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DEFENSE MANAGEMENT

Key Elements Needed to Successfully Transform DOD Business Operations

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Highlights of [GAO-05-629T](#), a testimony before the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

In addition to external security threats, our nation is threatened from within by growing fiscal imbalances. The combination of additional demands for national and homeland security resources, the long-term rate of growth of entitlement programs, and rising health care costs create the need to make difficult choices about the affordability and sustainability of the recent growth in defense spending. At a time when the Department of Defense (DOD) is challenged to maintain a high level of military operations while competing for resources in an increasingly fiscally constrained environment, DOD's business management weaknesses continue to result in billions in annual waste, as well as reduced efficiencies and effectiveness.

The Subcommittee asked GAO to provide its views on (1) the fiscal trends that prompt real questions about the affordability and sustainability of the rate of growth in defense spending, (2) business management challenges that DOD needs to address to successfully transform its business operations, and (3) key elements for achievement of reforms. One key element would be to establish a full-time chief management official (CMO) to take the lead in DOD for the overall business transformation effort. In this regard, we support the need for legislation to create a CMO in DOD with "good government" responsibilities that are professional and nonpartisan in nature, coupled with an adequate term in office.

www.gao.gov/cgi-bin/getrpt?GAO-05-629T.

To view the full product, click on the link above. For more information, contact Sharon Pickup at (202) 512-9619 or pickups@gao.gov or Gregory Kutz at (202) 512-9505 or kutzg@gao.gov.

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What GAO Found

Our nation's current fiscal policy is on an imprudent and unsustainable course and the projected fiscal gap is too great to be solved by economic growth alone or by making modest changes to existing spending and tax policies. In fiscal year 2004, DOD's spending represented about 51 percent of discretionary spending, raising concerns about the affordability and sustainability of the current growth in defense spending and requiring tough choices about how to balance defense and domestic needs against available resources and reasonable tax burdens.

GAO has reported that DOD continues to confront pervasive, decades-old management problems related to business operations that waste billions of dollars annually. As shown below, these management weaknesses cut across all of DOD's major business areas. These areas, along with six government-wide areas that also apply to the department, mean that DOD is responsible for 14 of 25 high-risk areas.

Years When Specific DOD Areas on GAO's 2005 High-Risk List Were First Designated as High Risk

Area	Year designated as high risk
DOD approach to business transformation	2005
• DOD personnel security clearance program	2005
• DOD support infrastructure management	1997
• DOD business systems modernization	1995
• DOD financial management	1995
• DOD weapon systems acquisition	1990
• DOD contract management	1992
• DOD supply chain management ^a	1990

Source: GAO.

^aThis area, formerly entitled DOD inventory management, was expanded to include distribution and asset visibility.

To move forward, in our view, there are three key elements that DOD must incorporate into its business transformation efforts to successfully address its systemic business management challenges. First, these efforts must include an integrated strategic plan, coupled with a well-defined blueprint—referred to as a business enterprise architecture—to guide and constrain implementation of such a plan. Second, central control of system investments is crucial for successful business transformation. Finally, a CMO is essential for providing the sustained leadership needed to achieve lasting transformation. The CMO would not assume the day-to-day management responsibilities of other DOD officials nor represent an additional hierarchical layer of management, but rather would serve as a strategic integrator who would lead DOD's overall business transformation efforts. Additionally, a 7-year term would also enable the CMO to work with DOD leadership across administrations to sustain the overall business transformation effort.

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to be here today to discuss business transformation at the Department of Defense (DOD). At the onset, I would like to thank the Subcommittee for its continued oversight of key government operations and management issues, including DOD's related activities. The active involvement of this Subcommittee is essential to ultimately assuring DOD's continued progress in business transformation, including human capital reform, while enhancing public confidence in DOD's stewardship of the hundreds of billions of taxpayer funds it receives each year. Senator Voinovich and Senator Akaka, along with Senator Ensign, I would also like to commend your leadership in sponsoring proposed legislation to establish a position at the highest levels of DOD that would be accountable and responsible for overall business transformation efforts—a position that we believe is critical to successfully transforming DOD's business operations.

In addition to external security threats, our nation is threatened from within by growing fiscal imbalances. Over the long term, the nation's growing fiscal imbalance stems primarily from the aging of the population and rising health care costs. These trends are compounded by the presence of near-term deficits arising from new discretionary and mandatory spending as well as lower revenues as a share of the economy.¹ If left unchecked, these fiscal imbalances will ultimately impede economic growth, have an adverse effect on our future standard of living, and in due course impact our ability to address key national and homeland security needs. These factors create the need to make choices that will only become more difficult the longer they are postponed. Among these difficult choices will be decisions about the affordability and sustainability of the recent growth in defense spending. In fiscal year 2004, DOD spending represented 20 percent of federal spending and 51 percent of discretionary spending. Therefore, it is increasingly important that DOD gets the most from every defense dollar and helps to assure that its funds are targeted to addressing specific needs versus a long list of unaffordable and unsustainable wants. The Secretary of Defense has estimated that improving business operations could save 5 percent of DOD's annual budget, which, based on the fiscal year 2004 budget, represents a savings of about \$22 billion. It is also critically important to ensure that DOD's unmatched military capabilities

¹Funds for discretionary programs are provided in appropriation acts, while funds for mandatory programs are controlled by funds other than appropriations acts.

are supported by a sound management structure and systems designed to support the warfighter in an economic, efficient, and effective manner.

