

GAO

Report to the Chairman, Committee on
Armed Services, House of
Representatives

February 1999

DEFENSE
HEADQUARTERS

Status of Efforts to
Reduce Headquarters
Personnel



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United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-281623

February 17, 1999

The Honorable Floyd Spence
Chairman, Committee on Armed Services
House of Representatives

Dear Mr. Chairman:

Concerned with the adequacy of the pace and scope of the Department of Defense's (DOD) efforts to reduce the size and cost of its headquarters activities, you requested that we review the Department's efforts to reduce its headquarters positions. Specifically, our report discusses the status of DOD's efforts to reduce, as of the end of fiscal year 1998 (1) headquarters positions and associated costs in the Office of the Secretary of Defense (OSD) and Washington Headquarters Services,¹ as required by the National Defense Authorization Act for Fiscal Year 1997 and (2) headquarters positions across DOD as required by the National Defense Authorization Act for Fiscal Year 1998. In addition, our report discusses the reporting of personnel on temporary assignment to OSD from other DOD components. You also requested that we review DOD's revised directive on headquarters management activities. As agreed with your office, we will report separately on this issue after the directive has been implemented.

Background

Believing DOD's efforts to reduce its infrastructure, including the size of its headquarters activities, lagged behind cuts in operational forces, Congress directed DOD to reduce positions in OSD, including Washington Headquarters Services and other defense support activities, by 25 percent from fiscal year 1994 levels by the end of fiscal year 1999.² Furthermore, Congress directed DOD to reduce the number of positions in all DOD headquarters activities by 25 percent from fiscal year 1997 levels by the end of fiscal year 2002.³ Noting that it had already reduced personnel in headquarters activities starting in fiscal year 1992, DOD believed these cuts would create an unreasonable burden on personnel who perform essential headquarters functions. DOD asked Congress to repeal this provision in March 1998. However, Congress did not rescind it. DOD noted that the congressionally mandated 25-percent reduction, when combined with the

¹Washington Headquarters Services provides administrative and operational support to certain DOD activities in the national capital region.

²National Defense Authorization Act for Fiscal Year 1997 (P. L. 104-201).

³National Defense Authorization Act for Fiscal Year 1998 (P.L. 105-85).

Department's previously programmed reductions, would reduce these components by over 40 percent for the fiscal year 1992-2000 time period.

In October 1997, we reported that the number of management headquarters' personnel and costs were significantly higher than reported by DOD.⁴ During fiscal years 1985-96, DOD reported steady decreases in its management headquarters and headquarters support personnel—a 31-percent decline from about 77,000 to 53,000. However, these data did not include personnel at most of DOD's noncombat organizations that are subordinate to management headquarters. In our review of selected subordinate organizations, nearly three of every four of them were primarily performing management or headquarters support functions and should have been reported to Congress by DOD. We recommended that the Secretary of Defense revise the directive on management headquarters and headquarters support activities to expand its coverage and simplify its criteria.

In the November 1997 Defense Reform Initiatives (DRI) report, the Secretary of Defense directed OSD to reduce the number of personnel. To achieve reductions, the Secretary directed that OSD eliminate redundancy and obsolete functions, consolidate related functions, and transfer operational and program management functions to other DOD organizations. In addition, the Secretary directed that OSD's "hidden staff"—components that directly support OSD but were not included as part of OSD's formal organizational structure or reported in its personnel strengths—be absorbed into OSD. Finally, the Secretary directed the military departments and their major commands, defense agencies, defense field activities, joint staff, and unified commands to reduce the number of headquarters positions.

OSD's Administrative Instruction 53, "Temporary Staff Augmentations," states that temporary staff may be used for emergencies, for unforeseen temporary requirements or workload surges, or for jobs for which the skills are not otherwise available within the organization. Temporary staff are not to be used to perform continuing office functions.

Results in Brief

To comply with the requirement in the National Defense Authorization Act for Fiscal Year 1997, DOD plans to reduce OSD and its support activities by about 1,373 positions, or 27 percent, from its fiscal year 1994 levels by the

⁴Defense Headquarters: Total Personnel and Costs Are Significantly Higher Than Reported to Congress (GAO/NSIAD-98-25, Oct. 30, 1997).

end of fiscal year 1999. As of the end of fiscal year 1998, the Department had cut 1,123 positions. The majority of the cuts were based on DOD's November 1997 DRI report, which recommended that some offices be reorganized and that operational and program management functions be transferred to other DOD activities. Although the positions in OSD and its support activities have been reduced, civilian salary costs (in constant dollars) have not decreased because many of the positions eliminated were vacant and annual civilian pay raises have exceeded the inflation rate. DOD plans to eliminate the remaining 250 positions in fiscal year 1999.

