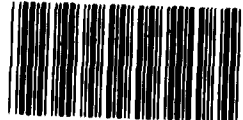




COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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JAN 21 1981



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The Honorable Caspar W. Weinberger
The Secretary of Defense

SUBJECT: Proposed Agenda of Significant Management
Improvements and Cost Reduction Opportunities
--Department of Defense] *OCG-81-1*

Dear Mr. *Cap* Secretary:

With the new Administration's dedication to increased funding to upgrade the manning, equipping, and logistic support of the Armed Services the necessity for frugal management of resources and operating costs has never been more important.

We have produced numerous reports over the past few years pointing to ways of increasing productivity and reducing costs. While the services have acted promptly on some of these ideas, they have typically resisted proposals to cut costs by inter service consolidations to eliminate duplication of facilities and overheads.

While there have been spurts of progress since the Department of Defense was established in 1947, the time has come, in our opinion, when these opportunities must be dealt with more aggressively. At stake are several billion dollars a year of savings which are urgently needed to offset essential increases in modernization, sustainability, and readiness.

The ideas summarized in the attachment to this letter are not all-inclusive, but have been selected as some of the most apparent high pay-off opportunities. Fifteen agenda items are summarized under three subgroups:

- A. Logistical Support Economies (supply, maintenance, and distribution) -- 6 agenda items.
- B. Major Procurement Economies (weapon systems development and acquisition) -- 4 agenda items.
- C. Manpower Issues -- 5 agenda items.

LETTER REPORT

015719



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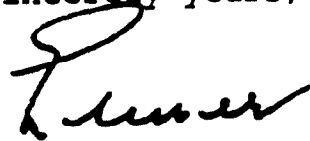
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More details can be obtained from the individual reports cited in the attachment. We will be pleased to discuss our findings in detail with members of your management team. We are sending copies of this letter to the Chairmen and Ranking Minority Members of the House and Senate Committees on Appropriations and Armed Services.

Sincerely yours,



Comptroller General
of the United States

Enclosures

PROPOSED AGENDA OF SIGNIFICANT MANAGEMENT
IMPROVEMENTS AND COST REDUCTION OPPORTUNITIES--
DEPARTMENT OF DEFENSE

A. LOGISTICAL SUPPORT ECONOMIES:

SUPPLY, MAINTENANCE, AND DISTRIBUTION

About \$59 billion of the fiscal year 1981 budget will pay for that set of functions, activities, services, and procurements called "logistics." They are spread across almost every budget appropriation and are heavily labor intensive.

While precise goals must be set, it is believed that several billion dollars in annual savings can be achieved by implementation of the several actions discussed below:

1. First, consolidate military base support activities 1/

Almost 550,000 personnel--civilian, active duty military and reserves--are assigned to the large variety of essential house-keeping and support tasks needed to keep Department of Defense (DOD) installations in daily operating condition. These tasks cover property repair and maintenance, police and fire protection, utilities, trash and sewage disposal, base supply and transportation, wharf and air field operation, food services, laundries and many others.

These services cost an estimated \$12 billion in fiscal year 1978, and these costs have continued to rise with inflation. The opportunities for economy lie in the fact that military installations in the same geographic area frequently do not share these services. Hence, avoidable duplication of staffing and facilities occurs. For example, in the Sacramento, California, area, there are seven major bases within a 60-mile radius. The total population of these bases is approximately 47,000, of which almost 10,000 are in base support functions.

DOD has only timidly approached this opportunity for savings--by establishing voluntary and uncoordinated programs. We believe that if a single truly-effective program is to be achieved, the parochial interests of the services must be sternly put aside. There must be a coordinated, systematic attack on unnecessary base support costs.

1/ "Consolidating Military Base Support Services Could Save Billions" (LCD-80-92, Sept. 5, 1980).

The establishment, by directive of the Secretary of Defense, of an authoritative single manager, or project director, to effect optimum base support economies can, we believe, produce several hundred million dollars of savings annually. It is one of the most obvious--and one of the easiest--sources of true economy which the new Secretary of Defense can achieve.

2. Second, complete the excellent work already begun in consolidating supply activities

In the 1950s, the Congress directed DOD to consolidate the purchase, issue, and use of common supplies. This was incorporated in the so-called "McCormick-Curtis Amendment" of 1958 which mandated consolidation of common supply and support functions to eliminate duplication and achieve economies.

