



## Meeting Notes

The Defense Business Board (DBB) is a federal advisory committee within the Department of Defense (DoD) pursuant to the Federal Advisory Committee Act of 1972, the Government in Sunshine Act of 1976 and other appropriate federal regulations. The DBB meets quarterly and held its first quarterly meeting for the fiscal year 2008 on October 23, 2008. The meeting was held at the Pentagon.

### **DBB Members present:**

Michael Bayer (Chairman)  
Denis Bovin  
Howard Cox  
Fred Cook (Vice Chairman)  
Henry Dreifus  
Dennis Hightower  
Mel Immergut  
Madelyn Jennings  
Bruce Mosler  
Phil Odeen  
Bill Phillips  
Mark Ronald  
Atul Vashistha  
Joe Wright  
Dov Zakheim

### **Others present:**

Janet St. Laurent, US Government Accountability Office (GAO)  
Mike Carns, Co-Chair, Defense Science Board (DSB)  
Leigh Warner, Member (DSB)  
Pierre Chao, Member (DSB)  
Jeff Steinhoff, former Managing Director, GAO

### **DBB Staff in attendance:**

Phyllis Ferguson, Executive Director  
Kelly Van Niman, Deputy Director  
COL Dale Marks, Military Assistant  
COL Kevin Doxey, Military Assistant  
Debbie Duffy, Staff Assistant  
Cathryn Evans, Contractor Support

### **Public Session Attendees**

Oksana Nesterczuk	OSD/DTSA
Patricia Peterson	OSD/DTSA
Mike Rosenberg	OSD/DTSA
Capt Mark Harris	J8
Mary Scala	DUSD(BT)

Zack Gaddy	DFAS
Dave Smith	OSD
Tony Murphy	OUSD(C)
Brett Baker	DFAS
Sandra Gregory	OUSD(C)
April Stevenson	DCAA
Jennifer Quinones	DCAA
Joseph Stewart	DCAA
Patricia Letzler	DCAA
Marc Parvin	DCAA
John Brooks	AFAA
Felix Strelsky	US Army Audit Agency
Mark Searight	US Army Audit Agency
Carol Suiter	Navy Audit Svc/DCAA Panel
Shaun Pickering	DFAS Internal Review
Shulan Christenson	AFAA
Mustafa Ahmed	Navy Audit
Barbara McCabe	Navy Audit Svc/DCAA Panel
Dennis French	AFAA
John Meeuwissen	OUSD(AT&L)/IC
Roger Gibson	OASD/HA
Eric Parker	<i>Federal News Service</i>
Kathryn Alexandrow	SAInc
Rob Margetta	<i>Congressional Quarterly</i>
CDR Darryn James	OSD PA
John Bennett	<i>Defense News</i>

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## PUBLIC SESSION

Copies of the final approved briefing charts may be viewed at the DBB website under Reports for 2008.

The public session began at 8:30 AM and was held at the Pentagon. Michael Bayer, the DBB's Chairman, began the session by providing opening remarks, and Phyllis Ferguson, the Designated Federal Officer, introduced the following public session attendees:

- Katherine Alexander, Consultant
- John Bennett, *Defense News*
- Jeff Steinhoff, former Managing Director, GAO
- Eric Taylor, *Federal News Service*

During the public session, DBB Task Groups provided briefings on the following topics:

- Defense Contract Audit Agency (DCAA) Independent Panel Review (IRP)
- A Review of Capabilities Requirements

- Best Practices on Export Controls Task Group
- Transition Topics

### DCAA Independent Review Panel (IRP)

Mr. Jeff Steinhoff, Chairman of the IRP, began by explaining the rationale for the IRP and recognized the cooperation of the personnel at the DCAA during this review. Mr. Steinhoff explained that in July 2008, the GAO conducted an investigative report and found serious problems with the DCAA, including:

- Failure to comply with generally accepted government auditing standards;
- Lack of independence and objectivity; and
- Management actions that intimidated auditors, impaired some and created a generally abusive environment.

In August, 2008, the Deputy Secretary of Defense established the IRP as a FACA subcommittee under the DBB and directed it to deliver actionable recommendations to help the Department address the concerns expressed by the GAO. Mr. Steinhoff presented fourteen draft recommendations from the panel. The recommendations were organized in the following categories: strategic planning, organizational structure, oversight, audit independence, business practices, workforce and independent evaluation. The IRP recommended the DCAA mission be revised to support the acquisition community, make appropriate decisions, and be the last line of defense against fraud, waste and abuse, as well as, ensure taxpayer dollars are spent on fair, reasonable contract prices.