DOD may not be accurately accounting for all personnel assigned to OSD. Some personnel temporarily assigned to OSD by other DOD components are functioning more as permanent staff and are not being reported as OSD personnel.

DOD has plans to cut about 5,600 positions across its headquarters activities by the end of fiscal year 2002. This is less than half of the 13,300 cuts required by the National Defense Authorization Act for Fiscal Year 1998. According to OSD officials, DOD did not develop plans consistent with the legislation because the Secretary of Defense had sought relief from the 1998 legislative requirement. However, when Congress did not repeal the provision, the services proposed that a task force be established to develop alternatives for reducing the headquarters' structure.

OSD and Its Support Activities Expect to Have Over 25 Percent Fewer Personnel by the End of Fiscal Year 1999

DOD plans to cut 1,373 positions in OSD and its support activities by the end of fiscal year 1999. These reductions would be 2 percentage points more than the 25-percent cut mandated in the National Defense Authorization Act for Fiscal Year 1997. Although the number of positions has been reduced, civilian salary costs (in constant dollars) have not decreased. In addition, some service and defense agency personnel assigned to OSD are not counted as part of OSD.

DOD's Planned Cuts

DOD's plan to achieve the cuts is shown in table 1. Appendix I shows the changes by office within OSD.

Table 1: Planned Reductions in the Office of the Secretary of Defense and the Washington Headquarters Services Between Fiscal Year 1995 and 1999

Activity	Fiscal year 1994 baseline	Fiscal year 1999 target	Change	
			Total	Percent
OSD ^a	3,062	2,002	(1,060)	(35)
Washington Headquarters Services	1,960	1,647	(313)	(16)
Total	5,022	3,649	(1,373)	(27)

^aThe end of fiscal year 1994 baseline includes 718 positions in five defense support activities and 207 overstrengths (personnel over an organization's authorized number of positions).

Source: Our analysis of OSD data.

As of the end of fiscal year 1998, DOD had cut 1,123 positions, or 82 percent of the planned reductions—858 positions in OSD and 265 positions in Washington Headquarters Services (see table 2).

Table 2: Changes in the Office of the Secretary of Defense and the Washington Headquarters Services as of the End of Fiscal Year 1998

Activity	Positions		
	Eliminated	Transferred	Total
OSD	(402)	(456)	(858)
Washington Headquarters Services	(430)	165	(265)
Total	(832)	(291)	(1,123)

Source: Our analysis of OSD data.

Our analysis indicates that OSD eliminated 402 positions primarily by abolishing vacant positions, reducing the number of overstrength positions, eliminating military positions after the incumbents rotated, and abolishing positions by using early-out incentives. Some positions were also eliminated through organizational changes. For example, the Office of the Under Secretary of Defense for Policy reorganized and eliminated one assistant secretary position as well as several support positions.

OSD also reduced the size of its staff by transferring positions to other DOD organizations. For example, in fiscal year 1997, OSD transferred 278 positions from a defense support activity to a DOD field activity.⁵ Positions in DOD field activities are not counted as part of OSD. Furthermore, DRI

⁵These positions were at the Defense Manpower Data Center. The Center was merged with another defense support activity to form the DOD Human Resources Activity, which is classified as a field activity.

directed that OSD transfer positions that were considered operational or involved in program management to other DOD organizations. In fiscal year 1998, OSD transferred approximately 240 positions to other organizations. The major transfers that occurred during fiscal year 1998 are the following:

- The Office of the Under Secretary of Defense for Personnel and Readiness transferred 48 positions for managing DOD's TRICARE medical program to the TRICARE management activity, a DOD field activity.
- OSD transferred 47 positions supporting various boards and commissions to the Washington Headquarters Services.
- The Office of the Under Secretary of Defense for Policy transferred 42 positions at the U.S. Mission to the North Atlantic Treaty Organization to the Department of the Army.
- The Office of the Assistant Secretary of Defense for Public Affairs transferred 28 positions that managed the freedom of information and security review programs to the Washington Headquarters Services.