At a time when DOD is challenged to maintain a high level of military operations while competing for resources in an increasingly fiscally constrained environment, DOD's business management weaknesses continue to result in reduced efficiencies and effectiveness that waste billions of dollars every year. These business management weaknesses touch on all of DOD's major business operations, ranging from the department's inadequate management of overall business transformation to decades-old financial management problems to various contracting and selected supply chain challenges. In fact, all the business areas that I will discuss today are on our 2005 "high-risk" list of programs and activities that need urgent attention and fundamental transformation to ensure that our national government functions in the most economical, efficient, and effective manner possible.² In addition to human capital management, DOD also shares responsibility for five other governmentwide high-risk areas, such as managing federal real property.

Senior administration leaders and advisors—including the Secretary of Defense, the nominee for Deputy Secretary of Defense, the Deputy Director of the Office of Management and Budget (OMB), and members of the Defense Business Board—have demonstrated a commitment to addressing DOD's management challenges. However, little sustainable progress has been made to date, and, at present, no one individual at the right organizational level with an adequate term in office is responsible for overall business transformation efforts. Although OMB has worked closely with a number of agencies that have high-risk issues, historically it has been much less involved with DOD. To his credit, Clay Johnson, OMB's Deputy Director for Management, recently reaffirmed plans to refocus on GAO's high-risk list in order to make as much progress as possible during the Bush Administration's second term. He also committed to placing additional emphasis on DOD's high-risk areas, including working to help ensure that DOD has action plans for addressing all its "high-risk" areas. Given the magnitude of DOD's problems and the stakes involved, it is critical that OMB actively collaborate with the department to ensure it establishes these action plans. It is also clear that, given the number and nature of DOD's business challenges, it will take far longer than the balance of this administration to address all of the department's high-risk areas.

²GAO, *High-Risk Series: An Update*, [GAO-05-207](#) (Washington, D.C.: January 2005).

Today, I would like to provide our perspectives on (1) the fiscal trends that prompt real questions about the affordability and sustainability of the rate of growth in defense spending, (2) business management challenges that DOD needs to address to successfully transform its business operations, and (3) key elements to successfully achieve needed reforms. In particular, I will emphasize the need for a strategic plan for business transformation and offer suggestions that require legislative action—the need for central control of systems investment funding and the need for a chief management official (CMO) to be dedicated full-time to leading DOD’s business transformation effort. Implementation of these two suggestions would provide the sustained top-level leadership and accountability needed by DOD to better permit the development and successful implementation of the various plans necessary to successfully achieve business transformation.

I would like to further emphasize two points about the CMO. First, the position divides and institutionalizes the current functions of the Deputy Secretary of Defense into a Deputy Secretary who, as the alter ego of the Secretary, would focus on policy-related issues such as military transformation, and a Deputy Secretary of Defense for Management, the CMO, who would be responsible and accountable for the overall business transformation effort. Serving as the strategic integrator for DOD’s business transformation effort, the CMO would develop and implement a strategic plan for business transformation. This new executive would have sufficient clout to work with the Secretary of Defense, the Deputy Secretary of Defense, the undersecretaries of defense, and the service secretaries to make business transformation a reality. Second, I would also like to emphasize what the CMO would not do. The CMO would not assume the responsibilities of the undersecretaries of defense, the service secretaries, or other DOD officials for the day-to-day management of business activities. Therefore, in our view, creating a CMO would not be adding another hierarchical layer to oversee the day-to-day management of the department. Instead, the CMO would be responsible and accountable for planning, integrating, and executing the overall business transformation effort.

My statement is based on previous GAO reports and our work was performed in accordance with generally accepted government auditing standards.

Summary

As I testified before the full committee in February,³ our nation is on an unsustainable fiscal path. Long-term budget simulations by GAO, the Congressional Budget Office (CBO), and others show that, over the long term, we face a large and growing structural deficit due primarily to known demographic trends and rising health care costs. Continuing on this unsustainable fiscal path will gradually erode, if not suddenly damage, our economy, our standard of living, and ultimately our national security. All reasonable simulations indicate that the problem is too big to be solved by economic growth alone or by making modest changes to existing spending and tax policies. Rather, a fundamental reexamination of major spending and tax policies and priorities will be important to recapture our fiscal flexibility and ensure that our programs and priorities respond to emerging social, economic, and security changes and challenges. Traditional, incremental approaches to budgeting at DOD will need to give way to much more fundamental and periodic reexaminations of defense programs than we have seen in the past, to ensure that DOD gets the most from every defense dollar.

Given its size and mission, DOD is one of the largest and most complex organizations in the world to effectively manage. While DOD maintains military forces with unparalleled capabilities, it continues to confront pervasive, decades-old management problems related to its business operations—which include outdated organizational structures, systems, and processes—that support these forces. These management weaknesses cut across all of DOD’s major business areas, such as human capital management, including the department’s national security personnel system initiative; the personnel security clearance program; support infrastructure management; business systems modernization; financial management; weapon systems acquisition; contract management; and selected supply chain management issues. As I previously noted, all of these areas are on GAO’s high-risk list of major government programs and operations that either need urgent attention and transformation to ensure that the U.S. government functions in the most economical, efficient, and effective manner possible, or that are at high risk because of their greater vulnerability to fraud, waste, abuse, and mismanagement. We also added DOD’s overall approach to business transformation to our high-risk list this year because of our concerns over DOD’s lack of adequate management

³ *21st Century Challenges: Reexamining the Base of the Federal Government*, [GAO-05-352T](#) (Washington, D.C.: Feb. 16, 2005).

responsibility and accountability, along with the absence of a strategic and integrated business transformation plan that is needed to achieve and sustain business reform on a broad, strategic, departmentwide, and integrated basis.

