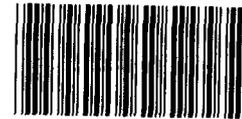


Report to the Chairman, Subcommittee
on Defense, Committee on
Appropriations, House of
Representatives

July 1990

DEFENSE BUDGET
ISSUES

Uniform Definition of
Management Support
Agencies Needed



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National Security and
International Affairs Division

B-238512

July 30, 1990

The Honorable John Murtha
Chairman, Subcommittee on Defense
Committee on Appropriations
House of Representatives

Dear Mr. Chairman:

This letter responds to your request that we determine whether the budget for the Office of the Secretary of Defense (OSD) properly reflects the funds applied to management support agencies and activities¹ (MSA). An MSA is an entity that provides administrative or managerial support functions on a centralized basis. MSA functions include management information systems, training, budgeting, management policy reviews, legislative research, and legal assistance.

Our specific objectives were to test the internal control that ensures OSD's budget properly reflects the funds applied to MSAs and to evaluate the current implementation of prior recommendations concerning MSAs.

On May 16, 1990, we gave your staff a briefing on our preliminary findings. This letter summarizes and updates the information provided in that briefing.

Results in Brief

We could not determine whether MSA funds were properly accounted for in the OSD budget because the Department of Defense (DOD) does not have a uniform and generally accepted agencywide MSA definition. Our review showed that the OSD budget did not completely and accurately identify all of the funds applied to organizations that perform management support functions for OSD. This internal control deficiency impedes any review of the DOD budget to determine that MSA funds are properly accounted for. DOD should have a uniform MSA definition to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

¹The terms "management support agency" and "management support activity" have been used interchangeably in official documentation.

Background

The Defense Logistics Agency began establishing MSAs in the mid-1960s to perform specific, narrow scope, functional work. Over the next 20 years, the rationale for establishing MSAs changed. The Agency continued to establish MSAs to perform specific functions, but the OSD staff began absorbing certain Agency responsibilities along with the associated MSAs.

The Senate Committee on Appropriations report on the fiscal year 1976 appropriations criticized DOD's handling of funding and manpower arrangements for MSAs. As a result, DOD was required to prepare a report identifying other organizations under the operational control of a service secretary or Assistant Secretary of Defense, but whose funding was provided indirectly.

In September 1989, the Senate Committee on Appropriations reported that since 1977, the Congress has repeatedly questioned the size of DOD's headquarters and has legislated reductions, such as those included in the Defense Reorganization Act of 1986. The Committee also reported that MSAs, hidden within the Agency's budget, were extensions of the OSD staff that were not justified. The Senate report stated that DOD should budget for any extensions of the OSD staff within the OSD budget.

In an October 1989 report on MSAs,² DOD's Inspector General concluded that certain MSAs were performing OSD staff work, even though the Agency accounted for these MSAs as field activities in its fiscal year 1990 budget. The Agency provided payroll, travel, equipment contracting, and other administrative support to these field activities.

In the November 1989 conference report, both the House and Senate conferees expressed concern that MSAs were neither described nor justified in the OSD budget and directed that DOD clearly describe and justify the programs and budgets of all MSAs, including, but not limited to, those currently in the Agency's budget.

Uniform MSA Definition Lacking

To determine whether the budget for OSD properly reflects the funds applied to MSAs, we sought a uniform, agencywide MSA definition. Neither the Agency manual nor the DOD directive defines the term "management support activities" and their accompanying lists of organizations performing management support functions are significantly different.

²Management Support Activities (Inspection Report 89-INS-12, Oct. 17, 1989).

Although the Agency and DOD refer to and describe management support functions, we could not find a uniform and generally accepted DOD-wide definition. Standards for internal controls in the federal government require that agencies ensure that their resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports. Without a clear MSA definition, DOD cannot comply with the internal control standard because it cannot accurately identify and report on the entities that are consuming resources in performing management support functions.