As of the end of fiscal year 1998, DOD had reduced Washington Headquarters Services by a net of 265 positions. Approximately 300 positions were cut by contracting out the Pentagon cleaning service, and another 130 were cut primarily by eliminating vacant positions and positions vacated through early-out incentives. However, these cuts were partly offset by an increase of 165 positions from functions transferred into Washington Headquarters Services, primarily from OSD.

To complete the planned cuts, DOD plans to cut 250 positions (202 in OSD and 48 in Washington Headquarters Services) in fiscal year 1999. To achieve its cuts, OSD plans to eliminate 130 positions and transfer another 72 positions. As of November 1998, OSD had identified 32 of the positions to eliminate and told us it had completed 40 of the planned transfers. Washington Headquarters Services plans to cut 72 positions, which will be partly offset by an increase of 24 positions for new missions as well as the expansion of current missions. As of October 1998, Washington Headquarters Services had cut 19 positions by transferring positions in the executive motor pool and travel function to the Department of the Army. According to Washington Headquarters Services officials, the remaining positions will be eliminated by consolidating contracting offices and through early-out incentives.

Civilian Salary Costs Have Not Decreased

Although about 1,125 positions were eliminated in or transferred from OSD and Washington Headquarters Services between fiscal year 1994 and 1998,

there was no proportional decrease in civilian salaries during this time frame. Our analysis indicates that OSD civilian salary costs increased by \$7 million (4 percent), from \$172 million in fiscal year 1994 to \$179 million in fiscal year 1998 (constant 1998 dollars). Likewise, Washington Headquarters Services civilian salary costs increased by \$2 million (2 percent) from \$84 million to \$86 million during this same period. Salary costs did not decline commensurate with the personnel reductions partly because many of the positions eliminated were vacant and annual civilian pay raises exceeded the inflation rate. In addition, OSD incurred some one-time costs associated with incentives to encourage personnel to leave early. For example, DOD paid \$1.4 million in such incentives in fiscal year 1998.

Some Positions Are Not Counted as Part of OSD

The military services and defense agencies temporarily assign personnel to OSD that are not counted as part of OSD. While DRI recommended that personnel in the defense support activities and overstrength positions be counted as part of OSD, it did not discuss personnel temporarily assigned to OSD. DOD does not have a central database that identifies such positions or people, known as detailees, but the number could be large. For example, an official from the Office of the Assistant Secretary of Defense for Command, Control, Communications and Intelligence (ASD/C3I) said that 115 people were temporarily assigned to ASD/C3I as of August 1998. The Office of the Under Secretary of Defense for Policy said it had about 26 detailees, and the Office of the Under Secretary of Defense for Acquisition and Technology said it had about 10 detailees.

Our review of ASD/C3I information on the 115 detailees' assignments showed that some of the detailees met the requirements of OSD's administrative instruction on temporary staff. For example, an ASD/C3I official noted that his office could not recruit temporary staff with the required skills to deal with Year 2000 issues. ASD/C3I was using 20 military service and defense agency people to work on such issues. Another 36 ASD/C3I detailees were either liaisons with the various intelligence agencies or individuals from other agencies on developmental assignments. According to an ASD/C3I official, these positions are permanent within the organization, and personnel occupying these positions change every 2 to 3 years.

The remaining 59 positions being filled by detailees appeared to be a permanent part of ASD/C3I. According to an ASD/C3I official, approximately 30 detailees had been assigned to work on specific projects but did not

return to their home organizations when the projects ended. For example, the Defense Information Systems Agency sent 17 people to ASD/C3I to support the corporate information management initiative; however, they did not return when the project was terminated. ASD/C3I officials said they were developing a plan to incorporate the policy-related positions into OSD and return the other positions to their parent organizations by fiscal year 2000. The remainder of the detailees were in ASD/C3I's Defense Airborne Reconnaissance Office. According to an ASD/C3I official, they plan to downsize the office from 27 to 18 and either transfer the function to one of the military departments or make it a permanent part of ASD/C3I.

DOD Does Not Have a Plan to Reduce Headquarters Activities by 25 Percent

DOD does not have a plan to reduce management headquarters and headquarters support personnel DOD-wide by 25 percent by the end of fiscal year 2002, as required by the National Defense Authorization Act for 1998. The act requires DOD to cut about 13,300 positions in its headquarters activities. Rather, DOD has plans to reduce the number of headquarters positions by about 5,600, or 11 percent, by the end of fiscal year 2002 (see table 3). In November 1998, the military services proposed establishing a task force to develop alternatives for reducing their headquarters structure.