Regarding the way forward, in our view, there are three essential elements that DOD must incorporate into its business transformation efforts if it is to successfully address the systemic management problems related to its high-risk areas. First, in our experience, a successful business transformation effort must include a comprehensive, integrated business transformation strategic plan and a well-defined blueprint, referred to as a business enterprise architecture, to guide and constrain implementation of such a plan. The strategic plan should contain results-oriented performance measures that link institutional, unit, and individual goals, measures, and expectations. Second, we believe that additional central control for the allocation and execution of funds associated with business systems modernization is necessary. Finally, due to the complexity and long-term nature of these efforts, strong and sustained executive leadership is needed if they are to succeed.

We believe one way to ensure this strong and sustained leadership over DOD's business management reform efforts would be to create a full-time, executive-level II position for a CMO, who would serve as the Deputy Secretary of Defense for Management. For this reason, we support the need for this position to divide and institutionalize the functions of the Deputy Secretary of Defense by creating a separate Deputy Secretary of Defense for Management. I'd like to note that over 30 years ago, then Secretary of Defense, Melvin Laird, asked Congress to establish an additional Deputy Secretary of Defense for many of the same reasons we are proposing that a CMO is needed. In a letter to Congress, Secretary Laird stated that the most efficient management of DOD resources could not be achieved with just the Secretary and Deputy Secretary, and that DOD deficiencies were in large measure due to insufficient senior management attention to the department's affairs. At that time, the legislation establishing a second deputy secretary did not specifically distinguish between the two deputies. As we envision it, the roles and responsibilities of a CMO would be more clearly defined and have the added feature of a term of office that spans administrations, which would serve to underscore the importance of taking a professional, nonpartisan, sustainable, and institutional approach to this business transformation effort.

Growing Fiscal Imbalance Raises Questions about the Affordability and Sustainability of Current Defense Spending

The federal government's financial condition and long-term fiscal outlook present enormous challenges to the nation's ability to respond to emerging forces reshaping American society, the place of the United States in the world, and the future role of DOD as well as the rest of the federal government. The near-term deficits are daunting—a \$412 billion unified budget deficit in fiscal year 2004 (including a \$567 billion on-budget deficit and a \$155 billion off-budget surplus) and a \$368 billion deficit (not including any supplemental appropriations) forecast for fiscal year 2005 by the CBO. If these near-term deficits represented only a short-term phenomenon—prompted by such factors as economic downturn or national security crises—there would be less cause for concern. However, deficits have grown notwithstanding the economy recovery from the recession in 2001, and the incremental costs of responding to homeland security and the nation's global war against terrorism represent only a relatively small fraction of current and projected deficits. Moreover, based on our long-range fiscal simulations, the current fiscal condition is but a prelude to a much more daunting long-term fiscal outlook. GAO's long-term simulations illustrate the magnitude of the fiscal challenges associated with an aging society and the significance of the related challenges the government will be called upon to address. Absent significant policy changes on the spending or revenue side of the budget, our simulations show that growth in spending on federal retirement and health entitlements will encumber an escalating share of the government's resources. Indeed, when we assume that recent tax reductions are made permanent and discretionary spending keeps pace with the economy, our long-term simulations suggest that by 2040 federal revenues may be adequate to pay little more than interest on the federal debt.⁴

In fact, the cost implications of the baby boom generation's retirement have already become a factor in CBO's baseline projections and will only intensify as the baby boomers age. According to CBO, total federal spending for Social Security, Medicare, and Medicaid is projected to grow by about 25 percent over the next 10 years—from 8.4 percent of Gross Domestic Product in 2004 to 10.4 percent in 2015. In addition, CBO reported that excluding supplemental funding appropriated in 2004 and requested in 2005 (mostly for activities in Iraq and Afghanistan), discretionary budget authority for defense programs is estimated to grow

⁴ Additional information on GAO's long-term budget simulations and the nation's fiscal outlook can be found at <http://www.gao.gov/special.pubs/longterm/>.

from \$394 billion in 2004 to \$421 billion in 2005, a 6.8 percent increase. The expected growth combined with the fact that DOD accounted for more than half of all discretionary spending in fiscal year 2004 raises concerns about the sustainability and affordability of increased defense spending.

Despite the need to make strategic investment decisions to address these fiscal pressures, DOD's current approach to planning often supports the status quo and results in a mismatch between programs and budgets. As we have reported, DOD has difficulties overcoming cultural resistance to change and the inertia of various organizations, policies, and procedures rooted in the Cold War era.⁵ Long-standing organizational and budgetary programs need to be addressed, such as the existence of stovepiped or siloed organizations, the involvement of many layers and players in decision making, and the allocation of budgets on a proportional rather than a strategic basis across the military services. DOD's approach to planning does not always provide reasonable visibility to decision makers, including Congress, over the projected cost of defense programs. As we have reported in the past, DOD uses overly optimistic estimations of future program costs that often lead to costs being understated.⁶ For example, in January 2003 we reported that the estimated cost of developing eight major weapon systems had increased from about \$47 billion in fiscal year 1998 to about \$72 billion by fiscal year 2003.⁷ As a result of these inaccurate estimates, DOD has more programs than it can support with its available dollars, which often leads to program instability, costly program stretch-outs, and program termination.

Increasingly limited fiscal resources across the federal government, coupled with emerging requirements from the changing security environment, emphasize the need for DOD to address its current inefficient approach to planning and develop a risk-based strategic investment framework for establishing goals, evaluating and setting priorities, and making difficult resource decisions. In its strategic plan, the September 2001 Quadrennial Defense Review, DOD outlined a new risk management

⁵ [GAO-05-325SP](#).