A series of commodity single managers were established (including medical, clothing, subsistence, industrial, electronics, and general supplies). Each procured, stored, and distributed supply items to the four services. In 1961 this group was brought together by the then Secretary in an agency known as "The Defense Supply Agency" (DSA), responsible for some 1.8 million items of supply. Major reductions in inventory investment and personnel economies quickly ensued. Since then the Office of the Secretary of Defense (OSD) civilian managers have repeatedly advocated further consolidation of consumable items by assigning the remaining 1,300,000 consumable items to the Defense Logistics Agency (DLA) (the successor to DSA) for procurement, storage, and issue. These OSD officials estimate that \$100 million annually can be saved in operating costs (about 4,000 people). Substantial reductions in inventories are also possible.

It is our understanding that strong resistance of the services to these long overdue actions continues to postpone the realization of such desirable savings. A firm decision now by the Secretary of Defense would set in motion procedures that should pay handsome dividends in savings within 2 years.

While the above is the most dramatic opportunity for supply consolidation, there are two others which have been addressed in our recent reports that deserve early consideration:

--Eliminating Marine Corps logistics overlap with other services has already saved several million dollars, but further savings are possible. 1/ In response to one of our reports in 1975, the Marine Corps took steps to eliminate duplication of supply activities which other services could just as efficiently perform for it--achieving immediate savings of about \$65 million. This was realized by reassigning some 157,000 items to other service agencies for management, thus eliminating separate Marine Corps staff and facilities. However, there are at least another 39,000 items managed by the Marine Corps which other services or DLA could efficiently manage for it. 34,000 of these are consummables and the above-mentioned transfer to DLA, if accomplished, would effect the recommended economies. The remaining 5,000 items should be transferred to the other services. In addition, there are opportunities for the transfer to other services of duplicative maintenance activities; use of other services' depot overhaul facilities for selected items; and transfer of war reserve stocks to the storage facilities of other services.

--Centralized ammunition management is a long-sought goal which has not been fully achieved. 2/ In 1973 the central management of conventional ammunition was advocated by us. The first steps were taken by DOD in 1975, by designating the Army as the single manager. Despite this progress, much remains to be done. The current single manager's control is limited even within the Army. OSD proposed to expand the single manager concept and encountered considerable resistance from the services. Thus, there remain millions of dollars to be saved by installing a single system capable of providing intensive management of this critical

1/ "Eliminating Marine Corps Logistics Overlap Saves Millions Further Savings Possible" (LCD-80-74, June 30, 1980).

2/ "Centralized Ammunition Management--A Goal Not Yet Achieved" (LCD-80-1, Nov. 26, 1979).

commodity. The House Committee on Appropriations has shown continuing interest in this matter. While the Secretary of Defense has agreed in the past that changes are needed to improve this program, little has been done to implement them.

3. Third, begin now to establish single management of aircraft depot maintenance

DOD spends about \$2.5 billion a year on depot maintenance of aircraft. In-house there are 15 depots valued at about \$1.8 billion. New investments in these facilities and their equipment are being made at the rate of some \$65 million annually.

The 15 facilities involved are 6 in Navy, 5 in Air Force, and 4 in Army (including 2 electronic depots). Our study showed that gross in-house capacity exceeds needs by as much as 130 percent. DOD has estimated that the cost to DOD of unused commercial production capacity ranges from \$250 to \$400 million annually.

This problem is massive and complex. A master plan and uniform cost accounting are essential to eliminate unneeded capacity and overheads, and to properly integrate Government-owned and private difficult to estimate with precision would--even if only 10 percent of current costs--exceed \$200 million annually. We have strongly urged the Secretary of Defense to designate a single manager over aircraft depot maintenance. 1/ We are disappointed at the continued refusal of DOD to face up to these opportunities.

In addition to depot level maintenance, our studies show that the Air Force can centralize aircraft component repair in the field with significant savings. 2/ The Air Force has successfully centralized repair in selected situations such as the F-4 in the Pacific, engines for the military airlift command, and the C-141/C-5A aircraft

1/ "Aircraft Depot Maintenance: A Single Manager Needed to Stop Waste" (LCD-78-406, July 12, 1978).

2/ "Centralizing Air Force Aircraft Component Repair in the Field Can Provide Significant Savings" (LCD-79-409, Mar. 28, 1979).

overseas. However, these are but a few of many opportunities to economize by eliminating duplicate activities in the United States and overseas. The Air Force generally resists these opportunities on the grounds that the analyses needed to make such changes are complex. However, the economies possible are very attractive and we feel that the Secretary of the Air Force should direct that they be identified, starting with centralizing F-15/F-16 component repair overseas and in the United States.