Table 3: Changes in DOD Headquarters Activities Between Fiscal Year 1997 and 2002

Activity	Fiscal year		Change	
	1997	2002	Total	Percent
Military departments	35,621	31,073	(4,548)	(13)
Joint staff	1,391	1,256	(135)	(10)
Unified commands	6,526	6,268	(258)	(4)
Defense agencies/DOD field activities	4,548	4,215	(333)	(7)
Office of the Secretary of Defense	2,376	2,002	(374)	(16)
International organizations	2,712	2,733	21	1
Total	53,174	47,547	(5,627)	(11)

Source: OSD, the military departments, and defense agencies.

As seen in table 3, the military departments account for about 4,500 of the cuts planned to DOD headquarters activities by the end of fiscal year 2002. (See apps. II, III, and IV for a breakdown by military department.) These cuts were directed primarily in the Quadrennial Defense Review and DRI. For example, as part of the Quadrennial Defense Review, the Navy planned to reduce its Atlantic and Pacific Fleet headquarters staff by

approximately 1,260, or 20 percent, and the Marine Corps planned to reduce its management headquarters by about 200 positions. A Navy official noted that some of the cuts planned in the fleet headquarters are being revised in the fiscal year 2000 budget. On the other hand, the Army and the Air Force had planned to reduce their headquarters by less than the 10 percent required by DRI. As a result, the Air Force had to cut about 1,150 and the Army about 700 additional positions in headquarters to meet DRI threshold. Both military departments allocated the additional cuts primarily on a fair-share percentage basis across their headquarters activities.

The Joint Staff plans to cut 135 positions and the unified commands about 260 positions by the end of fiscal year 2002. The Joint Staff plans to transfer about 75 military positions to the U.S. Strategic Command, return about 40 military positions to the military departments, and eliminate about 20 civilian positions. Finally, the reductions in the defense agencies are a combination of cuts directed in the Quadrennial Defense Review and DRI.

In November 1998, the military departments proposed the establishment of a task force, chaired by the Under Secretary of the Army, to develop alternatives for reducing DOD's headquarters structure. The task force would (1) identify processes and transactions, by functional area, that are significant drivers for the number of headquarters personnel; (2) inventory the number of workyears associated annually with the transactions and processes, by functions; and (3) assess the number of personnel that could be eliminated if transactions and processes were reengineered, automated, outsourced, or canceled. Each service will be allowed to reinvest any personnel and dollar savings from reducing headquarters activities. The proposal calls for the task force to issue its report to Congress in June 1999.

Recommendation

We recommend that the Secretary of Defense determine the number and purpose of all personnel temporarily assigned to OSD by other DOD components. Detailees that do not meet OSD's requirements of temporary staff should either be counted as OSD personnel or returned to their parent organizations.

Agency Comments and GAO's Evaluation

In comments on a draft of this report (see app. V), DOD concurred with our recommendation and noted that it is developing a system to account for all

personnel detailed to OSD from other DOD components. As part of this process, DOD plans to determine the validity and continued need for current detailees. DOD also noted that the report was technically accurate, but believed it needed to provide a more balanced treatment of the Department's efforts to downsize its headquarters activities. Specifically, DOD said the report does not include (1) the reason it requested relief from the 25-percent reduction required by the National Defense Authorization Act for Fiscal Year 1998 and (2) the principal reason civilian pay costs did not come down between fiscal year 1994 and 1998. According to DOD, it requested relief because headquarters activities have been reduced significantly since fiscal year 1992. We clarified the report to reflect DOD's position and included information provided by DOD on personnel reductions in management headquarters activities back to fiscal year 1992. Regarding OSD civilian pay costs, DOD said the principal reason they did not decrease between fiscal year 1994 and 1998 was that nearly 200 civilians who worked for OSD, but were attributed to the pay accounts of other DOD elements, were transferred into the OSD civilian pay account in fiscal year 1998. Our analysis of changes in civilian pay accounted for these transfers. Still, key reasons civilian pay costs did not decline were that many of the positions eliminated were vacant, annual pay raises exceeded inflation costs, and the department incurred one-time costs associated with incentives to encourage people to leave early.