⁶GAO, *Future Years Defense Program: Actions Needed to Improve Transparency of DOD's Projected Resource Needs*, [GAO-04-514](#) (Washington, D.C.: May 7, 2004).

⁷GAO, *Major Management Challenges and Program Risks: Department of Defense*, [GAO-03-98](#) (Washington, D.C.: January 2003). These amounts are in constant fiscal year 2003 dollars.

framework consisting of four dimensions of risk—force management, operational, future challenges, and institutional—to use in considering trade-offs among defense objectives and resource constraints. We recognize what a large undertaking developing a departmentwide risk management framework will be and understand that DOD is still in the process of implementing this approach. However, it remains unclear how DOD will use the risk management framework to measure progress in achieving business and force transformation. It also remains unclear how the framework will be used to correct limitations we have previously identified in DOD’s strategic planning and budgeting. We are currently monitoring DOD’s efforts to implement the risk management framework.

**Pervasive Business
Management
Weaknesses Place
DOD’s Overall
Business
Transformation at Risk**

Numerous management problems, inefficiencies, and wasted resources continue to trouble DOD’s business operations, resulting in billions of dollars of wasted resources annually at a time when our nation is facing an increasing fiscal imbalance. Specific business management challenges that DOD needs to address to successfully transform its business operations include DOD’s approach to business transformation, its personnel security clearance program, support infrastructure management, business systems modernization, financial management, weapons systems acquisition, contract management, supply chain management, and strategic human capital management. These management challenges are on our 2005 high-risk list of programs and activities that need urgent and fundamental transformation if the federal government is to function in the most economical, efficient, and effective manner possible. The 8 DOD specific high-risk areas, along with 6 government-wide areas that apply to DOD, mean that the department is responsible for 14 of 25 high-risk areas. As shown in table 1, we added DOD’s approach to business management transformation to this list in 2005 because it represents an overarching high-risk area that encompasses the other individual, DOD specific, high-risk areas, but many of these other management challenges have been on the list for a decade or more.

Table 1: Years When Specific DOD Areas on GAO's 2005 High-Risk List Were First Designated as High Risk

Area	Year designated high risk
DOD approach to business transformation	2005
• DOD personnel security clearance program	2005
• DOD support infrastructure management	1997
• DOD business systems modernization	1995
• DOD financial management	1995
• DOD weapon systems acquisition	1990
• DOD contract management	1992
• DOD supply chain management ^a	1990 ^a

Source: GAO.

^aThis area, formerly entitled DOD inventory management, was expanded to include distribution and asset visibility.

DOD's Approach to Business Transformation

DOD's approach to business management transformation represents an overarching high-risk area, encompassing several other key business management challenges. Over the years, DOD has embarked on a series of efforts to reform its business management operations, including modernizing underlying information technology (business) systems. However, serious inefficiencies remain. As a result, the areas of support infrastructure management,⁸ business systems modernization, financial management, weapon systems acquisition, contract management, and supply chain management remain high-risk DOD business operations. We now consider DOD's overall approach to business management transformation to be a high-risk area because (1) DOD's business improvement initiatives and control over resources are fragmented; (2) DOD lacks a clear strategic and integrated business transformation plan and an investment strategy, including a well-defined enterprise architecture, to guide and constrain implementation of such a plan; and (3) DOD has not designated a senior management official responsible and accountable for overall business transformation reform and related resources.

⁸Support infrastructure includes categories such as force installations, central logistics, the defense health program, and central training.

Unless DOD makes progress in overall business transformation, we believe it will continue to have difficulties in confronting other problems in its business operations. DOD spends billions of dollars to sustain key business operations intended to support the warfighter. We have previously testified on inefficiencies in DOD's business operations, such as the lack of sustained leadership, the lack of a strategic and integrated business transformation plan, and inadequate incentives.⁹ Moreover, the lack of adequate transparency and accountability across DOD's major business areas results in billions of dollars of wasted resources annually at a time of increasing military operations and growing fiscal constraints.

Business transformation requires long-term cultural change, business process reengineering, and a commitment from both the executive and legislative branches of government. Although sound strategic planning is the foundation on which to build, DOD needs clear, capable, sustained, and professional leadership to maintain the continuity necessary for success. Such leadership could facilitate the overall business transformation effort within DOD by providing the momentum needed to overcome cultural resistance to change, military service parochialism, and stovepiped operations, all of which have contributed significantly to the failure of previous attempts to implement broad-based management reform at DOD. Without such leadership, it is also likely that DOD will continue to spend billions of dollars on stovepiped, duplicative, and nonintegrated systems that do not optimize mission performance or effectively support the warfighter.

Personnel Security Clearance Program

Delays in completing hundreds of thousands of background investigations and adjudications (reviews of investigative information to determine eligibility for a security clearance) have led us to identify as a business management challenge the DOD personnel security clearance program, which we just added to our high-risk list in 2005. Personnel security clearances allow individuals to gain access to classified information. In some cases, unauthorized disclosure of classified information could reasonably be expected to cause exceptionally grave damage to national

⁹GAO, *Department of Defense: Further Actions Are Needed to Effectively Address Business Management Problems and Overcome Key Business Transformation Challenges*, [GAO-05-140T](#) (Washington, D.C.: Nov. 18, 2004); and GAO, *DOD's High-Risk Areas: Successful Business Transformation Requires Sound Strategic Planning and Sustained Leadership*, [GAO-05-520T](#) (Washington, D.C.: Apr. 13, 2005).

defense or foreign relations. DOD has approximately 2 million active clearances as a result of worldwide deployments, contact with sensitive equipment, and other security requirements. While our work on the clearance process has focused on DOD, clearance delays in other federal agencies suggest that similar impediments and their effects may extend beyond DOD.