4. Fourth, further application of the single manager concept to transportation activities should be considered

Since the National Security Act of 1947, DOD has designated the Navy to be the single manager for ocean transportation (1956) and the Air Force to handle airlift service (1956). In 1965 DOD designated the Army to be the single manager for land transportation and common user terminals.

In 1970 the Blue Ribbon Defense Panel established by the then Secretary examined this multiservice approach to transportation. It recommended that transportation be further consolidated under a "Unified Logistics Command." Today, however, the three managers operate basically as originally established.

The House and Senate reports on the fiscal year 1980 Defense Appropriation Bill directed DOD to develop an implementation plan for consolidating the Military Sealift Command and the Military Traffic Management Command for creating a Defense Traffic Management Agency. We understand that a recently completed Harbridge House, Inc., study which DOD contracted for in response to this congressional directive, recommends the establishment of a Unified Traffic Management Command under the Joint Chiefs of Staff. It seems timely to move ahead now to achieve the further economies of consolidation and single management in this area of logistics support. However, to make this a truly Unified Traffic Management Command, the Secretary of Defense should consider assigning to it the traffic management functions of the Military Airlift Command.

5. Fifth, use both wholesale and retail inventories of parts more effectively

Since 1974 we have been emphasizing the need to maintain visibility and interchangeability of stocks held both

at major depots ("wholesale levels") and at using installations ("retail levels"), such as shipyards, bases, and operating activities.

The obvious advantage is to reduce total inventory investment and obtain better use of assets. Our studies have continued to demonstrate the importance of this management practice:

--A report issued in June 1977 showed that the Air Force was spending unnecessary millions of dollars to repair parts when more than sufficient quantities were already available. We first reported this finding in 1964 and the Air Force Audit Agency has repeatedly confirmed that millions of dollars can be saved if appropriate inventory management is applied.

--In January 1979, in a similar study, we reported that the Army could save some \$18 million by using serviceable parts which were then in overstock, instead of repairing them, based on tests conducted at just two Army depots.

--A report issued in June 1980 on shipyard inventories found that parts valued at \$5.3 million had been purchased by the Navy, while the Philadelphia Naval Shipyard had \$11 million of identical items on excess to its needs. 1/

Illustrations such as these cited above have been responded to by the services and OSD with statements that while the facts are correct, there is a lack of staff to obtain proper corrective action. This appears to us to be a matter of priorities and the focussing of effort for an intensive period, until corrective action has been obtained.

1/ The three reports dealing with the need to integrate wholesale and retail logistics are as follows:
--"Air Force Continues to Repair Parts When Serviceable Parts Are Available" (LCD-77-202, June 7, 1977).
--"The Army Should Use Available Serviceable Parts to Avoid Repairs" (LCD-79-205, Jan. 31, 1979).
--"Navy Has Opportunities to Reduce Ship Overhaul Costs" (LCD-80-70, June 17, 1980).

6. Sixth, consider life cycle logistics and backup equipment requirements early in the weapon planning cycle--to save hundreds of millions of dollars

On newer systems far better attention is being given by the services to the concept of "integrated logistics support," but even stronger Secretary of Defense emphasis is needed. Examples of current opportunities which have been reported in calendar year 1980 are the following:

--On the Navy's F/A-18 aircraft, operational and support costs can be substantially reduced if the Navy adopts several alternative concepts we identified. For example, buying initial spares and installed components concurrently could save over \$350 million. 1/

--Our report of July 22, 1980, recommended that the Congress require better budget justification of aircraft for noncombat missions. This is a summary report bringing together the results of, numerous past reports and Defense Audit Services studies covering the quantities of F-14, F-15, F-16, F-18, and A-10 aircraft used for training, peacetime attrition, and backup during depot maintenance. We found that the requirements for these noncombat mission-related aircraft were being justified on the basis of data which were outdated, inflated, and unsubstantiated or which did not recognize improvements in maintenance, technology, and support concepts.