Scope and Methodology


To obtain information on DOD's plans to achieve the 25-percent reduction in OSD and Washington Headquarters Services positions, we interviewed officials in OSD's Office of the Director, Administration and Management, and reviewed files that documented the cuts during fiscal years 1995-98 and planned for fiscal year 1999. In addition, we reviewed the Defense Reform Initiative report. We obtained civilian salary costs for OSD, the defense support activities, and Washington Headquarters Services for fiscal years 1994-98 from the Washington Headquarters Services, Directorate for Budget and Finance. To determine how DOD plans to achieve the 25-percent reduction in personnel at all its headquarters activities, we interviewed officials in the Office of the Under Secretary of Defense, Comptroller, and manpower officials in each of the military departments and the Joint Staff. In addition, we identified the position cuts to headquarters activities programmed between fiscal year 1997 and 2002 in the Fiscal Year 1999 Future Years Defense Program.

We conducted our work from June to December 1998 in accordance with generally accepted government auditing standards.

We are providing copies of this report to other appropriate congressional committees; the Secretaries of Defense, the Air Force, the Army, and the Navy; the Chairman, Joint Chiefs of Staff; and the Director, Office of Management and Budget. We also will provide copies to other interested parties on request.

Please call Marvin Casterline, Assistant Director, on (202) 512-9076 if you or your staff have any questions concerning this report. Major contributors to the report were Michael Kennedy, Ronald Leporati, and Justin Bernier.

Sincerely yours,

A handwritten signature in cursive script that reads "Henry L. Hinton, Jr." with a stylized flourish at the end.

Henry L. Hinton, Jr.
Assistant Comptroller General

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Abbreviations

ASD/C3I	Assistant Secretary of Defense for Command, Control, Communications and Intelligence
DOD	Department of Defense
DRI	Defense Reform Initiatives
OSD	Office of the Secretary of Defense

Changes in the Office of the Secretary of Defense Positions Between Fiscal Year 1994 and 1999

Office	Fiscal year 1994 baseline	Positions		Change		Fiscal year 1999 target
		Eliminated	Transferred	Total	Percent	
Secretary of Defense	76	(33)	7	(26)	(34)	50
Acquisition and Technology ^a	720	(146)	(88)	(234)	(33)	486
Policy	597	(87)	(104)	(191)	(32)	406
Personnel and Readiness ^b	600	(66)	(330)	(396)	(66)	204
Comptroller ^c	374	(67)	16	(51)	(14)	323
C3I ^d	334	(88)	32	(56)	(14)	278
Public Affairs	129	(25)	(29)	(54)	(42)	75
Legislative Affairs	39	(8)	(1)	(9)	(23)	30
Operations, Test, and Evaluation	43	(6)	4	(2)	(5)	41
General Counsel	55	(5)	7	2	4	57
Administration and Management	30	(7)	(2)	(9)	(30)	21
Intelligence Oversight	9	(1)	•	(1)	(11)	8
Special programs ^e	56	(27)	(6)	(33)	(41)	23
Boards and commissions ^f		34	(34)			
Total	3,062	(532)	(528)	(1,060)	(34)	2,002

^aFiscal year 1994 baseline includes 230 positions in the Acquisition and Technology Defense Support Activity.

^bFiscal year 1994 baseline includes 300 positions in the Defense Manpower Data Center.

^cFiscal year 1994 baseline includes 29 positions in the Management Systems Support Office and 39 positions in the Plans and Program Analysis Support Center.

^dFiscal year 1994 baseline includes 120 positions in the Intelligence Program Support Group.

^eIncludes consultants, reimbursable details, and the administrative support and assistance program.

^fBoards and commissions were not identified separately until fiscal year 1996.

Source: Office of the Secretary of Defense.

Changes in Army Positions in Headquarters Activities Between Fiscal Year 1997 and 2002

Activity	Fiscal year		Change	
	1997	2002	Total	Percent
Army Staff	1,707	1,534	(173)	(10)
Secretariat	828	865	37	5
Department support ^a	488	295	(193)	(40)
Functional commands ^b	6,536	5,666	(870)	(13)
Combatant commands ^c	1,903	1,862	(41)	(2)
Subtotal	11,462	10,222	(1,240)	(11)
Unified commands ^d	1,372	1,310	(62)	(5)
International organizations	1,504	1,549	45	3
Total	14,338	13,081	1,257	(9)

^aIncludes the Concepts Analysis Agency, Command and Control Support Agency, and Information Management Support Agency.

^bIncludes headquarters elements of the Army Materiel Command, the Corps of Engineers, Intelligence and Security Command, Medical Command, Military District of Washington, Training and Doctrine Command, Criminal Investigations Command, and Forces Command.

