

Minutes of Quarterly Meeting Board Meeting 15 July 2004

Defense Business Board

The Quarterly Meeting of the Defense Business Board (DBB) opened at 0730 in Room 3E-928, the Pentagon. Mr. Gus Pagonis, Chairman of the Board, commenced the session and welcomed the Board. Mr. Dennis Bovin and Mr. Fred Cook reviewed their final reports, Fuel Hedging and Diversity respectively. At 0800, The Board met for a photo session with the Secretary of Defense (SecDef) and briefed him on Fuel Hedging and Diversity Task Groups.

The Board reconvened at 0845 in Room 2C554 and Mr. Tom Modly, Executive Director of the Board, highlighted the agenda and the status of action items from the previous Board meeting. The Public Session began at 0848 with Mr. Herb Shear's briefing the interim report of the Cycle Time Task Group. Mr. Bill Phillips then briefed the interim report of the Financial Audit Operations Task Group followed by Barbara Barrett's discussion of the Senior Leadership Pre-Assignment Program Task Group. The Public Session ended at 1040.

The Public Session was followed by two DoD briefings to the Board: Human Resources: National Security Personnel System (NSPS) Update by Mary Lacey, and Financial Management: Budget Execution System by Ms. Marcia Case & Mr. Reginald Howard.

The Board then broke for lunch. At 1400 the Board met with Mr. Ken Krieg for a brainstorming session on a prospective task outlining a DoD Management Agenda for the next four years. Finally, the Cycle Times Task Group met for a brief session to plan its next steps over the next several weeks. The proceedings concluded by 1500.

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

- ❖ 0817 Board meeting and photo session with SecDef
- ❖ 0844 Welcome, Review of Agenda → Mr. Gus Pagonis
 - The Chairman of the Board, Mr. Gus Pagonis began the proceedings and welcomed the Board and esteemed guests.
 - The Secretary would prefer to meet with the subcommittees on a periodic basis. This will give us more flexibility to meet his schedule.

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Public Deliberations

- ❖ 0848 Cycle Times → Mr. Herb Shear
 - Mr. Tom Modly → Ms. Debra Bennett and Mr. Dennis Zimmerman from AT&L are here to discuss the cycle time issue.
 - Mr. Herb Shear → Cycle times at the DoD have been dropped over the last few years and are now starting to go back up, AT&L is concerned with this new trend. The number of items and the distribution network of the DoD are massive.
 - Mr. Herb Shear → We looked for a small slice to analyze issues in that slice. We focused on aviation parts.
 - Mr. Herb Shear → The issue with aviation was back order of supply parts, the cost of these parts are extremely high. We conducted review of the DoD supply chain for these parts.
 - Dr. Dov Zakheim → Did you find patterns of certain of equipment where cannibalization happens more or less?
 - Mr. Dennis Zimmerman → Yes, there are certain items that are cannibalized more than others. Aircraft are more visible because cannibalized planes don't fly.
 - Dr. Dov Zakheim → Is there a standard cannibalization rate that is okay?
 - Mr. Dennis Zimmerman → If the cycle time is significantly reduced, it can reduce the need for cannibalization altogether.
 - Mr. Gus Pagonis → Parts you have shouldn't break down. A good commander knows what is coming off. You have to cut the cycle time. When you cannibalize, you actually hurt overall parts availability.
 - Ms. Barbara Barrett → If you take a specialty part, you may have a short life time of that part.
 - Mr. Jim Kimsey → Good records aren't kept on non-aircraft equipment.
 - Mr. Gus Pagonis → The issue is how to manage cannibalization.
 - Ms. Debra Bennett → If you reduce cycle time, you can reduce cannibalization.
 - Mr. Dennis Zimmerman → We ran the USAF's model and put wait times in, the decline in readiness became significant. This is minimized in the real world through cannibalization.
 - Ms. Debra Bennett → Delta Airlines keep parts in depot and on the maintenance area to minimize wait time for parts.
 - Mr. Dennis Zimmerman → In the DoD, sometimes there is a long time before buys. Reducing cycle times can save money and increase readiness.
 - Mr. Tom Modly → Best practice interviews:
 - Delta Airlines does its own maintenance → They look at the maintenance process as part of their core competencies. They have a non-union shop that helps keeps costs low.
 - FedEx, UPS, and Southwest Airlines outsource most of their maintenance, and focus on quickly turning the aircraft around and light maintenance. They have a team to make sure any needed part is tracked down immediately.
 - Southwest Airlines and FedEx have integrated systems that include where and when parts will be needed. Parts are immediately put into the system.
 - All 4 companies have real-time information they need to make decisions.