However, DOD has taken the position that regardless of their peacetime uses, in wartime all aircraft will be used to their maximum advantage, and any cutback in aircraft procurement would reduce combat capability. It is our position that if DOD believes these additional aircraft

1/ "Operational and Support Costs of the Navy's F/A-18 Can Be Substantially Reduced" (LCD-80-65, June 6, 1980).

are needed for combat purposes, they should be justified as such and approved in that context by the Secretary of Defense, the Office of Management and Budget (OMB), and the Congress. Lacking this kind of justification, we believe our analyses raise serious questions about the use of billions of dollars to acquire aircraft that may not be needed. 1/

--A number of opportunities exist to consider more economical support concepts for the F-16. Since this is a multi national fighter being used by the North Atlantic Treaty Organization countries, there is an opportunity not only to centralize our needs, but also to build on host Nation support. One example--reduction in the intermediate maintenance equipment--would save an estimated \$56 million. 2/

The Secretary of Defense must make it clear that he will not tolerate an attitude on the part of DOD managers which assumes that if a system can be funded, logistics will have to be provided, regardless of cost effectiveness at a later time. It must become a way of life to give the same attention to logistics concerns and life cycle costs at the outset of systems development, as are given to systems capabilities and design cost considerations.

1/ "The Congress Should Require Better Justification of Aircraft for Noncombat Missions" (LCD-80-83, July 22, 1980).

2/ "F-16 Integrated Logistics Support: Still Time to Consider Economical Alternatives" (LCD-80-89, Aug. 20, 1980).

B. MAJOR PROCUREMENT ECONOMIES

Four major opportunities need Secretary of Defense and congressional attention:

1. First, weapon system funding should be consistent and better managed

It our discussions of acquiring major weapon system with Government and industry officials, the inadequacy and inconsistency of funding these programs comes to the forefront as a major problem. It causes delays and cost growth in the programs and a myriad of other significant management problems. Additional unit costs in the magnitude of 10 to 30 percent have been estimated to be the result.

The funding problem has its roots in inadequate analyses of service missions to determine their true needs and priorities, inconsistency of support over the life span of many programs, a constant shifting of priorities and funding between programs each year, and the inability to make decisions on a pure business basis due to the need to consider political, social, and other goals external to the military need. As discussed in item 2 below, multiyear contracting is also a key concern.

All the above result in ill-planned and poorly executed program management, fostering inadequate or insufficient research and development, and inefficient production rates which contribute to increased program costs and cost overruns.

Our report of February 20, 1979, 1/ pointed out that DOD components were not placing enough effort into analyzing their missions and determining their needs, particularly with regard to joint service effort. Our recent survey found this condition still exists. Our report dated October 10, 1980, on the C-X aircraft program 2/ pointed

1/ "Observations on Office of Management and Budget Circular A-109--Major System Acquisitions by Department of Defense" (PSAD-79-9, Feb. 20, 1979).

2/ "Department of Defense Should Resolve Certain Issues Concerning the C-X Aircraft Before Requesting Proposals for Its Full-Scale Engineering Development" (PSAD-81-8, Oct. 10, 1980).

out the Air Force was pressing ahead with contractual activities for the C-X aircraft despite not having complied with a congressional request to first complete a strategic mobility requirement study. The present haste with the C-X could bring about a repeat of the cost growth and performance problems of the C-5 program.

We recommended in our report to the Chairman of the Senate Budget Committee on September 25, 1979, 1/ that the Congress and the Administration should take a more businesslike approach to weapons acquisition by establishing a mutually agreed upon systems acquisition strategy, wherein each program's progress would be reviewed by the Congress at each major milestone rather than the present repetitive yearly Presidential budget reviews. This would be supported by adequate multiyear authorizations that would provide the funding stability so severely lacking in many programs today as outlined below. Adoption of the milestone review would lessen the Congress' annual workload and focus its attention at the critical points; that is, when the need is reconfirmed and the thresholds of progress are measured.

It is strongly urged that the Secretary of Defense charge the Under Secretary of Defense, Research and Engineering, with vigorous leadership in resolving the problems described briefly above and in the reports cited.

2. Second, multiyear contracting is an idea whose time has come

Because of statutory restrictions and a general reluctance on the part of the Congress, substantial potential savings which would be available through multiyear contracting have not been realized. This technique is crucial to achieving the kinds of savings cited earlier.

In the acquisition of major weapon systems, the "up front" commitment to a program, demonstrated through multiyear contracting, produces program stability and permits economical production quantities to be scheduled. These factors, in turn, provide the incentive to a contractor to invest in labor-saving capital equipment that produces cost reductions and increases productivity.