Since at least the 1990s, we have documented problems with DOD's personnel security clearance process, particularly problems related to backlogs and the resulting delays in determining clearance eligibility.¹⁰ Since fiscal year 2000, DOD has declared its personnel security clearance investigations program to be a systemic weakness¹¹—a weakness that affects more than one DOD component and may jeopardize the department's operations. An October 2002 House Committee on Government Reform report also recommended including DOD's adjudicative process as a material weakness.¹² As of September 30, 2003 (the most recent data available), DOD could not estimate the full size of its backlog, but we identified over 350,000 cases exceeding established time frames for determining eligibility.¹³

DOD has taken steps to address the backlog—such as hiring more adjudicators and authorizing overtime for adjudicative staff—but a significant shortage of trained federal and private-sector investigative personnel presents a major obstacle to timely completion of cases. Other impediments to eliminating the backlog include the absence of an integrated, comprehensive management plan for addressing a wide variety of problems identified by us and others. In addition to matching adjudicative staff to workloads and working with OPM to develop an overall management plan, DOD needs to develop and use new methods for forecasting clearance needs and monitoring backlogs; eliminate

¹⁰GAO, *DOD Personnel: Inadequate Personnel Security Investigations Pose National Security Risks*, [GAO/NSIAD-00-12](#) (Washington, D.C.: Oct. 27, 1999).

¹¹*Department of Defense Annual Statement of Assurance, Fiscal Year 2000 and Fiscal Year 2001; Department of Defense Performance and Accountability Report, Fiscal Year 2002* (Jan. 31, 2003) and *Fiscal Year 2003* (Dec. 23, 2003).

¹²Committee on Government Reform, *Defense Security Service: The Personnel Security Investigations (PSI) Backlog Poses a Threat to National Security*, H.R. Rep. No. 107-767 (Washington, D.C.: Oct. 24, 2002).

¹³GAO, *DOD Personnel Clearances: DOD Needs to Overcome Impediments to Eliminating Backlog and Determining Its Size*, [GAO-04-344](#) (Washington, D.C.: Feb. 9, 2004).

unnecessary limitations on reciprocity (the acceptance of a clearance and access granted by another department, agency, or military service); determine the feasibility of implementing initiatives that could decrease the backlog and delays; and provide better oversight for all aspects of its personnel security clearance process. The National Defense Authorization Act for Fiscal Year 2004¹⁴ authorized the transfer of DOD's personnel security investigative function and over 1,800 investigative employees to OPM. This transfer took place in February 2005. While the transfer eliminated DOD's responsibility for conducting the investigations, it did not eliminate the shortage of trained investigative personnel needed to address the backlog. Although DOD retained the responsibility for adjudicating clearances, OPM is now accountable for ensuring that investigations are completed in a timely manner. By the end of fiscal year 2005, OPM projects that it will have 6,500 of the estimated 8,000 full-time equivalent federal and contract investigators it needs to help eliminate the investigations backlog.

Support Infrastructure Management

DOD has made progress and expects to continue making improvements in its support infrastructure management, but much work remains to be done. DOD's support infrastructure includes categories such as force installations, central logistics, the defense health program, and central training. DOD's infrastructure costs continue to consume a larger-than-necessary portion of its budget than DOD believes is desirable, despite reductions in the size of the military force following the end of the Cold War. For several years, DOD also has been concerned about its excess facilities infrastructure, which affects its ability to devote more funding to weapon systems modernization and other critical needs. DOD has reported that many of its business processes and much of its infrastructure are outdated and must be modernized. Left alone, the current organizational arrangements, processes, and systems will continue to drain scarce resources.

DOD officials recognize that they must achieve greater efficiencies in managing their support operations. DOD has achieved some operating efficiencies and reductions from such efforts as base realignments and closures, consolidations, organizational and business process reengineering, and competitive sourcing. It also has achieved efficiencies by eliminating unneeded facilities through such means as demolishing

¹⁴ Pub. L. No. 108-136 § 906 (Nov. 24, 2003).

unnneeded buildings and privatizing housing at military facilities. In addition, DOD and the services are currently gathering and analyzing data to support a new round of base realignments and closures in 2005 and facilitating other changes as a result of DOD's overseas basing study.

Despite this progress, much work remains for DOD to transform its support infrastructure to improve operations, achieve efficiencies, and allow it to concentrate resources on the most critical needs. Organizations throughout DOD need to continue reengineering their business processes and striving for greater operational effectiveness and efficiency. DOD needs to develop a plan to better guide and sustain the implementation of its diverse business transformation initiatives in an integrated fashion. DOD also needs to strengthen its recent efforts to develop and refine its comprehensive long-range plan for its facilities infrastructure to ensure adequate funding to support facility sustainment, modernization, recapitalization, and base operating support needs. DOD generally concurs with our prior recommendations in this area and indicates it is taking actions to address them. A key to any successful approach to resolving DOD's support infrastructure management issues will be addressing this area as part of a comprehensive, integrated business transformation effort.

Business Systems Modernization

We continue to categorize DOD's business systems modernization program as a management challenge because of a lack of an enterprise architecture to guide and constrain system investments and because of ineffective management oversight, system acquisition, and investment management practices. As a result, DOD's current operating practices and over 4,000 systems function in a stovepiped, duplicative, and nonintegrated environment that contributes to DOD's operational problems. For years, DOD has attempted to modernize these systems, and we have provided numerous recommendations to help guide its efforts. For example, in 2001 we provided DOD with a set of recommendations to help it develop and implement an enterprise architecture (or modernization blueprint) and establish effective investment management controls.¹⁵ Such an enterprise architecture is essential for DOD to guide and constrain how it spends billions of dollars annually on information technology systems. We also made numerous project-specific and DOD-wide recommendations aimed at getting DOD to follow proven best practices when it acquired system

¹⁵GAO, *Information Technology: Architecture Needed to Guide Modernization of DOD's Financial Operations*, [GAO-01-525](#) (Washington, D.C.: May 17, 2001).

solutions.¹⁶ While DOD agreed with most of these recommendations, to date the department has made limited progress in addressing them.