^cIncludes Third Army, Eighth Army, U.S. Army Pacific, U.S. Army Europe, U.S. Army South, and the Military Traffic Management Command.

^dDoes not include positions in Special Operations Command.

Source: Department of the Army.

Changes in Air Force Positions in Headquarters Activities Between Fiscal Year 1997 and 2002

Activity	Fiscal year		Change	
	1997	2002	Total	Percent
Air Staff, Air National Guard, and Air Force Reserve Headquarters	1,553	1,357	(196)	(13)
Secretariat	931	871	(60)	(6)
Department support ^a	542	392	(150)	(28)
Functional commands ^b	4,081	3,628	(453)	(11)
Combatant commands ^c	6,171	5,439	(732)	(12)
Subtotal	13,278	11,687	(1,591)	(12)
Unified commands ^d	1,874	1,872	(2)	•
International organizations	432	378	(54)	(13)
Total	15,584	13,937	(1,647)	(11)

^aIncludes the Air Force Pentagon Communications Agency (Air Force support) and direct supporting staff.

^bIncludes headquarters elements of the Air Force Material Command, the Air Education and Training Command, the Air Intelligence Agency, the Air Force Program Executive Office, the Air Force Reserve Command, and the Air Force Pentagon Communications Agency (Office of the Secretary of Defense Support).

^cIncludes the Pacific Air Forces, Air Force Space Command, U.S. Air Forces in Europe, Air Combat Command, and Air Mobility Command.

^dDoes not include positions in Special Operations Command.

Source: Department of the Air Force.

Changes in Navy Positions in Headquarters Activities Between Fiscal Year 1997 and 2002

Activity	Fiscal year		Change	
	1997	2002	Total	Percent
Chief of Naval Operations	1,071	1,006	(65)	(6)
Commandant of the Marine Corps	354	360	6	2
Secretariat	877	879	2	•
Department support ^a	233	179	(54)	(23)
Functional commands ^b	4,114	3,505	(609)	(15)
Combatant commands ^c	4,232	3,235	(997)	(24)
Subtotal	10,881	9,164	(1,717)	(16)
Unified commands ^d	1,693	1,550	(143)	(8)
International organizations	776	806	30	4
Total	13,350	11,520	(1,830)	(14)

^aIncludes the Naval Support Activity and the Field Support Activity.

^bIncludes headquarters elements of the Naval Air Systems Command, Naval Sea Systems Command, Naval Supply Systems Command, Naval Facilities Engineering Command, Naval Space and Warfare Systems Command, Office of the Chief of Naval Research, Chief of Navy Education and Training, Naval Medical Command, Naval District of Washington, Naval Intelligence Command, Naval Oceans Command, Naval Security Group, Naval Reserve Force, Naval Computer and Telecommunications Command, and Marine Corps Staff Management Agency.

^cIncludes the Military Sealift Command; Commander in Chief, Pacific Fleet; Commander in Chief, Atlantic Fleet; Commander in Chief, Navy, Europe; and Navy Space Command.

^dDoes not include positions in U.S. Special Operations Command.

Source: Department of the Navy.

Comments From the Department of Defense



OFFICE OF THE SECRETARY OF DEFENSE
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22 JAN 1999

Mr. Richard Davis
Director, National Security Analysis
National Security and International Affairs Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Davis:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "DEFENSE HEADQUARTERS: Status of the Efforts to Reduce Headquarters Personnel, Dated December 14 1998 (GAO Code 701144/OSD Case 1722). After reviewing the report, we concur that it is technically accurate but believe a more balanced treatment is merited regarding the Department's efforts to downsize its headquarters activities.

OSD downsizing is a success story. One of the messages we learned from the private sector is that headquarters should perform policy and oversight functions, not day-to-day program management. The Secretary strongly agrees with this philosophy and has followed private industry's lead in this area. As part of the Defense Reform Initiative (DRI), the Secretary made a series of decisions to streamline, reduce, and eliminate DoD headquarters elements, beginning with those nearest to him - the OSD staff- in order to lead by example.

The first DRI directive required OSD component heads to submit detailed plans for implementing their reductions. As a result, the Secretary has almost completed a one-third reduction in OSD staff to create a lean and agile organization that can be responsive to his needs and adapt to changing environments. When he took office, there were over 3,000 people who worked in OSD, and this number will be reduced by 1,000 by the end of FY 1999; thereby meeting the OSD downsizing target by FY 1999. To date, we have completed over 90% of these reductions, either through transfers or eliminations.