1/ "Review of the Department of Defense Implementation of Procurement Reforms" (PSAD-79-106, Sept. 25, 1979).

Further, more total units of equipment can be procured at the same total cost.

The Commander, Air Force Systems Command, recently testified before the Defense Industrial Base Panel of the House Armed Services Committee as follows:

"Looking at six new potential multi-year candidates, which would cost a total of about \$13 billion on a single year basis, I feel confident that we could achieve savings of well over one billion dollars if authorized to procure them on a multi-year basis." (Testimony on Nov. 13, 1980.)

Savings resulting from using multiyear contracting are not limited to major acquisitions. The estimated range of 10 to 30 percent we find is also likely to be realized in the procurement of supplies and services. Multiyear procurement authority in such cases would open the possibility of increasing initial competition because of the assurance of business continuation over a several-years period (such as 3 to 5 years). Similar to major acquisition procurements, the stability resulting from multiyear contracting provides an incentive to contractors to make labor-saving capital investments and develop efficient means of producing supplies or delivering services. Additionally, using multiyear contracting might attract more small and minority-owned businesses to participate in Government procurement. Today, the uncertainties of future business inherent in the annual procurement process discourage such entities from participating either because they are reluctant or unable to make capital investments they have no assurance of recovering.

We support the recommendations of the Defense Industrial Base Panel of the House Armed Services Committee (report dated 12/31/80) for the enactment of the statutory authority to authorize multiyear contracting. We have long advocated in reports and testimony before congressional committees and the Commission on Government Procurement, the adoption of multiyear contracting.

We believe that DOD should take the initiative, by concrete case-by-case documentation of the savings opportunities in its annual budget presentation, to focus attention on this

long overdue improvement in the business of procurement. It is hoped that the Secretary of Defense will be joined by the Director of OMB in strongly supporting these reforms in the procurement process.

3. Third, lower cost alternatives should be examined before the Secretary of Defense and the Congress approve new systems

We believe that the sophistication of many weapon systems deployed today is one of the contributing factors that has led to budget problems, inventory shortfalls, and a low state of readiness for certain combat categories.

High technology, sophisticated, and complex weapon systems by themselves do not automatically create readiness problems. They do, however, set the stage. Other influences include high performance demands, inadequate testing of systems, design deficiencies, supply issues, maintenance issues, logistics concepts, management, and training. Numerous examples are cited in our report of June 30, 1980. 1/

We have not advocated that DOD elements do anything which would tend to lessen any technological advantages currently existing or that DOD use cheap or simple weapons in quantity as substitutes for more costly, more capable equipment. However, we believe that, although high performance systems adequate to meet the threat must be acquired, a much better balance between performance and reliability must be obtained.

Initial concerns on this issue began in the late 1960s as the unit cost of equipment increased significantly due to the introduction of highly complex and sophisticated equipment. The cost, quantities, reliability, availability, and maintainability of many highly sophisticated systems deployed in the early 1970s confirmed the seriousness of problems resulting from emphasis on performance.

DOD has introduced policies to help overcome these problems. Some development programs in the mid to late 1970s were

1/ "Implications of Highly Sophisticated Weapon Systems on Military Capabilities" (PSAD-80-61, June 30, 1980).

structured to reflect the intent of the new DOD policies emphasizing larger quantities; lower cost; and better reliability, availability, and maintainability. Most of these programs, however, were initiated in response to direction by the Congress or OSD. Rarely, have the services initiated development of low-cost alternatives without pressure.

Recently developed systems should benefit from the current emphasis on reliability, availability, and maintainability therefore presenting a brighter future. But overall, DOD's emphasis on lower cost weapon systems and greater reliability, although well placed, has not been sufficient. A current example of the Army's Infantry fighting vehicle (IFV) which costs six times as much as the M-113 which can carry about 50 percent more foot soldiers. We have recommended that the IFV's high cost merits considering the use of the M-113 as part of the high-low mix within the mechanized Infantry Battalion, providing the M-113 fire power can be augmented.^{1/}

We believe the Secretary of Defense and the Congress should carefully examine lower cost alternative programs before approving new weapon systems. In particular, they should explore with senior military officials the pros and cons of larger quantities of alternative weapons versus smaller numbers of highly sophisticated and expensive systems. This is another area for leadership by the Under Secretary of Research and Engineering.