In our review of applicable MSA regulations and directives, we could only find two documents on this topic. One is an Agency manual; the other is a DOD directive.

The Agency manual on headquarters organization, missions, and functions (5800.1, July 1987) lists specific MSAs supporting OSD and describes their functions. Some examples included in the list are the Defense Data Support Center, the Defense Priority Placement Office, and the Office of Industrial Base Assessment. However, the Agency manual is not applicable to all DOD organizations and does not provide a generic definition of MSAs. The manual uses the generic term "management support office" to describe organizational elements responsible for performing common management or administrative support functions on a centralized basis within the Agency.

In contrast to the Agency manual, DOD Directive 5100.73, which is applicable to all DOD organizations, describes similar entities but refers to them as management headquarters and headquarters support activities. The directive also lists management headquarters and headquarters support activities that could be considered MSAs. Examples of such activities included North Atlantic Treaty Organization, North American Air Defense Command, Air Force Logistics Command, and Office of the Chief of Naval Operations.

Limited Internal Control Test

As a limited internal control test, we asked OSD to provide a list of organizations that, it believes, meet the criteria that were used for its 1976 report. OSD used the following criteria. An organization must (1) operate under the direction or tasking of an official in OSD, (2) provide staff support to OSD exclusively, as distinct from organizations that provide support for all or several DOD components, (3) not be formally designated as

a DOD field activity or a Defense Logistics Agency MSA,³ (4) be located within a military department or DOD agency, and (5) receive manpower, personnel, and other administrative support from a military department or DOD agency. These criteria were developed by OSD, based on the 1976 DOD report to the Senate Committee on Appropriations.

The result of this limited internal control test was that OSD found one additional entity⁴ that met the criteria and that had not been previously disclosed as an MSA in the fiscal year 1991 OSD budget.

As noted above, OSD used a criterion of providing "exclusive" staff support to OSD, instead of the criterion of providing "substantial" staff support as was used in the 1976 report. Because OSD changed this criterion, we revised our request to include those activities that were providing a substantial part (50 percent or more) of their work effort to OSD. We did this for comparison purposes and to be consistent with DOD's 1976 criteria. The results of this additional test disclosed three more entities⁵ that were performing management support functions and that had not been previously identified as MSAs. This means that all entities performing MSA functions for OSD have not been identified in the OSD budget.

DOD Inspector General MSA Findings

The Inspector General reviewed selected⁶ MSAs and did not attempt to review or identify all of those in DOD. In October 1989, the Inspector General released its inspection report on those selected MSAs under OSD control. The Inspector General reported that:

- Individuals employed in MSAs were inappropriately accounted for as Defense Logistics Agency field activity employees and, consequently, OSD gained additional personnel resources without reporting this resource use, thus avoiding controls and circumventing OSD policy and congressional intent.
- MSAs had lax management and ineffective OSD oversight and policy enforcement. OSD provided operational control and the Defense Logistics

³Defense Logistics Agency MSAs were excluded because they were independently identified as MSAs supporting OSD.

⁴The Directorate of OSD Systems, 7th Communications Group, U.S. Air Force, Arlington, Virginia.

⁵The entities are (1) Vulnerability Assessments Branch, Military Studies and Analysis Division, Joint Data Systems Support Center, Defense Communications Agency, (2) Defense Legislative Reference Service, and (3) Standards of Conduct Office, at the Defense Legal Services Agency.

⁶Those MSAs under the control of the Under Secretary of Defense for Acquisition, the Assistant Secretary of Defense (Force Management and Personnel), and the DOD Comptroller.

Agency provided administrative support, which resulted in inadequate controls for manning, grade structure, travel funds, and contracting.

- MSAS could accomplish the needed staff work with fewer people. (About 200 spaces could be eliminated in the MSAS without degrading the OSD mission.)

