

# Defense Business Board

## Minutes of Quarterly Meeting Board Meeting 12 May 2004:

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The Quarterly Meeting of the Defense Business Board (DBB) opened at 0800 in Room 2C-554, rooms 4&5, the Pentagon. Mr. Gus Pagonis, Chairman of the Board, commenced the session and welcomed the Board and reiterated how successful the Task Groups have been and how Secretary Rumsfeld really wants to get more involved with the Board. Mr. Tom Modly, the Executive Director of the Board, highlighted the agenda and the status of the action items from the previous Board meeting. This was followed by a review of the feedback from the SEC.

Mary Margaret Evans of AT&L briefed the Board on the Joint Defense Capabilities Study, followed by a review of the progress on the Board's initiatives. Mr. Dennis Eicher then briefed the Board on MyPay and the morning session was concluded with a briefing from Mr. Sandy Apgar of Boston Consulting Group.

The Board then broke for lunch with some members attending a Senior Leadership Pre-Assignment Program Working Lunch Session followed by afternoon working sessions. The proceedings were concluded by 1500. No public sessions were held as the Board did not deliberate on findings and/or recommendations during this meeting.

The minutes below attempt to capture the general course of the discussions during the quarterly meeting. These minutes are not to be construed as direct quotes, but rather as paraphrased comments by the indicated participants.

### Working Session

- ❖ 0807 Welcome → Mr. Gus Pagonis
  - The Chairman of the Board, Mr. Gus Pagonis began the proceedings and welcomed everyone.
  - Next year, we will concentrate on 2 or 3 subjects and tab 2 covers all of the projects that have been completed.
  - The Task Groups have been the key to our success and I would like to continue with that.
  - Please let Tom Modly know if you have any topics you would like the Board to explore.
  
- ❖ 0809 Review of Agenda / Board Administrative Issues → Mr. Tom Modly
  - SECDEF had to cancel for today.
  - We will have an ethics briefing followed by feedback from the SEC on the Fuel Hedging and Diversity reports.

- Mary Margaret Evans of AT&L will brief the Board on the Joint Capabilities Study focusing on realignment for capabilities-based planning and budgeting.
- The Board does not have findings to discuss today but we want feedback on the directions that the Task Groups are headed.
- We will then have a briefing on MyPay (IT system), a program that won a best-in-class award from the private sector.

❖ 0817 Ethics Briefing → Mr. Jeff Green, Office of the General Counsel

### **Feedback from SEC Briefings on 18 March 2004**

❖ 0845 Fuel Hedging → Mr. Bob Hale

- OMB asked DoD to look at hedging.
- We put together a team and recommended to the DoD not to hedge in the open market, but rather investigate the possibility of establishing a non-market hedging activity via an intra-governmental mechanism.
- The political costs would be high for market based hedging, and if you got the law changed public opinion could be strong against it but non-market hedging seems the way to go.
- We briefed the SEC in March.
- They were intrigued with the possibility of non-market hedging.
- We met with OMB and they were somewhat interested.
- We spoke to OMB and we were supposed to meet with the SECDEF this week.
- The report is done and we will be available to move this along.

❖ 0852 Diversity → Mr. Fred Cook

- Kelly and Tom did a great job and the latest report is very do-able and acceptable to all parties.
- We briefed the SEC and they liked the three major themes.
- They didn't grasp the idea of widening the definition of diversity.
- We thought there should be a central board; we wanted to rename the existing Defense Equal Opportunity Council to the Defense Diversity Board.
- Secretary Roche looks to each Service to do their own thing and didn't like the concept of a central board. Therefore, the SEC tasked the Assistant Secretaries of M&RA to develop an implementation plan for the report's recommendations – due May 20<sup>th</sup>.
- October 1954 the last segregated unit was disbanded, leading to the DBB's recommendation to commemorate this event this year.
- Gus Pagonis → We will be grading ourselves annually.
- The SEC is the key to our success. They are meeting once a month and we can meet with them anytime to give an update.
- I will follow up with Dr. Chu on the Diversity report.