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- Southwest Airlines is really on top of any issue that keeps their airplanes grounded.
- Mr. Glen Meakem → The airlines cannibalize from planes that will be grounded for a long period of time.
- Mr. Gus Pagonis → The magnitude of our fleets far exceed industry and are in a much more diverse operating environment.
- Mr. David Walker → How do they (industry) measure success? What metrics do they use?
- Mr. Gus Pagonis → They use operational measures. If 98% planes flying within budget, they are in good shape.
- Mr. Henry Dreifus → Do the folks in these different organizations talk to each other?
- Mr. Tom Modly → They all know each other in the maintenance community across all of these firms.
- Mr. Tom Modly → Everyone said they rank themselves and Southwest as best in class.
- Mr. Gus Pagonis → These companies can't afford not to fly. DoD can. We're in a different operating environment.
- Mr. Tom Modly → Southwest Airlines is on the cutting edge of vendor management and they have a close relationship with OEMs. They are Boeing's biggest customer. Other companies use old planes that OEMS don't want to support anymore. Boeing will put a part aside for Southwest Airlines from another customer's order.
- Mr. Gus Pagonis → What are the one or two things that we need to focus on in this area?
- Mr. Herb Shear → PBL (Performance Based Logistics) is probably the best long term solution. It doesn't help existing weapons systems, just new ones. PMs don't have accountability to make sure the right parts are in inventory.
- Dr. Dov Zakheim → The Department didn't want too much control of money at one point. We tried to do something about this before with limited success.
- Mr. Tom Modly → Most of these airlines have negative incentives to vendors who don't meet requirements.
- Ms. Barbara Barrett → Is that something that the DoD should implement?
- Mr. Gus Pagonis → DLA does have a mechanism to penalize vendors, but they don't use it often.
- Mr. Dennis Zimmerman → They do keep a scorecard on vendors.
- Ms. Debra Bennett → But that is based on parts only, on PBL we have a whole group of metrics.
- Mr. David Walker → The DoD needs more incentives to reward people when they do the right thing and penalize people when they don't do the right thing. This is true in the government as a whole but the DoD in particular. We need accountability mechanisms in place. This is a cultural change.
- Dr. Dov Zakheim → What kind of contracts do you have for spare parts? To what extent can you put an award fee in place to drive the behavior you want? This needs to cross walk with the acquisition process.

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- Ms. Debra Bennett → Most contracts are firm-fixed price. But there are numerous contracts out there.
 - Mr. Dennis Zimmerman → Most of the contracts are small (in dollar value) but there are incentives to reduce lead time.
 - Mr. Bob Hale → We should focus on one or two programs to try to use these as a test bed.
 - Mr. Gus Pagonis → We need some new folks to get involved. Glen will be added to the team. Barbara and Travis are already on the team.
- ❖ 0845 Financial Audit Operations → Mr. Bill Phillips
- Dr. Dov Zakheim → There is a real need with a turnover in Comptroller to keep the Financial Audit Operations project moving.
 - Mr. Fred Cook → What is (constitutes) a “clean audit”?
 - Mr. David Walker → A clean audit means that the DoD knows where the money has been spent and can be tracked by an outside firm.
 - Dr. Dov Zakheim → If you don’t push hard on this you will go backward.
 - Mr. Glen Meakem → This shouldn’t affect what folks are doing one day at a time
 - Mr. Michael Montelongo → Financial Audit in the commercial arena is a “maintenance” operation. For the DoD, this is brand new project that requires investment funding. This means significant dollars away from warfighter operations. BMMP is critical to the success of this effort. If we are going to apply people to this, we won’t be able to sustain this with current systems until BMMP is in place. The military responds to the appropriations committees.
 - Dr. Dov Zakheim → Why did the House chop \$45M off the BMMP authorization?
 - Mr. David Walker → They are not confident that there is a good plan in place to make this happen. The DoD is a different organization. It’s very complex. We should focus on entities and line items to be sure we are getting meaningful results.
 - Dr. Dov Zakheim → My number one concern (as Comptroller) was to maintain momentum for financial management. This board needs to be pushing this. This is not a partisan issue.
 - Mr. Jim Kimsey → If we merge government/private sector issues then we can get some good people to work on this pro bono.
 - Mr. Bill Phillips → This needs to be an integrated plan that gets all the key stakeholders involved.
 - Dr. Dov Zakheim → We have game plans and timetables from the services.
 - Mr. Bob Hale → The public confidence theme is the only one that can sell this.
 - Dr. Dov Zakheim → The public understands financial statements.
 - Mr. David Walker → This could be used against the DoD for funding.
 - Ms. Barbara Barrett → We have a reputation issue, it could discredit us outside the Beltway.
 - Mr. Bob Hale → The Department is not speaking with one voice on this issue.
 - Mr. Michael Montelongo → The Services and the Combatant Commanders have to be on board with this to make anything happen.

