

Defense Business Board

SUMMARY OF MEETING

December 6, 2006

The Defense Business Board (DBB) held its quarterly meeting on December 6th, 2006 in Room #6 of the Pentagon Conference Center.

In accordance with the provisions of Public Law 92-463, the public session was conducted from 08:40 AM to 10:45 AM.

DBB Members present:

William (Gus) Pagonis, Chairman
Neil Albert
Denis Bovin
Frederic Cook
Henry Dreifus
Robert Hale
James Haveman
Madelyn Jennings
James Kimsey
William Phillips
Arnold Punaro
Dov Zakheim

DBB Staff in attendance:

Kelly Van Niman, Executive Director
Ryan Bates, Staff Assistant

Others present for all or portions of the meetings on 09/06/06:

Gordon England, Deputy Secretary of Defense*

ADM Edmund Giambastiani, Vice Chairman, Joint Chiefs of Staff*
David Chu, Under Secretary of Defense (Personnel & Readiness)*
David Walker, Comptroller General of the United States
Donald Winter, Secretary of the Navy*
Jeff Steinhoff, Managing Director, Financial Management and Assurance, GAO
LTG James Roudebush, Surgeon General of the Air Force*
LTG Kevin Kiley, Surgeon General of the Army*
Maj Gen Joseph Kelley, Joint Staff Surgeon
Marilee Fitzgerald, Deputy Director, Civilian Personnel and Policy
Michael Donley, Director of Administration and Management*
Nelson Ford, Assistant Secretary of the Army, FM&C
RADM Donna Crisp, Director for Manpower and Personnel (JCS, J-1)

Robert Earl, Special Assistant to the Deputy Secretary of Defense*
Ron Sega, Under Secretary of the United States Air Force*
Tina Jonas, Under Secretary of Defense (Comptroller)*
VADM Donald Arthur, Surgeon General of the Navy*
William Winkenwerder, Assistant Secretary of Defense for Health Affairs*

Other attendees included representatives from the Joint Staff, Army, Navy, and OSD

Gordon Lubold, Writer, Military Times

*Only attended the session with the Deputy Secretary of Defense.

EXECUTIVE REPORT

Mr. Gus Pagonis began the morning's administrative session at 8:00 AM with a review of the day's agenda. He announced that the DBB's January meeting had been cancelled and that the dates for the DBB's 2007 meetings will be confirmed in the upcoming weeks. The remainder of the Administrative Session's discussions focused on topics that the DBB could cover in 2007.

The Administrative Session ended at 8:35 AM.

PUBLIC SESSION

At 8:40 AM Mr. Gus Pagonis opened the Public Session with a brief overview of the DBB's work since its inception and that the briefings that were to be heard reflected the review that the DBB had performed of their prior recommendations and their status. The results of this review were going to be presented to the Deputy Secretary of Defense and other DOD leaders upon the final deliberations of the full DBB. The briefings presented during the public session reflected broad categories of studies performed by the DBB.

General Management

Mr. Robert Hale presented the briefing concerning the DBB's work in the area of General Management in DOD. The topics discussed reflected summaries of prior DBB reports and were centered around the following: Chief Management Officer,¹ Management Agenda,² Metrics,³ Innovation & Culture Change,⁴ and Governance.⁵

¹ See the DBB's report entitled *Creating a Chief Management Officer in the Department of Defense* (May 2006): <http://www.dod.mil/dbb/pdf/Creating%20a%20Chief%20Management%20Officer.pdf>.

² See the DBB's report entitled *Management Agenda* (February 2005): http://www.dod.mil/dbb/pdf/ManagementAgenda-02_05.pdf.

³ See the DBB's report entitled *Balanced Scorecard Metrics* (December 2002): http://www.dod.mil/dbb/pdf/Balanced_Scorecard_FY02_2.pdf.

⁴ See the DBB's report entitled *Innovation and Cultural Change* (May 2006): <http://www.dod.mil/dbb/pdf/Innovation%20and%20Cultural%20Change%20Final%20Report.pdf>.