## Joint Defense Capabilities Study (Mary Margaret Evans, AT&L)

- ❖ 0903 Joint Defense Capabilities Study → Mary Margaret Evans, AT&L
  - Under the current process, Service budgets are made separately and then Joint needs are taken care of.
  - Mr. Rumsfeld wanted to look at Joint needs first and then look at how the Services could support those needs.
  - Two key players – Mr. Rumsfeld and the Combatant Commanders.
  - Dr. Zakheim → Accountability under this new process really changes things, because you are not only looking at burn rate but also looking at what you are getting for your money. That is a major change in the culture of the Department.
  - Vance → SecDef Joint Programming guidance comes out late, usually June, but if the Services are involved in the process when it comes out, there are no surprises. Once a year, you assess what was achieved.
  - Dr. Zakheim → Congress expects estimates correct to .994. To move that money around, you have to go to 4 Congressional committees and they can hold that up for as long as they want to. You still have to go back to Congress to reprogram and it is not easy. It creates managerial challenges. It is almost impossible to do without the COO position that we have been talking about.
  - Vance Gordon → To plug in dates on the timeline, you have to work backwards from the submission of the budget. Budget takes up most of the time of the Department.
  - Mr. Gus Pagonis → Will there be ROI analysis based on hard numbers?
  - Vance Gordon → We have cost estimates on each programs, then we have a review process that looks at how those programs are performing. It is harder to quantify items such as recapitalization.
  - Ms. Mary Margaret Evans → We want to implement performance metrics over time to get a better handle on measuring performance.
  - Ms. Barbara Barrett → Who else is on the Board of Directors → Service Sec/Chiefs, and the Combatant Commanders. It is an internal group, but it is not a classic board – rather an internal strategic planning guidance council.
  - Ms. Mary Margaret Evans → Want to hand out less briefings and have more discussions – study not yet briefed to SecDef or Ray DuBois.
  - Mr. Gus Pagonis → Once you start switching funds you will see a real change.
  - Mr. Jim Kimsey → How would a COO affect this model?
  - Dr. Dov Zakheim → Ultimately the trains have to run on time, no matter how the organization is set up. You can change org charts, and not change anything. A real COO with proper authority (everything flows through) could really drive this home.
  - Ms. Mary Margaret Evans → why is there a J4 and other groups in the Services focused on logistics?
  - Mr. Gus Pagonis → Unless you have a single point of contact, this will not be an effective model.
  - Mr. Bob Hale → These are the essential business of the DoD, these are not management issues but this is how we fight.

- Mr. Jim Kimsey → We should design the organization from the perfect world and not worry about political issues.
- Mr. Gus Pagonis → We should start with a clean sheet and then model it to the reality of the situation. Ray DuBois was given the charge to look at this from the SECDEF.
- Dr. Dov Zakheim → This needs to be linked to the COO issue. These have to be aligned together.
- Mr. Gus Pagonis → The COO has to come in first, then the capabilities reorganization.
- Mary Margaret Evans → The Chairman has to be involved too or the military will run up to the Hill. Mr. Aldridge and SECDEF were inclined to support of the “aggressive” reorganization model. The CJCS supported the “moderate” reorganization model and then in later phases moving to the “aggressive” model.
- Mr. Gus Pagonis → Either you have to do it or not. Phases will not work. Another reason the COO has to be a 5 year position.
- Mr. Bob Hale → We should have a discussion with John Hamre.
- Dr. Dov Zakheim → Making PA&E strong is not a management solution; we are talking about integrating management solutions.
- Mr. Gus Pagonis → You need a Change Manager
- Dr. Dov Zakheim → Has Mr. Rumsfeld seen this? No. Ray DuBois needs to be briefed on this, and Dave Patterson.
- \*\* Ms. Evans to brief Mr. DuBois, copy of transmittal letter to Mr. Pagonis.

### **Current Task Group Updates**

- ❖ 1016 Cycle Times → Mr. Herb Shear
  - Cycle time has been flat for 3 years, and needed some root cause analyses.
  - We are working with Lou Kratz.
  - Mr. Gus Pagonis → SECDEF is very interested because this will have high impact on readiness; aviation is a good place to start.
  - Mr. Tom Modly → Deb Bennett of AT&L is going to set up some site visits and we are going to do some benchmarking with private industry.
  - Mr. Gus Pagonis → We need another committee member from this Board, any volunteers? Ms. Barbara Barrett will be a member of this team.
  
- ❖ 1020 Financial Audit Operations → Mr. Bill Phillips
  - This is a very interesting task; DoD has a tough task to get their financial audits together.
  - Gene Reardon (IG) and Jonathan Witter (Comptroller) are the Task Group Liaisons.
  - 3 areas of focus:
    - Resourcing (thousands of people are required to do this),
    - Communications (external and internal) strategies
    - Roles and responsibilities (Sarbanes/Oxley really changed the roles and responsibilities)
  - Mr. Gus Pagonis → Sarbanes Oxley is not outrageous, but it takes time.