In May 2004, we reported that after 3 years and over \$203 million in obligations, DOD had not yet developed a business enterprise architecture containing sufficient scope and detail to guide and constrain its departmentwide systems modernization and business transformation.¹⁷ One reason for this limited progress is DOD's failure to adopt key architecture management best practices that we recommended,¹⁸ such as developing plans for creating the architecture; assigning accountability and responsibility for directing, overseeing, and approving the architecture; and defining performance metrics for evaluating the architecture. Under a provision in the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005,¹⁹ DOD must develop an enterprise architecture to cover all defense business systems and related business functions and activities that is sufficiently defined to effectively guide, constrain, and permit implementation of a corporatewide solution and is consistent with the policies and procedures established by OMB. Additionally, the act requires the development of a transition plan that includes an acquisition strategy for new systems and a listing of the termination dates of current legacy systems that will not be part of the corporatewide solution, as well as a listing of legacy systems that will be modified to become part of the

¹⁶GAO-04-615; *Department of Defense: Further Actions Needed to Establish and Implement a Framework for Successful Financial and Business Management Transformation*, GAO-04-551T (Washington, D.C.: Mar. 23, 2004); *DOD Business Systems Modernization: Important Progress Made to Develop Business Enterprise Architecture, but Much Work Remains*, GAO-03-1018 (Washington, D.C.: Sept. 19, 2003); *DOD Financial Management: Integrated Approach, Accountability, Transparency, and Incentives Are Keys to Effective Reform*, GAO-02-497T (Washington, D.C.: Mar. 6, 2002); *Defense Management: New Management Reform Program Still Evolving*, GAO-03-58 (Washington, D.C.: Dec. 12, 2002); *Information Technology: Architecture Needed to Guide Modernization of DOD's Financial Operations*, GAO-01-525 (Washington, D.C.: May 17, 2001); and *DOD Financial Management: Integrated Approach, Accountability, and Incentives Are Keys to Effective Reform*, GAO-01-681T (Washington, D.C.: May 8, 2001).

¹⁷GAO, *DOD Business Systems Modernization: Limited Progress in Development of Business Enterprise Architecture and Oversight of Information Technology Investments*, GAO-04-731R (Washington, D.C.: May 17, 2004).

¹⁸GAO-01-525.

¹⁹Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, Pub. L. No. 108-375, §332, 118 Stat. 1811, 1851 (Oct. 28, 2004) (*codified, in part, at* 10 U.S.C. §§186, 2222).

corporatewide solution for addressing DOD's business management deficiencies.

In May 2004, we also reported that the department's approach to investing billions of dollars annually in existing systems had not changed significantly.²⁰ As a result, DOD lacked an effective investment management process for selecting and controlling ongoing and planned business systems investments. While DOD issued a policy that assigns investment management responsibilities for business systems, in May 2004 we reported that DOD had not yet defined the detailed procedures necessary for implementing the policy, clearly defined the roles and responsibilities of the business domain owners (now referred to as core business mission areas), established common investment criteria, or ensured that its business systems are consistent with the architecture.²¹

To address certain provisions and requirements of the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005,²² on March 24, 2005, the Deputy Secretary of Defense directed the transfer of program management, oversight, and support responsibilities regarding DOD business transformation efforts from the Office of the Under Secretary of Defense, Comptroller, to the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (OUSD(AT&L)). According to the directive, this transfer of functions and responsibilities will allow the OUSD(AT&L) to establish the level of activity necessary to support and coordinate activities of the newly established Defense Business Systems Management Committee (DBSMC). As required by the act, the DBSMC—with representation including the Deputy Secretary of Defense, the designated approval authorities,²³ and secretaries of the military services and heads of the defense agencies—is the highest ranking governance body responsible for overseeing DOD business systems modernization efforts.

²⁰ [GAO-04-731R](#).

²¹ [GAO-04-731R](#).

²² 10 U.S.C. § 2222.

²³ Approval authorities include the Under Secretary of Defense for Acquisition, Technology, and Logistics; the Under Secretary of Defense (Comptroller); the Under Secretary of Defense for Personnel and Readiness; and the Assistant Secretary of Defense for Networks and Information Integration/Chief Information Officer of the Department of Defense. These approval authorities are responsible for the review, approval, and oversight of business systems and must establish investment review processes for systems under their cognizance.

While this committee may serve as a useful planning and coordination forum, it is important to remember that committees do not lead, people do. In addition, DOD still needs to designate a person to have overall responsibility and accountability for this effort. This person must have the background and authority needed to successfully achieve the related objectives for business systems modernization efforts.

According to DOD's annual report to congressional defense committees on the status of the department's business management modernization program, DOD has not yet established investment review boards below the DBSMC for each core business mission. The statutory requirements enacted as part of the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 further require that the DBSMC must agree with the designated approval authorities' certification of funds exceeding \$1 million for the modernization of business systems before funds can be obligated.²⁴ More important, the obligation of these funds without the requisite approval by the DBSMC is deemed a violation of the Anti-Deficiency Act.²⁵ As DOD develops a comprehensive, integrated business transformation plan, such a plan must include an approach to resolve the business systems modernization problems. To this end, it is critical that this plan provide for the implementation of our many recommendations related to business systems modernization.