The Inspector General recommended that the Secretary of Defense recognize that the people assigned to the OSD-directed MSAS should be reported as OSD staff. The Inspector General also recommended that the Secretary of Defense direct the Under Secretaries and the Assistant Secretaries of Defense to comply with DOD management controls over personnel accountability, efficiency reviews, position management, and resource requirement determinations. Finally, the Inspector General recommended that OSD make the required efficiency and economy reviews with emphasis on eliminating unnecessary MSAS and consolidating them.

DOD's Response to the Report

DOD is implementing some of the recommendations. For example, the fiscal year 1991 budget indicates that DOD will transfer several MSAs to OSD and reduce MSA personnel and funding. DOD is also making an overall review of MSAs in response to the Inspector General's recommendations. However, final management decisions were not completed as of July 13, 1990. DOD officials emphasized that the decision process on MSA placement was still ongoing. These actions represent positive steps toward improving the internal control of and accounting for MSAs.

Conclusion

Although DOD has taken some actions toward addressing the long-term OSD MSA management and accounting concerns, we believe that DOD needs to further strengthen its internal control over all MSAs with a more uniform and generally accepted agencywide definition of what constitutes an MSA. Internal control standards require that agencies ensure that its resource use is consistent with laws, regulations, and policies. Not having clear guidance on the attributes that distinguish MSAs as separate entities makes it difficult for DOD managers and the Congress to identify and monitor MSAs and to determine if the funds are properly reflected in the budget.

Recommendation

While DOD has taken some steps toward meeting the congressional conferees' mandate, that DOD clearly describe and justify the programs and budgets of all MSAs, we recommend that the Secretary of Defense

develop uniform agencywide MSA criteria and a definition before the next budget submission.

Scope and Methodology

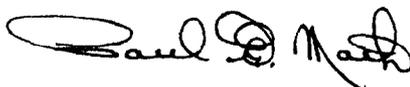
To determine whether the budget for OSD properly reflects the funds applied to MSAs, we interviewed responsible DOD officials at OSD, Defense Logistics Agency, Inspector General, and a number of MSAs. We examined appropriate documents, including budget documents, correspondence, memoranda, DOD directives, reports, and other relevant publications. To test OSD's internal controls of MSAs in this review, we asked OSD to query DOD organizations for entities that were providing MSA services to OSD and that had not been previously identified as MSAs.

We met with DOD officials to discuss the report's contents and they concurred with the facts presented in this report. Their comments have been incorporated where appropriate. Our review was performed between February and July 1990 in accordance with generally accepted government auditing standards.

As arranged with your Office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 15 days after the report date. At that time we will send copies to the Chairmen, House and Senate Committees on Armed Services and on Appropriations, Senate Committee on Governmental Affairs, and House Committee on Government Operations and the Secretary of Defense. Copies will be made available to others upon request.

Please contact me at (202) 275-4587 if you or your staff have any questions concerning this report. Major contributors to this report are John A. Rinko, Assistant Director; Shirley E. Hendley, Evaluator-in-Charge; and Ronald J. Bonfilio, Evaluator.

Sincerely yours,



Paul F. Math
Director, Research, Development,
Acquisition, and Procurement Issues

MSAs' Functions and Additional Entities

This appendix lists 15 MSAs identified by DOD and 4 additional entities identified by our limited internal control tests. Because DOD lacks a uniform and generally accepted agencywide MSA definition, this appendix should not be considered a comprehensive MSA listing.