- In private sector, the audit committee selects the auditor.
  - There is a DRAFT charter but OSD is waiting for a new Comptroller to move the memo forward.
  - Treasury has been looking at a more private sector approach to their audit committee.
  - Gus Pagonis to send RailAmerica Audit Committee Charter to Bill Phillips.
  - Private sector firms are asking DoD why they should be interested in this work. It's not a simple issue.
- ❖ 1030 Senior Leadership Pre-Assignment Program → Ms. Barbara Barrett
- Mr. Michael Bayer will be looking at an orientation program for Senior Civilian Leadership. Starting with Presidential appointed folks with Senate confirmation.
  - Past programs have been very helpful but it needs to be customized.
  - It will have many participants at the beginning of a new Administration and then could be run in batches.
  - Numbers, categories and levels need to be determined.
  - Dr. Dov Zakheim → There was no program for me. Maybe a one week orientation for folks who have been around for a while. It is a great teambuilding exercise too and the bond remains. We should also have a program for a level down (below PAS).
  - Mr. Arnold Punaro → The nominees had lunches and dinners with key people that they don't get to see too much once they are in the job.
  - This could be rolled out to other government agencies and we could learn from best practices at Harvard and other leaders.
  - 3 steps: research, look at outside practices, how to institutionalize.
  - Mr. Jim O'Beirne, the White House liaison is also a key person to get involved.
- ❖ 1034 ROTC at elite campuses → Mr. Fred Cook
- This is not an official project of the Board.
  - We had a very successful meeting with Yale.
  - The initiative could not happen at this time, they think it is a great thing to do.
  - The problem is DoD's "don't ask, don't tell" policy.
  - We are going to meet with Bill Carr at 1300.
  - 3 strategies:
    - Develop DoD counter arguments
    - Shift focus to other elite Universities
    - Have DoD consider other ways to accommodate gays in the military
  - This is government law that has to be addressed.
  - Dr. Dov Zakheim → Talk to other colleges with ROTC and how they handle sensitive issues like this.
- ❖ 1041 Projects for next year → Mr. Gus Pagonis
- Dr. Dov Zakheim → Focus on transformation, we should not reinvent the wheel.
  - Mr. Fred Cook → National Security Personnel System has been slow to be implemented. Gordon England has been put in charge to raise awareness. That

could be a good topic and work with Gordon England to get a sponsor. This would tie into what Ken Krieg wants to do. We've been invited to write a TOR.

### **Briefing to the DBB**

- ❖ 1055 MyPay → Mr. Dennis Eicher, DFAS
  - Customer service is currently done in-house, that is a great place for outsourcing.
  - Mr. Gus Pagonis → There are some very talented companies that do that.
  - Mr. Fred Cook → Part of retention should show total value of their compensation.
  - Mr. Bob Hale → There are few things that are true efficiency gains, this is one of them.
  
- ❖ 1105 Boston Consulting Group → Mr. Sandy Apgar
  - These studies are done for a DoD audience. The Hill doesn't react.
  - Much more marketing needs to be done on the Hill.
  - Retail operations within DoD are ripe for outsourcing.
  - Mr. Fred Cook → DoD is resistant to outsourcing to recruiting.
  - Money on the table is not MILCON but housing.
  - It took a collective effort to get one Congressmen to say yes.
  - Mr. Arnold Punaro → Focus on the area where the money is... Relocation and fleet maintenance.
  - Mr. Gus Pagonis → PX could have an auction.
  - Relocation could be great. There are companies that do this.
  - \*\* Sandy to send relocation data to DBB
  - Gordon England was very intrigued on this front.
  - Need to find a champion with control of the system, prove that there is enough return to make this significant (start small with pilot)
  - RCI had a champion; critical to isolate the system; cross party lines; work at enough scale to prove the point but not too broad.
  - Mr. Jeff Steinhoff → GAO → could be very helpful; there is not real interest on the Hill to deal with these issues.
  - Mr. Gus Pagonis → The recommendation was made 45 years ago to outsource commissaries.
  - Mr. Jim Kimsey → There are vested interests involved.
  - Dr. Dov Zakheim → Get bi-partisan support and work through the GAO to get the studies moving and work from the sides in...
  - Mr. Sandy Apgar → It really is about change management
  - Mr. Gus Pagonis → Trouble is Congress and the Services don't want to give this up.
  - Dr. Dov Zakheim → We should talk to Dr. Chu about this, because they have taken a lot of customer service surveys.
  - Mr. Sandy Apgar → One argument for housing was recruiting and retention, that really made the issue hit home.

## **Senior Leadership Pre-Assignment Program Working Lunch Session**

- ❖ 1300 Senior Leadership Pre-Assignment.

### **Breakout Sessions**

- ❖ 1300 Cycle Times Task Group
- ❖ 1300 Financial Audit Task Group