With respect to the DBB's prior work on the CMO issue, Mr. Hale stated that the DBB had recommended a strong CMO and understood that the issue was being reviewed by the Institute for Defense Analyses. The DBB had no additional recommendations, but the DBB did note that the Department should keep in mind the transition role for a CMO when a new Presidential Administration enters in 2009.

Concerning the DBB's previous work on the management agenda for the Department, Mr. Hale reviewed the findings of the previous task group. However, he also added that management initiatives in DoD go back at least 30 years and many made progress during champion's tenure but failed to survive the transition to a new Administration. Reasons for this vary, but the primary notion of the DBB was that a new Administration is usually solely-focused on broad policy debates as well as issues relating to the budget. Hence, it is difficult for issues of lower priority—like business operations of DOD—to overcome the “noise” from the higher-priority decisions. There were many members who thought the idea of having a high-ranking official who could “bridge the gap” from one Administration to the next was a good idea—i.e. a current Administration official work with the incoming-Administration to create continuity between the two. Mr. Hale noted that many key initiatives must survive 2008 transition to succeed (e.g. National Security Personnel System, Business Transformation Agency, improved financial information and audit efforts). Therefore, the DBB recommended that the DOD leadership, especially the Deputy Secretary, consider and develop an approach to planning for the 2009 transition to a new Administration. The DBB also noted that the current Secretary of Defense transition may provide a “dry run”, as this would probably be easier to do since the priorities will remain relatively consistent in terms of the broader management of the Department.

Regarding metrics, the DBB observed that “[the] Deputy Secretary believes the Department is a federated enterprise that does not lend itself to a good rollup of measures.” In general, the DBB agreed with this assessment. They also noted that executive dashboards have been developed by various organizations throughout DOD and that the Business Transformation Agency (BTA) has developed a prototype for the Under Secretary of Defense (Comptroller) that could be modified on the front end for use by all DoD Components. Additionally, the DBB noted, “Performance management is moving in the right direction although not yet fully rooted.” Therefore, the DBB recommended that DOD, “Seek ways to share metrics so that accomplishments and best practices become widely known.” The DBB also agreed that the DOD leadership needs to “take credit” for their progress in this area, as many organizations are using metrics to measure performance and guide their decision-making processes; this is all very good news.

On the topic of Innovation & Culture Change, Henry Dreifus provided an overview of the DBB's prior work. He restated the DBB's observation that DOD should “harness ‘culture’ as a change tool.” This differs from the current ‘learning culture’ in DOD in

⁵ See the DBB's report entitled *Governance - Alignment and Configuration of Business Activities (May 2006)*: <http://www.dod.mil/dbb/pdf/Governance%20Final%20Report.pdf>.

that improvements in efficiency are limited, and what the DOD needs is a kind of culture that looks to drive innovation and entrepreneurship—i.e. change paradigms when possible. Understanding that this can conflict with the missions and responsibilities of the Department’s human capital, the DBB recommended “prudent risk taking.” One way that this could be done, according to the DBB, was by including certain measurements for risk-taking into performance appraisals. Other recommendations for tactical ways to change DOD’s culture is by having a ‘thought from the Secretary’ that appeared on the logon screens of all DOD employees. Lastly, the DBB recommended, “Teach culture to management – and bring an enterprise appreciation of culture to the civilian workforce *pari passu* with the uniform services.”

Mr. Hale provided the observations and recommendations concerning Governance. He noted that there was lots of feedback on this topic from the DOD leadership. He noted that there are three management tasks at the governance level at DOD: employing the force; managing the force; and developing the force. Generally, DOD is good at the first two but not the latter (developing the force). However, given this reality, DOD has taken on initiatives to improve in this area. Therefore, the DBB did not have any recommendations on this topic, as the DOD leadership appears to have addressed many of the fundamental issues that underpin good governance.

To conclude his briefing, Mr. Hale noted that the CMO and Management Agenda issues are the two areas where the DBB should still assist the Department. DBB members agreed with this assessment, but they did note that Metrics and Governance may need to be included.