After all the recommendations were reviewed, Fred Cook, Vice Chairman, DBB, allowed for public session attendees as well as DBB members to ask questions and provide comments. During this time, it was suggested that the recommendation to 'align performance standards and rewards programs to the revised DCAA strategic plan and balanced score card' be highlighted towards the front of the document. This was similar to another recommendation which some of the members thought would be beneficial towards the front of the report.

At 8:50 AM, Mr. Cook called for a motion to approve the recommendations as amended and the motion passed unanimously. The following members abstained from voting: Henry Dreifus, Dov Zakheim, Michael Bayer, Mark Ronald and Phil Odeen due to any potential conflict of interest with the topic.

### A Review of Capabilities Requirements

The Task Group chair, Mr. Joe Wright began by explaining the origin of the Task Group. In November, 2007, Gen. James Cartwright, Vice Chairman of the Joint Chiefs of Staff, established a DBB Task Group to review the DoD capability requirement identification and development processes. The DBB established a joint Task Group chaired by Joe Wright, and co-chaired by Mike Carns, Defense Science Board (DSB) member. The

Task Group chair and co-chair presented the results of the Task Group's review of the "DoD Capability Requirements Identification and Development Processes." The Task Group evaluated the current state of the enterprise through departmental interviews, think tank perspectives and review of literature on prior research on defense requirements identification and capability development processes. Mr. Wright provided background information about the Joint Requirements Oversight Council (JROC) and the system (Joint Capabilities Integration and Development System) for managing joint requirements.

The Task Group proposed a fundamental shift in the requirements identification process by adding the customer (the Combatant Commanders) to the decision-making process through membership on the JROC, as well as, changing the JROC to a function as a board, vice a committee, chaired by the Vice Chairman of the Joint Chiefs of Staff (JCS). The Task Group recommended that the DBB continue to support specific issues as requested by the Vice Chairman of the Joint Chiefs of Staff as well as help socialize accepted recommendations with Congress, DSD, Combatant Commands (COCOMs), Service Chiefs, DSB, Defense Policy Board and other key business entities.

The Board Members agreed to emphasize the DBB's prior recommendations for improving the Department's strategic relationship with the Industrial Base in the narrative to accompany this report. At 9:30 AM, Mr. Bayer called for a motion to approve the recommendations and the motion passed unanimously.

#### Best Practices on Export Controls Task Group

Mr. Mark Ronald presented the report on "Best Practices on Export Controls" as requested by the Under Secretary of Defense for Acquisition, Technology and Logistics USD(AT&L). The key premise for the Task Group was the belief that the U.S. system is out of sync with others and is in need of improvement to reduce inefficiency (reduces unnecessary volume and increase speed of decisions). The Task Group delivered a review of current best practices and lessons learned regarding export controls rules and processes from foreign governments and the commercial sector (multinational companies headquartered in the United States) that could help to inform DoD policy and practices.

Although the Task Group recognized that much of the export control rules/procedures fall within the jurisdiction of other Departments, they felt that the Secretary of Defense could undertake specific actions to streamline the export control/technology transfer organizational structures within the DoD. Following best practices of foreign governments, the Task Group recommended that DoD should establish a revolving fund to pay for the development of an exportable version of appropriate items made under Defense acquisition programs.

During the discussion, the Members agreed to emphasize in the narrative for the report the impact that current regulations are having on the industrial base, e.g., that U.S. companies are seen as an unreliable partner and are left out of many market

opportunities. At 10:20 AM, Mr. Bayer called for a motion to approve the recommendations and the motion passed unanimously.

The Public Session continued with a review of and discussion about the DBB's 2008 Transition Topics. Chairman Bayer thanked all for their diligent work on the various Task Groups in terms of the transition products in order to offer advice to the incoming teams. The following Task Groups presented their draft recommendations for the full Board's consideration:

#### Focusing a Transition Effort Task Group

The "Focusing a Transition Effort" Task Group was created to assess elements of transition efforts and identify factors that will drive the next Administration's governance focus and minimize risk associated with the transfer of power. The Task Group noted that too many Presidential teams were ill prepared for a crisis in the first 270 days. Given the current global economic situation, the Task Group emphasized the importance of bringing in the top team as soon as possible.

After discussing their observations and recommendations, the DBB agreed to streamline the recommendations into two main strategies:

1. Set aside time in the transition to identify the planning, gravitas and interagency process necessary to respond to a likely first 270 day crisis.
2. Establish cabinet level performance expectations upfront and review transition team's plan for governance.

Mr. Bayer called for a motion to approve the recommendations as amended and the motion passed unanimously.