4. Fourth, impediments to reducing the costs of weapon systems should be a prime concern of the Secretary of Defense

Through the years, concern with the Congress and DOD has been increasing over the ever-rising costs of weapon systems. The unit costs of ships, aircraft, tanks, and related items have increased dramatically since World War II--even after discounting the effect of inflation. With constrained peacetime budgets, this has resulted in the production of relatively small quantities of many weapon systems and has

^{1/} Letter report to the Secretary of Defense, "Concern About the Army's Infantry Fighting Vehicle" (PSAD-80-27, Feb. 5, 1980).

seriously affected overall military capabilities. In a report to the Congress dated November 8, 1979, 1/ we identified some factors leading to increased weapon systems costs.

Our conclusion is that the major effects on costs have resulted from:

- Low rates of production due to budget constraints and desires to maintain active production bases as long as possible.
- Absence of price competition between contractors.
- Lack of real motivation on the part of contractors to reduce costs.
- The impact of socioeconomic programs, Government controls, and red tape.
- A nationwide problem of reduced research, development expenditures, and lessening productivity.

Problems related to attempts to deploy systems with new technology and high performance, probably the single greatest factor impacting on cost, are addressed in the third recommendation above.

Some steps have been taken by DOD in attempts to limit costs, and we have concluded that these cost containment/reduction programs are generally worthwhile and deserve continuing emphasis.

We recommended that the Congress take the initiative to respond to the recommendations of the Commission on Government Procurement to (1) reexamine the full range of socioeconomic programs applied to the procurement process and the administrative practices followed in their application and (2) raise the minimum dollar thresholds at which such programs are applied to the procurement process.

1/ "Impediments to Reducing the Cost of Weapon Systems" (PSAD-80-6, Nov. 8, 1979).

We recommended that the Secretary of Defense (1) make a comprehensive study to identify those aspects of contract administration that can be relaxed or modified to reduce costs and paperwork and (2) take stronger initiatives to accelerate the implementation of management policies for major weapon system acquisitions, as set forth in OMB Circular A-109.

But new leadership is required to make further progress in these areas. It is hoped that the new Under Secretary of Research and Engineering, in concert with the Administrator, Office of Federal Procurement Policy, will press vigorously ahead on these long overdue reassessments of systems acquisition policies. We also urge that the Secretary of Defense propose to the President that a strong central leadership role be established in the Executive Branch to prevent further deterioration in Defense industrial have responsiveness, as recommended by the House Armed Services Committee Panel in its recent report.

C. MANPOWER ISSUES

Five subjects compose the agenda of high-priority, unresolved military manpower issues, which are in need of solution. These reforms will, of necessity, be gradual, but the urgency of action is steadily increasing both in terms of cost implications and impacts on readiness.

1. Military pay reforms have been debated for two decades with very disappointing progress. New leadership is needed.

A purpose of military compensation is to allow the Armed Forces to compete with other employers for the personnel they need. The base pay and allowances system has been long regarded as an inefficient way to support this objective and should be replaced by a salary system.

In our report of August 1, 1977, 1/ we pointed out that the pay and allowances system with its many components and hidden costs is complicated, and that few members who are paid under it know accurately how much of what they earn is equivalent to a civilian salary. They usually underestimate their equivalent salaries, which clearly does not help to recruit and retain personnel. The system is also inequitable, particularly, for single members who earn less than married personnel even when rank, length of service, duties, and qualifications are equivalent. A salary system would increase military members' awareness of their pay, remove inequities, and make the true cost of military personnel easier to identify and enhance.

The practice of indexing military pay increases to General Schedule Civil Service increases was adopted as a temporary measure in 1967, pending study and reform of the military compensation system. Since then, the system has been studied extensively but changed very little despite many recommendations. The present method for adjusting military pay not only has little basis in logic, it also lacks a clear statement of what the Government's policy should be for compensating military personnel. This, and piecemeal changes to the system, has in turn contributed to a perception among members that military pay and benefits are being eroded.

1/ "Military Compensation Should Be Changed to Salary System" (FPCD-77-20, Aug. 1, 1977).

DOD, the military services, and OMB have differing views on what principles should guide the setting of military pay.

Because it appears these organizations are unable to resolve their differences, we recommend that a permanent, independent "Compensation Board" be established to evaluate principles and policies for setting and adjusting military pay, propose legislation, and continuously monitor the system. 1/ The Secretary of Defense should take the leadership in bringing this board into existence, hopefully with a full congressional mandate--but in any event, its creation should occur at the earliest possible time starting, if necessary, with an Executive order. The results in terms of more efficient pay, reduced turnover, and improved military morale are far-reaching and have significant cost impacts.

