

Statement of

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before the

House Oversight and Government Reform Committee

On

**“Findings of the Defense Business Board Study ‘Transforming DoD’s Core
Business Processes for Revolutionary Change’”**

March 21, 2017

Good afternoon Chairman Chaffetz, Ranking Member Cummings, and Members of the Committee. Thank you for this opportunity to discuss the Department's progress in addressing institutional reform and improved business practices and, specifically, to address the January 2015 Defense Business Board (DBB) study related to transforming core business processes within the Department.

My name is David Tillotson, and I am the Acting Deputy Chief Management Officer (ADCMO) of the Department of Defense (DoD). Shortly after reporting to Deputy Secretary Work in 2014, the Deputy Secretary (in his role as the Department's Chief Management Officer) met with me and the DoD Chief Information Officer to revitalize work in reforming the Department's business practices and to put forward recommendations that would help free up funding to meet emerging needs in the current budget-constrained environment. He asked the CIO and me to initially focus on the OSD staff and Defense Agencies/Field Activities, but also wanted to establish a foundation for broader Defense reforms. To that end, my office put in place a contract to assess the opportunity space for broader reforms in terms of both functions and resources. The Deputy Secretary of Defense also turned to private sector advice through the use of discretionary, Federal Advisory Committee Act (FACA) committees, in this case the DBB. The DBB, established in 2002, is composed of private citizens with significant business experience, who volunteer their time to provide the Secretary and Deputy Secretary of Defense with independent advice on private sector best business practices for consideration and potential application to the Department. On October 15, 2014, the Deputy Secretary of Defense established a task group under the DBB to help determine the extent to which the Department could find opportunities for improved productivity and associated savings by applying applicable corporate business practices to the core business functions within the Department.

On January 22, 2015, the DBB task group’s recommendations (“the 77-page summary report” referred to in the Washington Post article) were presented at a publicly-noticed meeting of the DBB¹ which was covered by the media.² Consistent with FACA, it has been (and remains) publicly available since that time on the DBB website and has been accessed over 2800 times.³ Additionally, the report was widely socialized with Department leadership and external stakeholders. For example, in February 2015, task group members discussed the Board’s findings with professional staff members (PSMs) of the Senate Armed Services Committee (SASC). That same month, I discussed it with both SASC and House Armed Services Committee PSMs.

On December 5, 2016, *The Washington Post* published an article by Craig Whitlock and Bob Woodward titled “Pentagon buries evidence of \$125 billion in bureaucratic waste”, citing the January 2015 DBB “77-page summary report”. The article both misrepresented the details of the study and mischaracterized the Department’s response to the study’s recommendations.

First, *The Washington Post* article’s headline and its accompanying graphic implied that \$125 billion could be cut from the annual defense budget. This mischaracterized the potential savings as “waste” and misled its readers by presenting the potential savings as 23% of the Department’s

¹ Meeting Notice, 79 Fed. Reg. 76991(December 23, 2014).

² Press coverage of the DBB presentation included: (1) <https://insidedefense.com/daily-news/dbb-pentagon-could-save-125b-early-retirements-contractor-reductions>, and (2) <http://www.defensenews.com/story/defense/policy-budget/budget/2015/01/23/pentagon-budget-defense-savings-dbb-work-modernize-retirement-retrain/22214201/>.

³ The report is available at http://dbb.defense.gov/Portals/35/Documents/Meetings/2015/2015-01/CBP%20Task%20Group%20Out-brief%20Slides_FINAL.pdf. The “77-page summary report” referenced is the full and complete report. The 77-page slide deck was bound and printed with the addition of the following sections:

- 1) Cover letter from the DBB Chair to the Secretary of Defense (SD) and Deputy Secretary of Defense (DSD) – dated February 9, 2015
- 2) Table of Contents
- 3) Terms of Reference (the memo from DSD directing the DBB to conduct the study)
- 4) Executive Summary (27 slides from of the 77-page slide deck)
- 5) 77-page summary report
- 6) Task group biographies
- 7) List of acronyms
- 8) Bibliography
- 9) List of DBB members

annual budget, when the study's projections were across the FYDP. Six days after the article, *The Washington Post* published an opinion⁴ piece which acknowledged its misrepresentation of savings as waste and corrected the savings accumulation as FYDP versus annual. As acknowledged in the opinion piece, "... the plausible cuts are closer to 4 percent ..." Unfortunately, the opinion piece was not nearly as sensational as the original article.