#### Review of Tooth-to-Tail Task Group

The "Review of Tooth-to-Tail" Task Group evaluated key findings and recommendations of the DBB's 2007 report on Tooth-to-Tail, and was tasked with alerting incoming senior leadership of the urgency to shrink the Department's overhead to free-up available resources to support critical Defense priorities. Mr. Henry Driefus, Chair of the Task Group, noted that current management tools are not effective at managing and reducing the Department's tail. In the private sector these expenses would be considered general overhead, known as tail within the DoD, that management would work aggressively to continuously reduce to achieve greater efficiency. During the discussion portion of the presentation, the DBB agreed with the recommendations and added that the Department needed to set a goal to reduce overhead. Mr. Bayer called for a motion to approve the recommendations as amended and the motion passed unanimously.

#### DoD Health Benefits Forecast

The "DoD Health Benefits Forecast" Task Group was formed to highlight the existential growth in Defense healthcare spending and the urgency of gaining agreement from the Department's uniformed leadership to pursue savings in Defense healthcare spending. Task Group Chair, Mr. Dov Zakheim stated that Congress keeps adding more benefits to the program, and currently the total program cost is approximately \$40B. The real

message is that the projected growth of the medical budget is \$66B by Fiscal Year 2015. The Task Group emphasized the importance of the Secretary, along with the Chairman, Joint Chiefs of Staff (CJCS), meeting with Congress to explain the urgency of the matter.

During the deliberations, the Members added a recommendation for the Secretary to ask Congress to utilize a bi-partisan commission to address rising Defense healthcare costs. Mr. Bayer called for a motion to approve the recommendations as amended and the motion passed unanimously.

#### Review of Acquisition Program Costs

Mr. Pierre Chao, Consultant to the DBB, presented the “Review of Acquisition Program Costs” Task Group recommendations. The Task Group reviewed historical data on cost growth in Major Defense Acquisition Programs (MDAPs), examined trends that might explain the growth, and recommended several best practices that could help contain otherwise avoidable cost growth. Estimating, engineering and scheduling changes were identified as the key cost drivers, responsible for over 80% of cost growth from 2000 to 2007.

During the discussion, the Members noted that the problem is more than just an acquisition problem, and that the requirements, budget and acquisition processes are all drivers. They agreed to add this observation to the report, as well as, a recommendation to address human capital issues as one of the symptoms of the problem. Mr. Bayer called for a motion to approve the recommendations as amended and the motion passed unanimously.

#### Construct a Management Architecture

The “Construct a Management Architecture” Task Group considered options for a senior management architecture that better aligns functional and budget responsibility consistent with comprehensive strategic planning. The recommendations specifically address the Department’s lack of a comprehensive management system that facilitates analysis, planning, and allocation of resources as well as integrated trade-off decision making. The Task Group noted that the Department had difficulty consistently synchronizing strategic intent, force structure or investment decisions.

Members of the DBB agreed with the recommendations, however, requested a refinement of the focus on the timeframe that the team of experts should begin. During the deliberations, the Members added a recommendation for the Secretary to build a senior leadership team that reflects the skills/experiences that the Secretary lacks. Mr. Bayer called for a motion to approve the recommendations as amended and the motion passed unanimously.

#### Improving DoD’s Transition Process

The “Improving DoD’s Transition Process” Task Group was created to review private sector best-practices and apply lessons-learned relevant to the Department during the transition to the new Administration. The Task Group reviewed past DoD transition

experiences to determine actions that should be considered in 2008/09 and developed recommendations for successfully on-boarding and educating new appointees.

During the deliberations, the Members added an observation that the next Secretary will face the double challenge of trying to change direction and get control. Mr. Bayer called for a motion to approve the recommendations as amended and the motion passed unanimously.

#### Defense Management Models

The “Defense Management Models” Task Group assessed optional Defense Management Models and identified factors that will drive the next Secretary’s management approach. The Task Group highlighted how the Secretary’s organizational model and leadership approach will significantly influence the effectiveness of the Department. The Task Group recommended the Secretary adopt a management model that focuses on the management issues and national security challenges facing DoD, provides clear authority and accountability to key subordinates, and fits the personal management style of the new Secretary.

During the deliberations, the Members added that the Secretary’s management model should clearly state the Department’s top objectives. Mr. Bayer called for a motion to approve the recommendations as amended and the motion passed unanimously.

#### Decision-making in a Fiscally-Constrained Environment

The “Decision-making in a Fiscally-Constrained Environment” Task Group provided leadership recommendations to address the impact of fiscal constraints on decision-making. Mr. Joe Wright stated that all indications are the Department is entering a prolonged period of fiscal constraint in a tough economy with deficits increasing and competitive spending pressures. The current and future fiscal and economic environments facing the Department demand bold action.