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- Ms. Debra Bennett → We have some issues where external contractors (like KPMG) set up procedures according to one set of standards but then the DoD/IG does not agree with those standards. We need consensus or guidance to the entity.
 - Mr. Bob Hale → We need to get some people with stature like Chuck Bouser or George Babbitt that can push key people to get this thing moving.
 - Dr. Dov Zakheim → My goal was to get as close to an audit committee as possible.
 - Mr. Glen Meakem → Sarbanes-Oxley is what the public and business world knows. We should come as close to that as possible.
 - Mr. David Walker → You need prominent people who can maintain consistency with the intent of Sarbanes-Oxley.
 - Dr. Dov Zakheim → There is an internal audit committee that the DepSecDef signed for us to look internally. You are looking for a Board of Directors in a Sarbanes-Oxley type arrangement.
 - Mr. Gus Pagonis → We need to bring an outside group to provide an advisory role.
 - Mr. Jonathan Witter → The steering committee is an operational group who provides an independent review of that process. The audit committee is a broader DoD group with IG and GAO who could help us develop a coalition to move toward a Department opinion.
 - Mr. Gene Reardon → We have 67 statements that we have to audit in the order of trillions. Nobody does it the same.
 - Mr. David Walker → We need to have an external, top level people to give their perspective. They would work in conjunction with these other groups, not just audit. They would help develop statements and plan. Who is expressing the opinion, in this case the IG, who can contract with other firms.
 - Dr. Dov Zakheim → Being ready for an audit is a much bigger issue. Groups think they are ready but they don't realize what is involved.
 - Mr. Gene Reardon → We are in a battle with Congress who is trying to reprogram those funds. We are good for FY 05 but if there is money for the rest of services is an issue.
 - Mr. Jeffrey Steinhoff → Congress doesn't want the DoD to pay for one time statements that are not generated from systems.
 - Dr. Dov Zakheim → The real issue is that you have to publicize the metrics
 - Mr. Gus Pagonis → Next time I just want recommendations, the 2 or 3 things that need to be focused on. Dr. Dov Zakheim will be added to this committee.
- ❖ 1030 Senior Leadership Pre-Assignment Program → Ms. Barbara Barrett
- Ms. Madelyn Jennings → It is hard to absorb all of the information in such an intense format.
 - Ms. Barbara Barrett → The program was especially valuable to build some key relationships and know who to go to for information. This happened prior to nomination, so there was no confirmation preparation element to this.
 - Mr. Gus Pagonis → We had nothing before this program.
 - Mr. David Walker → 4 weeks seems a bit long. I was in a Cap Stone course that was the equivalent of a week. 4 weeks may not pass the cost benefit test.

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- Mr. Gus Pagonis → But that program was for Flag Officers and SES's who are VERY familiar with the "Building."
- Ms. Barbara Barrett → This program is small, only for Senior PAS's. Customizing this could really enhance the impact to people put in these positions.
- Dr. Dov Zakheim → There are 6 power centers in the Department and it takes at least 3 weeks to absorb it all.
- Ms. Barbara Barrett → The Senate does not want to assume their vote, so we can't call this training, at least half of the "trainers" were former members.
- Mr. Glen Meakem → The Kennedy School has a program for Congress people, did you think of doing something like that?
- Ms. Barbara Barrett → The problem is that the timeframe is so compressed.
- Mr. Gus Pagonis → The game plan is that the program is only for Secretaries and Undersecretaries.
- Dr. Dov Zakheim → Undersecretaries are usually subject matter experts and may need a different kind of "training" program.
- Mr. Gus Pagonis → Please email Barbara if you have any strong feelings on this.