ACTION: Mr. Pagonis stated that the DBB members were to provide Ms. Van Niman (DBB Executive Director) with their individual ideas for priorities. Ms. Van Niman would then compile the results and provide them to the entire DBB.

Financial Management

Mr. Bill Phillips presented the briefing concerning the DBB’s work in the area of Financial Management in DOD. The topics discussed were: DOD Audit,⁶ Fuel Hedging in DOD,⁷ DOD’s Working Capital Funds,⁸ and Financial Metrics in DOD.⁹ (The DBB also conducted a task called *Financial Management Modernization Program Review* in 2002¹⁰; however, given the progress made in this area by DOD, the DBB did not reassess their initial recommendations as the scope of the initial program has changed dramatically since 2002.)

⁶ See the DBB’s report entitled *Financial Audit Strategy* (December 2004):

<http://www.dod.mil/dbb/pdf/FinancialAuditStrategyTask.pdf>.

⁷ See the DBB’s report entitled *Fuel Hedging* (March 2004): <http://www.dod.mil/dbb/pdf/FuelHedging-03-2004.pdf>.

⁸ See the DBB’s report entitled *Financial Indicators, Ratios and Indexes* (December 2002):

http://www.dod.mil/dbb/pdf/Financial_Indicators_FY03_1.pdf.

⁹ See the DBB’s report entitled *Innovation and Cultural Change* (May 2006):

<http://www.dod.mil/dbb/pdf/Innovation%20and%20Cultural%20Change%20Final%20Report.pdf>.

¹⁰ http://www.dod.mil/dbb/pdf/Financial_Indicators_FY03_1.pdf

The DBB discussed the progress of DOD's Audit plan extensively. Mr. Phillips noted that DOD's Financial Improvement and Audit Readiness (FIAR) plan is in place. However, concerns have been raised by various stakeholders about the approach to contracting for audit services because over 20 companies have been contracted to assist in the DOD's audit efforts. The Comptroller General of the United States, Honorable David Walker, stated that the FIAR plan is better than previous audit plans, but acceleration of the FIAR plan's goals and objectives is possible if a timeline with specific roles and responsibilities was developed. The DBB discussed how the audit is only part of a much larger effort in DOD to establish controls and discipline around financial management. Mr. Phillips also noted that the DBB observed that the DOD's Comptroller team was concerned with maintaining progress once a clean opinion was achieved and is considering the value/role that an audit committee could play in the process. With respect to audit maintenance once its been achieved, this is a capacity issue—i.e. are there enough qualified audit personnel in the workforce? It was noted that the capacity required by DOD probably exceeds the current capacity of the large auditing firms. On the subject of an Audit Committee, the DBB noted that it should serve an advisory function; not the function of actually conducting the audits. In summary, the DBB recommended the following:

- Need for resource sharing plan between DoDIG/Service Audit Agencies/Comptroller
- DBB recommendations on Audit Advisory Committee roles still valid and should be re-considered
- Continue communications efforts to emphasize audit importance
- Emphasize the need to focus on internal controls

On Fuel Hedging and DOD's Working Capital Funds, Mr. Phillips noted that the DBB had no additional recommendations.

With respect to Financial Metrics in DOD, Mr. Phillips highlighted the Department's considerable progress, noting the DOD Comptroller's monthly Financial Indicators Report. He also said that the Components are independently working on dashboards, one of which would be presented to the DBB later in the DBB meeting. The DBB recommended that DOD consolidate the metric development efforts where possible and share metrics more broadly. In addition, the DBB recommended that DOD review the previous DBB balanced scorecard and metric reports to move to a greater focus on how the metrics should influence DOD's decision-making.