During the deliberations, the Members agreed to streamline the recommendations into four strategies focused on: 1) Identifying the trade-space early; 2) Creating incentives to become more outcomes focused; 3) Recruiting the right a management team; and 4) Establishing a new culture. Mr. Bayer called for a motion to approve the recommendations as amended and the motion passed unanimously.

#### Better Allocating the Secretary’s Focus and Time

Mr. Denis Bovin and Mr. Bruce Mosler facilitated the discussion of the “Better Allocating the Secretary’s Focus and Time” Task Group. The Task Group considered how past Secretaries of Defense have allocated their time as a basis of developing options for how the Secretariat-level leadership can better focus on the most strategically important objectives. Additionally, the Task Group provided recommendations for how the leadership can create and stick to a management agenda that sustains that focus.

Mr. Bayer called for a motion to approve the recommendations as amended and the motion passed unanimously.

### Selection Criteria for a Successful DoD Leadership

The “Selection Criteria for a Successful DoD Leadership” Task Group reviewed past pairings of the Department’s senior leadership and identified the unique skills and expertise that make such pairs successful. The Task Group also identified potential sources to recruit such civilian talent, provided lessons learned from past appointee recruitments, and provided recommendations to improve this important process.

During the deliberations, the Members added an observation to the report that DoD does not have required skill sets for senior leaders written down. Also, recommendations were added to align authority and responsibility of these pairings, and to seek Deputies who have prior government management experience.

Mr. Bayer called for a motion to approve the recommendations as amended and the motion passed unanimously.

### Leveraging Critical Friction Points

Ms. Madelyn Jennings presented the recommendations of the “Leveraging Critical Friction Points” Task Group. The Task Group identified the management interfaces where critical friction points exist that allow management to work successfully. The Task Group emphasized the importance of these critical friction points as a way to overcome the culture of consensus that pervades the DoD, hindering innovation and stifling creativity.

To emphasize the important leadership role of the Secretary in developing a culture of appropriate risk-taking, the Members added words to emphasize the Secretary’s role to the final recommendations. Mr. Bayer called for a motion to approve the recommendations as amended and the motion passed unanimously.

### Rethinking the Role of the Comptroller

The “Rethinking the Role of the Comptroller” Task Group compared how the functions of the DoD Comptroller contrast with those of Chief Financial Officers in the global business market. Given that DoD is now at the center of financing support to critically important allies and coalition partners in the global war on terror, the Task Group recommended that DoD take several steps to globalize the duties of the Comptroller. Mr. Bayer called for a motion to approve the recommendations as amended and the motion passed unanimously.

### Critical Management Controls

The “Critical Management Controls” Task Group was formed to make recommendations to the Secretary and Deputy to create and sustain a true team relationship with their senior subordinate leaders. Recognizing that hard decisions, particularly when there is overall budgetary pressure, tend to diminish alignment, and increase friction between the Service Secretaries and the Secretary, the Task Groups’ recommendations emphasized the importance of maintaining open lines of communication with Service Secretaries.

During the deliberations, the Members added words to the recommendations to address delegating responsibility, and requiring members of high-level executive committees to represent the Department rather than support their assigned tasks exclusively. Mr. Bayer called for a motion to approve the recommendations as amended and the motion passed unanimously.

#### Tracking Performance to Improve Accountability

The “Tracking Performance to Improve Accountability” Task Group was formed to make recommendations to achieve better accountability within DoD. Given that the Secretary will face a myriad of management decisions in a very constrained financial environment, the Task Group made recommendations to help the Secretary make strategic trade-offs and to direct individuals and units to those activities most critical to performance.

During the deliberations, the Members suggested adding greater emphasis on ensuring that goals and objectives are aligned horizontally and vertically. Mr. Bayer called for a motion to approve the recommendations as amended and the motion passed unanimously.

#### Business Vision for DoD

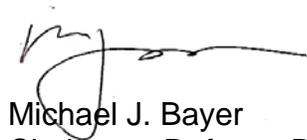
The “Business Vision for DoD” Task Group developed a business vision for DoD to help the Department drive and reinforce strategy, policy, resources, accountability, and performance.

During the deliberations, the Members added recommendations to tie performance objectives to the vision, and to align the Service Secretaries’ visions to the DoD vision. Mr. Bayer called for a motion to approve the recommendations as amended and the motion passed unanimously.

#### ADJOURNMENT

Mr. Bayer adjourned the DBB’s October 23, 2008 quarterly meeting at 1:30 PM.

I hereby certify that, to the best of my knowledge, the foregoing minutes are accurate and complete.



Michael J. Bayer  
Chairman, Defense Business Board