Financial Management

DOD continues to face financial management problems that are pervasive, complex, long-standing, and deeply rooted in virtually all of its business operations. DOD's financial management deficiencies adversely affect the department's ability to control costs, ensure basic accountability, anticipate future costs and claims on the budget, measure performance, maintain funds control, prevent fraud, and address pressing management issues. As I testified before the House Committee on Government Reform in February 2005,²⁶ and as discussed in our report on the U.S. government's

²⁴Pub. L. No. 108-875, § 332, 118 Stat. 1811, 1854 (Oct. 28, 2004) (*codified at* 10 U.S.C. § 2222(a)(2)).

²⁵31 U.S.C. § 1341(a)(1)(A); *see* 10 U.S.C. § 2222(b).

²⁶GAO, *Fiscal Year 2004 U.S. Government Financial Statements: Sustained Improvement in Federal Financial Management Is Crucial to Addressing Our Nation's Future Fiscal Challenges*, [GAO-05-284T](#) (Washington, D.C.: Feb. 9, 2005).

consolidated financial statements for fiscal year 2004,²⁷ DOD's financial management deficiencies, taken together, represent a major impediment to achieving an unqualified opinion on the U.S. government's consolidated financial statements.

Our recent reports and testimonies on Army reserve and national guard pay issues clearly illustrate the impact deficiencies in DOD's financial management have had on the very men and women our country is depending on to perform our military operations. For example, in February 2005, we reported that the Army's process for extending active duty orders for injured soldiers lacks an adequate control environment and management controls,²⁸ including (1) clear and comprehensive guidance, (2) a system to provide visibility over injured soldiers, and (3) adequate training and education programs. The Army also has not established user-friendly processes, including clear approval criteria and adequate infrastructure and support services.

Poorly defined processes for extending active duty orders for injured and ill reserve component soldiers have caused soldiers to be inappropriately dropped from their active duty orders. For some, this has led to significant gaps in pay and health insurance, which have created financial hardships for these soldiers and their families. Based on our analysis of Army manpower data during the period from February 2004 through April 7, 2004, almost 34 percent of the 867 soldiers who applied for extension of active duty orders because of injuries or illness lost their active duty status before their extension requests were granted. For many soldiers, this resulted in being removed from active duty status in the automated systems that control pay and access to benefits such as medical care and access to a commissary or post exchange that allows soldiers and their families to purchase groceries and other goods at a discount. Many Army locations have used ad hoc procedures to keep soldiers in pay status; however, these procedures often circumvent key internal controls and put the Army at risk of making improper and potentially fraudulent payments. Finally, the

²⁷For our report on the U.S. government's consolidated financial statements for fiscal year 2004, see U.S. Department of the Treasury, *Financial Report on the United States Government* (Washington, D.C.: December 2004), 33-53, which can be found on GAO's Web site at www.gao.gov.

²⁸GAO, *Military Pay: Gaps in Pay and Benefits Create Financial Hardships for Injured Army National Guard and Reserve Soldiers*, [GAO-05-125](#) (Washington, D.C.: Feb. 17, 2005).

Army's nonintegrated systems, which require extensive error-prone manual data entry, further delay access to pay and benefits.

The Army recently implemented the Medical Retention Processing (MRP) program, which takes the place of the previously existing process in most cases. The MRP program, which authorizes an automatic 179 days of pay and benefits, may resolve the timeliness of the front-end approval process. However, the MRP program has some of the same problems as the existing process and may also result in overpayments to soldiers who are released early from their MRP orders.

DOD's senior civilian and military leaders have taken positive steps to begin reforming the department's financial management operations. However, to date, tangible evidence of improvement has been seen in only a few specific areas, such as internal controls related to DOD's purchase card and individually billed travel card programs. Further, we reported in September 2004 that, while DOD had established a goal of obtaining a clean opinion on its financial statements by 2007, it lacked a written and realistic plan to make that goal a reality.²⁹ DOD's continuing, substantial financial management weaknesses adversely affect its ability to produce auditable financial information as well as provide accurate and timely information for management and Congress to use in making informed decisions.

Overhauling the financial management and related business operations of one of the largest and most complex organizations in the world represents a daunting challenge. Such an overhaul of DOD's financial management operations goes far beyond financial accounting to the very fiber of the department's wide-ranging business operations and its management culture. It will require (1) sustained leadership and resource control, (2) clear lines of responsibility and accountability, (3) plans and related results-oriented performance measures, and (4) appropriate individual and organizational incentives and consequences. DOD is still in the very early stages of a departmentwide overhaul that will take years to accomplish. DOD has not yet established a framework to integrate improvement efforts in this area with related broad-based DOD initiatives, such as human capital reform. However, successful, lasting reform in this area will only be

²⁹GAO, *Financial Management: Further Actions Are Needed to Establish Framework to Guide Audit Opinion and Business Management Improvement Efforts at DOD*, [GAO-04-910R](#) (Washington, D.C.: Sept. 20, 2004).

possible if implemented as part of a comprehensive and integrated approach to transforming all of DOD's business operations.

Weapon Systems Acquisition

Another business management challenge DOD faces is its weapon systems acquisition program. While DOD's acquisition process has produced the best weapons in the world, it also consistently yields undesirable consequences—such as cost increases, late deliveries to the warfighter, and performance shortfalls. Such problems were highlighted, for example, in our reviews of DOD's F/A-22 Raptor, Space-Based Infrared System, Airborne Laser, and other programs. Problems occur because DOD's weapon programs do not capture early on the requisite knowledge that is needed to efficiently and effectively manage program risks. For example, programs move forward with unrealistic program cost and schedule estimates, lack clearly defined and stable requirements, use immature technologies in launching product development, and fail to solidify design and manufacturing processes at appropriate junctures in development.