A major thrust of OSD downsizing was to get OSD analysts out of the business of day-to-day program management and devolve the function down to the field where it is executed. To accomplish this, we identified specific day-to-day management functions being performed in OSD and transferred the functions to the field staff. Examples include transferring the Humanitarian Assistance and Demining function from OSD Policy to the Defense Security Cooperation Agency, the Chemical Demilitarization program from OSD Acquisition and Technology to the Army, and electronic commerce functions to the Defense Logistic Agency. As a result, OSD will be able to focus on corporate level tasks and let those executing the programs perform the day-to-day management.

Appendix V
Comments From the Department of Defense

One of the Secretary's major DRI initiatives was to show the true size of the OSD staff. In so doing, nearly 200 civilians who worked for OSD, but were attributed to other DoD elements (i.e., Defense Support Activities) were transferred into OSD in FY 1998. As a result, their salaries are now reflected in the OSD civilian pay account. Therefore, the report is correct in stating that OSD civilian pay did not come down from FY 1994 - FY 1998; however, it does not state the principal reason---the transfer of DSA personnel into OSD.

As the GAO report states, the military services and the defense agencies temporarily assign personnel to OSD; these details are not counted as part of overall OSD strength. OSD policy states that temporary staff may be used only in emergencies, or for unforeseen temporary requirements or workload surges, or when required knowledge and skills are not otherwise available in OSD. They are not to perform continuing office functions. ASD C3I currently has about 115 details, as of September 30, 1998. Of these 115 temporary details, 20 are working on Y2K issues and 35 are from the intelligence agencies either as liaisons or on developmental assignments. Of the remaining 60 positions, those performing functions properly part of C3I will be absorbed into the C3I organization under its DRI end strength reduction target. The rest will be returned to their parent organization by the end of FY1999, which is part of an ongoing OSD-wide initiative to better account for all personnel detailed to OSD from other DoD Components. Under this initiative, all existing OSD details are being reviewed to determine their validity. Those that cannot be justified will be sent back to their parent organizations by the end of FY99, if not sooner.

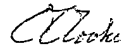
The GAO report is correct in stating that the Department sought repeal of the Congressional requirement to reduce department-wide management headquarters by 25 percent but does not state why we requested the relief. As part of the DRI, Secretary Cohen directed that the headquarters of the Military Departments and major commands be reduced 10% from FY 1998 levels by the end of FY 2003. Taken together with previous reductions begun in FY 1992, the headquarters components of the Military Departments and the Combatant Commands will reduce their headquarters staffs by a total of 29 percent and 22 percent, respectively, from FY 1992 levels. The Congressionally mandated 25 percent reduction, when combined with the Department's previously programmed reductions, would reduce these components by over 40 percent for the FY 1992-2003 time period. In order to ensure fairness and avoid unreasonable burdens for those who must perform essential headquarters functions, DoD will continue to work with Congress to amend the provision-- which does not take into account the previous reductions.

In this report, GAO made one recommendation concerning the need to more accurately account for all personnel assigned to the Office of the Secretary of Defense (OSD). DoD concurs with this recommendation. The details of our response are attached.

Appendix V
Comments From the Department of Defense

Additional technical comments were provided separately for the GAO staff. The Department appreciates the opportunity to comment on the draft report.

Sincerely,



D. O. Cooke
Director

Attachment

cc: Inspector General

Appendix V
Comments From the Department of Defense

General Accounting Office Draft Report

"DEFENSE HEADQUARTERS: Status of Efforts to
Reduce Headquarters Personnel," dated
December 14, 1998,
(GAO Code 701144/OSD Case 1722)

DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATION

RECOMMENDATION:

So that DoD can more accurately account for all personnel assigned to OSD, GAO recommended that the Secretary of Defense determine the number and purpose of all personnel temporarily assigned to OSD by other DoD components. The GAO also stated that detailees not meeting OSD's requirements of temporary staff should either be counted as OSD personnel or returned to their parent organization. (p. 8/Draft Report)

DOD RESPONSE:

Concur: The Department is currently developing a system to account for all personnel detailed to OSD from other DoD Components. As part of this process, existing details are being reviewed to determine their validity and continued need. Those that cannot be justified will be either absorbed within authorized ceilings or returned to their parent organization.

Attachment