architecture has not yet been identified

Full implementation of the reengineered architecture will make the Department compliant with the FFMIA. Representatives from OMB, GAO, and Department's Inspector General receive frequent updates on the architecture's progress.

Architecture Approach

The architecture strategy is "business-driven." This means that the Department will be viewed as a business, with architecture development focusing on its core business functions.

The architecture is being developed in two phases. Phase I produced an architecture based on best practices from industry and government and did not include statutory requirements that do not apply to industry. Phase II will produce an architecture that further defines the business processes based on best practices but incorporating statutory requirements. The final architecture will include implementable end-to-end business processes, standard data elements, and management-required information.

Concurrent with the architecture development in phases I and II, a Transition Strategy and a Transition Plan are being created. They will provide the detailed "roadmap" showing how the Department will modernize and transform its business functions and information systems.

Architecture Products

The architecture products present an operational, systems and technical way to look at the Department's business processes. We refer to these three perspectives as *views.*

The architecture products show how business processes will be used in a day-to-day *operational* mode; how *systems* will support the business processes; and the *technical* rules that will govern the use of the business rules across the systems. Specific products of the enterprise architecture will include:

1. operational, systems, and technical views of the Department's current business and financial management baseline;
2. operational, systems, and technical views of the Department's reengineered business and financial management architecture (including a strawman version); and
3. a Transition Strategy and Plan pointing the way from the current baseline to the reengineered enterprise architecture.