Human Resource (HR) Management

Mr. Fred Cook (DBB Vice Chairman) presented most of the topics concerning the DBB's work on HR Management in DOD, while Mr. Arnold Punaro and Mr. Henry Dreifus each presented one topic. The topics discussed were: DOD Healthcare,¹¹ DOD's Senior

¹¹ See the DBB's reports entitled *Military Health System - Governance, Alignment & Configuration of Business Activities* (September 2006) and *Healthcare for Military Retirees* (December 2005): <http://www.dod.mil/dbb/pdf/MHS%20Final%20Report.pdf> and <http://www.dod.mil/dbb/pdf/Healthcare-for-Military-Ret.pdf>.

Executive Service (SES) Corps,¹² Performance-Based Management in DOD,¹³ the idea of having a Leadership Orientation Course for political appointees,¹⁴ Diversity in DOD's SES and Flag Officer Ranks,¹⁵ Base Realignment and Closure (BRAC) Outplacement Assistance,¹⁶ MBA Recruitment,¹⁷ and the DBB's work concerning the Military Postal Service.¹⁸

Mr. Dreifus briefed the DBB on the Healthcare topic. He noted that the DBB has conducted two studies regarding Defense healthcare. He said that the Department has made progress in addressing the issue but there are many stakeholders who must be addressed and educated for real and necessary change to occur. While recent increases in DOD's healthcare costs have been caused by increased benefits, a better approach to the cost-sharing of these services must be implemented in order for DOD to sustain itself. Additionally, due to DOD's size and market influence in the healthcare arena, the Department could also play an important role in how the nation addresses this increasingly-evident crisis.

Mr. Dreifus updated the Board that the Deputy Secretary had just approved a new governance framework for the Military Health System and that the Joint Staff is preparing its approach via the Joint Staff Action Plan (JSAP). The Office of the Assistant Secretary of Defense for Health Affairs (OASD-HA) is using a phased approach that creates commands for local healthcare, medical R&D and education and training. The new command model will start with the National Capital Region and San Antonio. The model will then be expanded to the remaining areas over 3 years. The framework also establishes a new Joint Military Health Directorate for shared medical services and re-aligns the TRICARE Management Activity (TMA) to focus on Health Plan Management.

Additionally, Mr. Dreifus noted that the 2007 National Defense Authorization Act directs two specific study efforts: one directed by the Government Accountability Office (GAO) to review recent studies on a Unified Medical Command and present a report to the House and Senate Armed Services Committees by 3/31/07, and another (that includes the DBB's participation) that is entitled the Task Force for the Future of Military Healthcare, which will provide an interim report to the appropriate House and Senate committees by 5/31/07. The DBB's recommendations were:

- DOD should consider its leading role and impact on national healthcare transformation when making its own Defense healthcare transformation decisions;

¹² See the DBB's report entitled *Shaping and Utilizing the SES Corp* (May 2006): <http://www.dod.mil/dbb/pdf/Shaping-and-Utilizing-the-SES-Corp.pdf>.

¹³ See the DBB's report entitled *Performance Based Management* (July 2005): <http://www.dod.mil/dbb/pdf/PBM-Final-Report-Consolidated.pdf>.

¹⁴ See the DBB's report entitled *Civilian Leadership Orientation Program* (December 2004): <http://www.dod.mil/dbb/pdf/CivilianLeadershipOrientat.pdf>.

¹⁵ See the DBB's report entitled *Increasing Diversity In DoD'S Flag and Senior Executive Ranks* (March 2004): http://www.dod.mil/dbb/pdf/Increasing_diversity_03-04.pdf.

¹⁶ See the DBB's report entitled *Outplacement Services in Support of BRAC and Competitive Sourcing* (July 2003): <http://www.dod.mil/dbb/pdf/BRAC-TASKGROUP-REPORT.pdf>.

¹⁷ See the DBB's report entitled *MBA Recruitment* (January 2003): <http://www.dod.mil/dbb/pdf/mba.PDF>.

¹⁸ See the DBB's report entitled *Military Postal Service* (December 2005): <http://www.dod.mil/dbb/pdf/DBB-Report-on-the-Military.pdf>.