Second, the task group applied assumptions to arrive at 4% based on corporate business processes that did not account for the realities of the Federal budgeting process, including the annual budget review cycle that takes place across the Executive Branch and with Congress. The assumptions also did not account for various requirements in law affecting major budget and resource reallocation decisions, personnel, and organizational changes. Further, the savings projections assumed the Department could apply changes additively to ongoing initiatives so that the next round of reforms would result in cumulative reductions. While the DBB's assumptions and recommendations provide insight into what might be possible based on private sector modeling and experience, we know the private sector benchmark is one we might not reach. However, the DBB study's recommendations and the data exercise conducted by my office identified for the Department a structured approach to defense reform, and identified the need for additional work.

One of the immediate insights gained from the DCMO data work that supported the DBB effort was the need to have comprehensive, accurate, and available data on our core enterprise-wide business related functions. The task group looked at the number of personnel and budget resources dedicated to core enterprise-wide business functions, and elicited advice from senior business leaders on alternative ways to look at how the Department conducts its business. They

⁴ https://www.washingtonpost.com/opinions/just-cutting-waste-at-the-pentagon-wont-cut-it/2016/12/11/8e16a61e-be45-11e6-91ee-1adddfe36cbe_story.html?utm_term=.4c36365928b1

did not identify specific systems or processes that should be changed to increase the Department's productivity levels. Instead, the study identified metrics and benchmark levels that could be seen as efficiency goals for the Department based upon similar private sector goals. My office used the data and information collected by the task group, and its subsequent recommendations, to look into opportunities for actionable streamlining and efficiency actions. More specifically, the Deputy Secretary of Defense leveraged the recommendations to inform his approach to business process optimization and reform. I would like to share four examples of how the study's recommendations assisted in the development of specific efficiencies.

First, based upon the Deputy Secretary's 2014 direction, my office has been conducting Business Process and Systems Reviews (BPSRs) along organizational lines to identify potential efficiency initiatives. The task group focused instead on six core lines of business within the Department: human resources management, health care management, financial flow management, supply chain and logistics, acquisition and procurement, and real property management. Capitalizing on the core business concept, the Department added two (2) additional lines of business: Defense Resale and Information Technology. By using this focus on core lines of business rather than organizations, the Department has improved select business practices which will result in cost savings over the next 8 years.

Second, while not a specific recommendation from this study, the Department has adopted a comprehensive new definition of DoD major headquarters activities (MHA), which was subsequently codified in the FY 2016 NDAA, and the Department is working to ensure that MHA data is incorporated into authoritative data systems to increase information fidelity for accounting, tracking, and reporting. The new definition and revised baselines are being built into programming

and budget elements, enabling the Department to track headquarters costs consistently across organizations and over time; this was a broad data issue identified and thus validated by the DBB review effort.

A third efficiency effort, which was informed by the study's recommendations on Contract Optimization, was the application of the practices similar to those in place in the Military Departments to review the requirements for, and assess potential redundancies of, service contracts supporting the OSD and DA/FAs. This process, known as Service Requirements Review Boards (SRRBs), is aimed at validating requirements and streamlining contracts. The SRRBs require organizations to review their service contract requirements and find opportunities for efficiency by eliminating non-value-added services and duplicative requirements, better aligning requirements to mission, and using strategic sourcing opportunities. Savings can be realized over the FYDP and available to re-invest into higher priority requirements. My office is currently estimating that the Department can save \$1.9 billion across the FYDP through the use of SRRBs.

As a final example, the DBB study recommended a focus on IT efficiencies. With the DoD CIO as the lead, we are conducting a dedicated review of the IT needs and assets of the Department to provide better service and integrated approaches across all mission areas. This approach consists of a top-down/bottom-up review of all IT enterprise licensing agreements to ensure the Department is obtaining software and hardware at a consistent cost; the consolidation and potential reduction of data centers as a means of focusing the Department's infrastructure support in a few target areas versus multiple, underutilized locations; and the consolidation of disparate and redundant IT networks into a single Joint Service Provider approach. At present, the

Department is on track to reach its efficiency target of \$1.9 billion by FY 2021.

These are just a few of the efficiencies the Department is pursuing that have been informed by the DBB study. The Department is also preparing for horizontal, cross-component reforms that should yield additional savings and may allow the Department to see potential savings similar to comparable private sector metrics and benchmarks. Such changes will require support from Congress and many will be sensitive and difficult because of the potential impact on jobs and resources. These new initiatives will consider divesting work the Department does not need to do, changing information practices to make better Department-wide decisions about resource use, and changing organization structures to perform at an enterprise level.

Mr. Chairman, the Department is firmly committed to continuing efforts to improve our management practices and business processes. The Department has always taken its duty to be an excellent steward of taxpayer dollars very seriously. I thank the Chairman, Ranking Member and the Committee for the opportunity to address misunderstandings associated with the DBB's Core Business Process study and to provide tangible examples of the Department's accomplishments to date. This concludes my prepared remarks and I defer to the Chairman for further questions.