2. Many issues confront the military retirement system and its financial soundness.

Like other Federal retirement programs, the military retirement system should adopt actuarial methods and funding provisions that reflect the full cost of accruing retirement benefits. The military noncontributory, pay-as-you-go system now has an unfunded liability of \$445 billion. As we pointed out in our December 29, 1978, report, this cost needs to be routinely recognized to evaluate the cost of agency operations the effect of any benefit changes and to determine its financial condition. 2/

One of the most controversial and important issues requiring early attention is the 20-year retirement feature of the plan. Despite the justification that retirement after 20 years is needed to maintain a youthful and vigorous armed forces, most military careerists spend the greater part of their time in jobs which have no exceptionally vigorous duties, yet they are eligible to retire under the same circumstances as those who serve in more demanding combat-

1/ "The Congress Should Act to Establish Military Compensation Principles" (FPCD-79-11, May 9, 1979).

2/ "Need for an Overall Policy and Coordinated Management of Federal Retirement System" (FPCD-78-49, Dec. 29, 1978).

type positions. Twenty-year retirement, in our opinion, is neither equitable nor does it promote efficient and effective use of manpower. The system needs to be re-designed so that there are varying career lengths based on the type of duties performed and the needs of the services. This would provide incentives to those who have demanding or hazardous duties and provide means for retaining personnel in the many technical and professional jobs where maturity, experience, and judgment are more valuable than stamina and agility. This recommendation was included in our report dated March 13, 1978. 1/

Concern about 20 year retirement was also expressed by the President's Commission on Pension Policy in its interim report issued in November 1980. The Commission stated that it was particularly concerned over the receipt of pension benefits by relatively young workers in military occupations.

Thirdly, to be more equitable and consistent with non-Federal practices, cost-of-living adjustments for retirees should be made only once a year and limited to something less than the full increase in the Consumer Price Index (CPI). We have suggested that annual increases be limited to 75 percent of the increase in CPI--generally the inflation protection received by the typical non-Federal retiree from employer pension plans and Social Security combined--or, and as an alternative, to the average percentage pay increase granted to active duty personnel. While the established policy of full, automatic indexation is a laudable objective, it is a benefit not normally available to retirees in the private sector. This is, thus, simply a question of affordability and equity. This matter was discussed in a letter report to the responsible congressional committees on July 1, 1980.

The above issues might well be assigned as priority concerns to the Military Compensation Board, suggested in recommendation 1 above.

3. The enlisted military force composition needed for the future should be thoroughly evaluated. Action on these long-overdue reforms is lagging

The underlying cause of many of the retirement and compensation issues, stated above, is the force profile--that is, years of

1/ "The 20-Year Military Retirement System Needs Reform" (FPCD-77-81, Mar. 13, 1978).

service and rank/grade distribution--which results from the current military personnel management model. This is especially pertinent to the 1.8 million enlisted personnel who work in hundreds of technically diverse occupational specialties. Service force management plans and objectives give inadequate recognition to the long-term effects of force management decisions on force structure cost and effectiveness.

With little exception, military personnel practices (enlistment, training, assignment and rotation, promotion, reenlistment, retirement, and compensation) are generally the same for all specialties and structured to 20 years of service.

Little or no consideration has been given to alternative personnel policies and differing combinations of grades and experience. The "aggregate approach" to military personnel management produces inadequate solutions to individual specialty needs and causes serious career force imbalance, as well as distorted retirement compensation practices. Today's reactive programs, such as enlistment/reenlistment bonuses, and rapid promotions, are costly and have proven over time to be "band-aid" solutions to long-term problems.

These issues were first addressed in our report of September 29, 1977. 1/

The Secretary of Defense should launch a major effort (perhaps with the assistance of a Blue Ribbon Panel of DOD experts) to reassess the proper enlisted force management model.

4. Use of more civilians in morale, welfare, and recreation (MWR) activities--and reduction in costs of the military exchange systems--are advocated

For several years the Congress has been concerned with the number of full-time military personnel assigned to MWR activities and, based on our earlier work, has established limits on the numbers that could be assigned. At the request of the Senate Appropriations Committee, we reassessed the progress which had been made and reported on July 11, 1979,

1/ "Urgent Need for Continued Improvement in Enlisted Career Force Management" (FPCD-77-42, Sept. 29, 1977).

that additional savings could be realized if nonappropriated fund personnel were substituted for military. 1/

We believe the next step calls for leadership by the Secretary of Defense to require the identification of positions that must be reserved for military personnel in MWR-type activities, and to convert the remainder to civilian manning.