MSAs Identified by DOD

1. Defense Automation Resource Information Center, Alexandria, Virginia, which administers the DOD-wide program for redistribution and reuse of excess government-owned or leased automation equipment.
2. Defense Data Support Center, Dayton, Ohio, which prepares, develops, and revises related DOD manuals and manages the DOD automated placement and career programs.
3. Defense Environmental Support Office, Falls Church, Virginia, which analyzes, develops, plans, manages, coordinates, implements, and evaluates worldwide DOD programs for the prevention, control, and abatement of all forms of environmental pollution, including toxic and radioactive wastes.
4. Defense Installation Support Office, Alexandria, Virginia, which is the principal adviser to the Deputy Assistant Secretary of Defense (Installations) and the Assistant Secretary of Defense (Production & Logistics) on installation management and base closure and utilization matters.
5. Defense Logistics Support Office, Falls Church, Virginia, which administers the Defense Logistics Standard Systems Office and Programs and evaluates systemic logistics problems.
6. Defense Manpower Data Center, Arlington, Virginia, which serves as a central facility for the collection and integration of manpower and personnel data from DOD components. The data are used to support DOD-wide studies, analyses, research, and reporting requirements.
7. Defense Priority Placement Offices, East and West, Warner Robbins, Georgia, and El Paso, Texas, which ensure that DOD employees displaced by base closures, overseas transfers, and other reasons are afforded priority consideration for employment at other installations.
8. Defense Procurement Support Office, Falls Church, Virginia, which analyzes, develops, and recommends acquisition and procurement policy, procedures, and practices to ensure maximum effectiveness in DOD procurement programs.

9. Defense Productivity Program Office, Falls Church, Virginia, which proposes policy, establishes execution criteria, and evaluates performance for the management and administration of DOD's personnel productivity program.

10. Defense Quality and Standardization Office, Falls Church, Virginia, which provides engineering expertise and analytical support in developing, implementing, and evaluating public laws, treaties, and government regulations as they relate to DOD policies on standardization.

11. Defense Systems and Programs Office, Falls Church, Virginia, which provides professional engineering and managerial and analytical support to the Deputy Assistant Secretary of Defense (Systems). The support is primarily related to the readiness, supportability, producibility, and logistics for major weapon and information systems.

12. Defense Training and Performance Data Center, Orlando, Florida, which serves as the focal point and central repository for defense training and job performance data. It collects, integrates, stores, and disseminates information to OSD, the military services, and the entire defense training community.

13. DOD Technology Analysis Office, Falls Church, Virginia, whose primary mission is focusing attention on improving systems readiness, controlling life-cycle cost, and minimizing the risk associated with transitioning advanced technologies into defense systems.

14. Management Support Center, Falls Church, Virginia, which is responsible for the effective, efficient, and economical execution of the missions and functions of the MSAs supporting the Assistant Secretary of Defense (Production & Logistics) and serves as the management support focal point with the Defense Logistics Agency.

15. Office of Industrial Base Assessment, Falls Church, Virginia, which develops and assesses DOD-wide procedures and incentives and assesses industrial capacity and the capability to ensure that the defense industrial base is responsive to peacetime and national emergency defense production requirements.

Additional "MSA-Like" Entities Identified During Our Review

1. Directorate of OSD Systems, 7th Communications Group, U.S. Air Force, Arlington, Virginia, which plans, designs, develops, tests, maintains, and monitors computer-based interactive information systems; provides consultative services on state-of-the-art computer technology; manages OSD classified remote sites; and manages the operation of selected OSD unclassified communications computer equipment.
2. Defense Legislative Reference Service, Defense Legal Services Agency, Arlington, Virginia, which provides technical support and assistance for developing DOD's legislative program, coordinates positions on legislative and presidential executive orders, manages a centralized legislation and congressional document reference and distribution point for DOD, and maintains DOD's historical legislative files.
3. Standards of Conduct Office, Defense Legal Services Agency, Arlington, Virginia, which develops departmental ethics policies and administers the OSD Standards of Conduct Ethics Program, the Joint Staff, and those DOD agencies and DOD field activities that receive their personnel management support from Washington Headquarters Services.
4. Vulnerability Assessments Branch, Military Studies and Analysis Division, Joint Data Systems Support Center, Defense Communications Agency, Arlington, Virginia, which provides technical direction and management for the design, development, and support of vulnerability analysis and damage assessment model support for users in the Joint Staff and OSD.

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