DoD Briefings

- ❖ 1045 Human Resources: NSPS Update → Ms. Mary Lacey, NSPS Program Office
 - Ms. Mary Lacey → 31 years in the Navy, now working in OSD.
 - NSPS is limited by what Chapters of the law that we can change.
 - We had DRAFT regulation in Feb. but realized we had not engaged all of the stakeholders (components) enough. We are now operating this program as a PEO. We are approaching this with the same rigor.
 - Unions are pushing back a lot but the DoD feels very differently.
 - Our current system is over 50 years old and needs an overhaul.
 - Technology has taken over a lot of these occupations.
 - Sec. England is not doing this as SecNav, he is wearing another hat.
 - Title 5 governs most of personnel in the DoD. We will not be touching the principles of Title 5.
 - Lab Demonstration is defined as RDT&E activities.
 - DoD has 9 personnel systems.
 - Pay for performance is a key tenet of NSPS. We do not want to pay for longevity.
 - Working with all the unions is a challenge, there are 1500 at the local level. We are looking to bargain at the National level. I can't change, for example, the requirements on diversity but can create incentives.
 - Our engagement with the Unions is completely voluntary.
 - We have 32 unions that do not have national recognition.
 - We meet with DHS weekly to gain their lessons learned.
 - They only have 6 unions, 3 of them represent 98% of the employees.
 - Union resistance will push for outsourcing and also the increase the use of Military personnel.
 - The Secretary of the Navy is involved in this process.
 - Dr. Chu and Mr. Abel are involved in this process too.

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- Starting with 300K employees until OPM certifies.
 - Mr. Gus Pagonis → We did a lot of work in this area but we focused on SES.
 - Mr. Fred Cook → National Security issues supersedes labor issues, this may impact this program.
 - Mr. David Walker → What is the key milestone? If there is a change in administration, things can change. You have to have momentum.
 - Mr. Jim Kimsey → Have you considered getting a public relations firm involved to stay in front of some of these issues.
 - Mr. Glen Meakem → Is there any pressure to make the military unionized? Like in Europe?
 - Ms. Mary Lacey → No.
 - Mr. David Walker → What outside consulting are you using?
 - We have people on working groups that have created pay for performance systems.
 - There are several good firms out there that have expertise in this area.
 - Mr. Gus Pagonis → Is there anything the Board can do to help?
 - Ms. Mary Lacey → We need access to expertise and if there is existing material on this, that would be helpful. Our website is up and we're getting 200K hits per month with about 1K of comments.
 - Mr. Fred Cook → Concerned with middle and lower level employees. This is not where our skills reside.
- ❖ 1130 Financial Management: Budget Execution System → Ms. Marcia Case & Mr. Reginald Howard – OUSD Comptroller
- General demonstration of budget execution system
- ❖ 1200 – General Board Discussion

Board Discussion with Mr. Ken Krieg

- ❖ 1405 Mr. Ken Krieg
- This project is more of a brain storming session.
 - There will be a new administration in January. Spend some time planning out the management agenda for the next four years. You have a QDR coming up. Take a step back and plan what the President's Management Agenda should be for 2005 on out...
 - Mr. Ken Krieg → Focus should be on management, the COO concept, look at the organizational design, make recommendations without being asked, new ideas, put more energy on supply chain than anything else. The question is where do you think the Secretary and Senior Management should spend the next four years?
 - Mr. Gus Pagonis → The SEC is still going to be our vehicle to get things implemented. We are still pushing a COO.
 - Mr. Ken Krieg → In the Department, there is no equivalent to a president and COO. Try to put together the next administration's business plan and just give them advice. I would be very interested in what you come up with.
 - Dr. Dov Zakheim → You want a management agenda and an action plan.

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- Mr. Ken Krieg → The number of direct reports to the SecDef is not going to change the Department, he has over 30 direct reports already.
 - ** Mr. Ken Krieg to get an org chart with some historical trends.
 - Mr. Ken Krieg → There is an org chart and then how it really works.
 - Mr. Ken Krieg → Secretaries and Unders would report to COO in the new arrangement. It's a separate operating manager. For example, when they need a decision on the HR side and engineering side, they have to go to the SecDef.
 - Dr. Dov Zakheim → Both the Rumsfeld & Wolfowitz are both executives who focus on outside issues.
 - Mr. Ken Krieg → What are the key items that we have to focus on? We have huge data, manpower and supply chain issues
 - Mr. Fred Cook → We may want to consider issues like centralization vs. decentralization.
 - Dr. Dov Zakheim → Are we talking about a profit center, holding company, or an economy. OSD is a holding company. What is the "right" structure?
 - Mr. Gus Pagonis → We should kick it around and come up with a strawman.
- ❖ 1430 Cycle Times Task Group Breakout Session → Ms. Barbara Barrett
- Next steps
 - Ms. Debra Bennett → Warner Robbins is probably the best depot to look at. They have the C5 and other items. I will propose some dates and locations.
 - Mr. Tom Modly → What's the right place to go? What should the Board focus on? We want aggressive but achievable and meaningful to improving the Department. We're looking to deliver this at the November meeting
 - Configuration control – does AT&L have to look at this as part of the acquisition?
 - Ms. Debra Bennett → We need to set up a meeting with Sara Smith. She is responsible for LEAN manufacturing efforts across DoD.