- Continue to support unified models for shared services – including by and between Veterans Affairs and Defense, electronic information exchange, disease treatment and prevention protocols, etc.;
- Continue to epigraph the TRICARE benefit and cost sharing challenges;
- DBB should support the GAO and Health Affairs Congressional study efforts; and
- Deputy Secretary should be prepared to adjust the forward approaches, strategies and configurations, processes and management structures for a Unified Medical Command to maximize the potential for success incorporating JSAP and other inputs, gated against decision lead-times for the FY08 budget submission.

The DBB spent considerable time discussing the issue of healthcare on DOD's future. General comments focused on how DOD does not have the luxury of waiting to deal with this issue as it only gets worse through time. Also, it was noted that healthcare is one area that could bankrupt the country and DOD is not immune to this.

For the next topic within the HR briefings, Fred Cook presented the DBB's findings and recommendations regarding the DOD SES Corps. Mr. Cook lauded the DOD's significant work relating to its civil service executives and highlighted the Under Secretary of Defense for Personnel and Readiness (USD-P&R)'s pilot program for recruiting and sourcing 10 SES billets in the Combatant Commands (COCOMS). For this pilot, applicants from outside government as well as those within the COCOMS and Components must meet new joint/enterprise experience criteria. Also, finalists must be validated by Vice Chairman of the Joint Chiefs of Staff (JCS). Mr. Cook noted that USD(P&R) may task the DBB to provide advice on increasing Political Appointee and SES pay levels. Also, the DBB recommended that USD(P&R) continue their initiatives and that the DBB is willing to provide continuing advice and assistance as needed. At the conclusion of Mr. Cook's briefing on the SES Corps, Ms. Marilee Fitzgerald, with the Office of the USD(P&R), provided additional information about initiatives geared toward the SES Corps, specifically the Senior Executive Steering Committee. The committee is co-chaired by the Deputy USD (Civilian Personnel Policy) and the Deputy Director of the Joint Chiefs of Staff, J-1 (Personnel). This committee will look at the DBB's previous reports and recommendations and is seeking additional input from groups outside of DOD so their recommendations and insights could be communicated to all levels of the SES Corps, which will lead to the development of a better-aligned SES system. Ms. Fitzgerald also noted that there will be an SES Conference on January 29, 2006.

After the discussion about the DOD SES Corps, Mr. Punaro addressed the lack of urgency by DOD's leadership to implement the DBB's recommendations concerning the Military Postal Service. Mr. Punaro noted that DOD still delivers mail to deployed soldiers the same way it did in Vietnam, and this is unacceptable considering the changes that have occurred in the mail and transportation industries. Additionally, Mr. Punaro restated the DBB's recommendation from 2005 to outsource the functions of the Military Postal Service to the private sector. He reminded the DBB that the Secretary and Deputy Secretary agreed with the DBB's recommendation. Mr. Punaro added that in June of 2006, the Military Postal Service Agency (MPSA) issued a Request for Information (RFI) on "Ways to Improve Global Mail Operations." MPSA received industry's

responses by August 2006 and on December 12th MPSA will brief the Postal Oversight Board on their recommendations after reviewing industry responses to the RFI. The DBB had not received any word if the MPSA was inclined to outsource mail operations. Therefore, the DBB recommended that the Office of the Secretary of Defense should press forward with the DBB recommendation to outsource military mail as soon as possible. They strongly suggest scheduling this in the FY08 Presidential Budget. The discussion following Mr. Punaro's briefing centered around the larger issue of the military's performance of jobs and functions that are not core to warfighting, and in some cases, these jobs are not "inherently governmental" either.

Mr. Cook concluded the public session with a brief overview of the remaining topics.