As a further result of our studies of the Military Exchange System, we encountered opportunities for reducing management costs, and recommended that the Congress not look to the exchanges as a source of funding other MWR activities.

Specifically, we concluded that if the exchanges were not required to help fund other activities, they could focus their attention on their primary mission--that is, to provide goods and services to military personnel at the lowest practical prices. Hence, we recommended that the Secretary of Defense eliminate this requirement, and that the Congress directly appropriate funds for the full cost of these other MWR activities. A reduction of \$33 million in appropriated funds is believed obtainable. Although DOD managers of MWR activities have objected to moving in this direction, we feel the Secretary of Defense should make a clear decision and press for action.

5. Reserve Forces manpower management
needs fresh approach

Numerous reports have highlighted problems which contribute both to costly activities and inefficient or inadequate manning of Reserves. Many of our past findings and recommendations have not received attention. For example, we have urged the services to stop enlisting people in the Army Reserve who are not acceptable for active duty enlistments and to stop basing Reserve Forces recruiting objectives on "what the market will bear" rather than on staffing needs. These issues were discussed in our report of August 20, 1979. 2/

1/ "Military Personnel Cuts Have Not Impaired Most Morale, Welfare, and Recreation Activities" (FPCD-79-54, July 11, 1979).

2/ "Difficulties in Selected Army Reserves Recruiting Under the All-Volunteer Force" (FPCD-79-71, Aug. 20, 1979).

Another cluster of recommendations has concerned improvements in Reserve Forces training. Among the unresolved issues which have been raised are the reasonableness of insisting on 48 drills and 2-week active duty training tours for all reservists, regardless of their skill proficiencies. Potential, also exists we believe, for expanding the support of the Reserves by the Active Army establishment, thus reducing or eliminating the administrative workload now now placed on Reserve units. This would open up opportunities to reduce training times or increase time spent on mission-related activities. These matters were discussed in our report of July 30, 1979. 1/

Another cluster of opportunities in our June 28, 1979, report, concerns improvements in the mobilization processing of conscripts, volunteers, and recalled reservists. 2/

All of these matters deserve concentrated attention by the Reserve Force Managers.

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- 1/ "Efficiency of Reserve and Guard Training Has Improved Since 1974, but More Can Be Done" (FPCD-79-59, July 30, 1979).
- 2/ "Can the Individual Reserves Fill Mobilization Needs?" (FPCD-79-3, June 28, 1979).

D. SUMMARY OF THE PROPOSED AGENDA
OF SIGNIFICANT MANAGEMENT IMPROVEMENTS
AND COST REDUCTION OPPORTUNITIES

1. Consolidate military base support activities to produce several hundred million dollars of savings annually.
2. Complete the excellent work already begun in consolidating supply activities. Annual cost reductions of at least \$100 million appear attainable.
3. Begin now to establish single management of aircraft depot maintenance. If savings of only 10 percent are realized, this would produce annual economies of \$200 million.
4. Further application of the single manager concept to transportation should be considered.
5. Both wholesale and retail inventories of repair parts should be used more effectively. Test audits reveal potential for savings of many millions of dollars annually.
6. Life cycle logistics and backup equipment requirements should be considered early in the weapon planning cycle to save hundreds of millions of dollars.
7. Weapon system funding should be consistent and better managed.
8. Multiyear contracting is an idea whose time has come. Air Force Systems Command alone estimates reduction in investment costs of \$1 billion on six programs.
9. Lower cost alternatives should be examined before the Secretary of Defense and the Congress approve new systems.
10. Impediments to reducing the costs of weapon systems should be a prime concern of the Secretary of Defense.
11. Military pay reforms have been debated for two decades with very disappointing progress. New leadership is needed.
12. Many issues confront the military retirement system and its financial soundness.
13. The enlisted force composition needed for the future should be thoroughly evaluated. Action on these long overdue reforms is lagging.

14. Use of more civilians in morale, welfare, and recreation activities--and reduction in costs of the Military Exchange System--are advocated.
15. Reserve Forces Manpower management needs a fresh approach.