Below are the areas that he highlighted:

- Performance-Based Management: The DBB recommends that DOD develop and review the goals of the Department. Furthermore, DOD must clearly articulate a set of goals and objectives (with metrics) for the Defense Enterprise (approved by the Deputy's Advisory working Group (DAWG)) to all of DOD's employees. These goals should be cascaded to the Components to create goals for senior level Political Appointees and SES staff. These goals should be used to develop the 2007 organizational framework, and once approved, Components should brief DAWG on their organization's goals to ensure alignment.
- Leadership Orientation Course: Since DOD has not implemented a formal on-boarding process for DOD political appointees, the DBB will send a follow-up memo to the Secretary of Defense and Deputy Secretary of Defense urging formal implementation and preparation for new Administration. If approved to implement a two-week on-boarding course, the DBB will work with the White House Liaison Office to develop a Transition Team plan for future appointees.
- Diversity: Mr. Cook pointed out that the USD(P&R) is in the process of drafting a first-time Directive on Diversity that will articulate DOD policy guidance, goals, roles, responsibilities and metrics with respect to this issue. In addition, DOD will hold its first diversity summit in March 2007 to develop a strategic plan to discuss the need to increase diversity in SES and Flag ranks. Mr. Cook briefly mentioned the DBB's recommendations, which stated:
 - "March Diversity Summit should focus on how to embed the business case for diversity as part of DoD readiness to accomplish its mission in the 21st Century
 - "Summit should seek to change the DoD mindset from one that views diversity initiatives primarily as intended to resolve conflict (e.g., solve discrimination complaints) to one views diversity a business imperative in order to achieve real diversity progress
 - "In addition to ongoing targeted recruiting efforts, focus on ways to retain and grow diversity candidates in the upper ranks
 - "DBB stands ready to assist in ongoing initiatives
 - "Defense Human Resources Board should elevate decisions regarding strategic planning and policy for enterprise-wide diversity planning to a higher-level decision-making body, such as the DAWG"

- Outplacement Assistance: Mr. Cook noted that nothing had really been done with the DBB's recommendations by the leadership of the Department when this report was done in 2003. Therefore, Mr. Cook suggested presenting this again to the Deputy Secretary. The DBB agreed with this.
- Recruitment: In 2003 the DBB recommended that the Department install a competitive process to recruit and hire MBA graduates. The recommendation from the DBB to implement this program (the Defense Business Fellows (DBF) Program) was well-received by DoD's leadership and an office was stood-up and they began recruiting MBA graduates. However, a Congressional staff member decided to not allow this program to exist. Since the initial denial for funding of the program, the DoD has yet to secure additional support for funding. The DBB recommended presenting this issue to the Deputy Secretary again to try and get the funding in the next budget submission. Should this fail, the DBB recommends re-activating the DBF program recommendation in the next Administration. Meanwhile, the current Administration should consider how to accelerate the hiring process for top-caliber MBAs from highly competitive schools.

The Public Session concluded at 10:45 AM.

BOARD SESSION

Following the Public Session, the DBB held a data gathering session from 11:00 to 12:30 during which the DBB received briefings from:

- Marilee Fitzgerald (Deputy Director, Civilian Personnel and Policy) relating to developing Senior Executive Leaders
- Thomas Modly (Deputy Under Secretary of Defense for Financial Management) regarding the latest activities of the Business Transformation Agency (BTA)
- John Vonglis (Principal Deputy Assistant Secretary of the Air Force for Financial Management and Comptroller) on the development of the Air Force dashboard called the FM Suite
- Dr. William Winkenwerder (Assistant Secretary of Defense for Health Affairs) on the Joint/Unified Medical Governance Initiative

The purpose of each briefing was to inform the Board of continuing progress in their respective area of business transformation.

DBB BRIEFING TO THE DEPUTY SECRETARY OF DEFENSE

Beginning at 12:30, the DBB presented their recommendations to Deputy Secretary Gordon England. Mr. England noted his thanks for the Board's work on these important issues and indicated that the DBB recommendations will be reviewed with the appropriate senior official for comment and action.

BOARD SESSION

From 2:30 to 3:15, Ken Krieg (Under Secretary of Defense for Acquisition, Technology, and Logistics) briefed the Board on his August 2006 presentation to the President of the United States regarding Defense Transformation.

ADJOURNMENT

The meeting was adjourned by Kelly Van Niman, Executive Director and Designated Federal Officer, Defense Business Board at 3:15 PM.

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

//signature//

William "Gus" Pagonis
Chairman
Defense Business Board