When programs require more resources than planned, the buying power of the defense dollar is reduced and funds are not available for other competing needs. It is not unusual for estimates of time and money to be off by 20 to 50 percent. When costs and schedules increase, quantities are cut and the value for the warfighter—as well as the value of the investment dollar—is reduced. In these times of asymmetric threats and netcentricity, individual weapon system investments are getting larger and more complex. Just 4 years ago, the top five weapon systems cost about \$281 billion; today, in the same base year dollars, the five weapon systems cost about \$521 billion. If these megasystems are managed with traditional margins of error, the financial consequences—particularly the ripple effects on other programs—can be dire.

While weapon systems acquisition continues to remain on our high-risk list, DOD has undertaken a number of acquisition reforms over the past 5 years. Specifically, DOD has restructured its acquisition policy to incorporate attributes of a knowledge-based acquisition model and has reemphasized the discipline of systems engineering. In addition, DOD recently introduced new policies to strengthen its budgeting and requirements determination processes in order to plan and manage weapon systems based on joint warfighting capabilities. While these policy changes are positive steps, implementation in individual programs will continue to be a challenge because of inherent funding, management, and cultural factors that lead

managers to develop business cases for new programs that over-promise on cost, delivery, and performance of weapon systems.

It is imperative that needs be distinguished from wants and that DOD's limited resources be allocated to the most appropriate weapon system investments. Once the best investments that can be afforded are identified, then DOD must follow its own policy to employ the knowledge-based strategies essential for delivering the investments within projected resources. Making practice follow policy is not a simple matter. It is a complex challenge involving many factors. One of the most important factors is putting the right managers in their positions long enough so that they can be both effective and accountable for getting results.

Contract Management

Another long-standing business management challenge is DOD's contract management program. As the government's largest purchaser at over \$200 billion in fiscal year 2003, DOD is unable to assure that it is using sound business practices to acquire the goods and services needed to meet the warfighters' needs. For example, over the past decade DOD has significantly increased its spending on contractor-provided information technology and management support services, but it has yet to fully implement a strategic approach to acquiring these services. In 2002, DOD and the military departments established a structure to review individual service acquisitions valued at \$500 million or more, and in 2003 they launched a pilot program to help identify strategic sourcing opportunities. To further promote a strategic orientation, however, DOD needs to establish a departmentwide concept of operations; set performance goals, including savings targets; and ensure accountability for achieving them. In March 2004, we reported that if greater management focus were given to opportunities to capture savings through the purchase card program, DOD could potentially save tens of millions of dollars without sacrificing the ability to acquire items quickly or compromising other goals.³⁰

DOD also needs to have the right skills and capabilities in its acquisition workforce to effectively implement best practices and properly manage the goods and services it buys. However, DOD reduced its civilian workforce by about 38 percent between fiscal years 1989 and 2002 without ensuring that it had the specific skills and competencies needed to accomplish

³⁰GAO, *Contract Management: Agencies Can Achieve Significant Savings on Purchase Card Buys*, [GAO-04-430](#) (Washington, D.C.: Mar. 12, 2004).

current and future DOD acquisition/contract administration missions, and more than half of its current workforce will be eligible for early or regular retirement in the next 5 years. We found that inadequate staffing and the lack of clearly defined roles and responsibilities contributed to contract administration challenges encountered in Operation Iraqi Freedom (OIF).³¹ Further, we have reported that DOD's extensive use of military logistical support contracts in OIF and elsewhere required strengthened oversight.³² Just recently, we identified surveillance issues in almost a third of the contracts we reviewed. We also noted that some personnel performing surveillance had not received required training, while others felt that they did not have sufficient time in a normal workday to perform their surveillance duties.³³ DOD has made progress in laying a foundation for reshaping its acquisition workforce by initiating a long-term strategic planning effort, but as of June 2004 it did not yet have the comprehensive strategic workforce plan needed to guide its efforts.

DOD uses various techniques—such as performance-based service contracting, multiple-award task order contracts, and purchase cards—to acquire the goods and services it needs. We have found, however, that DOD personnel did not always make sound use of these tools. For example, in June 2004, we reported that more than half of the task orders to support Iraq reconstruction efforts we reviewed were, in whole or in part, outside the scope of the underlying contract.³⁴ In July 2004, we found that DOD personnel waived competition requirements for nearly half of the task orders reviewed.³⁵ As a result of the frequent use of waivers, DOD had fewer opportunities to obtain the potential benefits of competition—improved levels of service, market-tested prices, and the best overall value.

³¹GAO, *Rebuilding Iraq: Fiscal Year 2003 Contract Award Procedures and Management Challenges*, [GAO-04-605](#) (Washington, D.C.: June 1, 2004).

³²GAO, *Military Operations: DOD's Extensive Use of Logistics Support Contracts Requires Strengthened Oversight*, [GAO-04-854](#) (Washington, D.C.: July 19, 2004); and *Defense Logistics: High-Level DOD Coordination Is Needed to Further Improve the Management of the Army's LOGCAP Contract*, [GAO-05-328](#) (Washington, D.C.: Mar. 21, 2005).

³³GAO, *Contract Management: Opportunities to Improve Surveillance on Department of Defense Service Contracts*, [GAO-05-274](#) (Washington, D.C.: Mar. 17, 2005).

³⁴[GAO-04-605](#).

³⁵GAO, *Contract Management: Guidance Needed to Promote Competition for Defense Task Orders*, [GAO-04-874](#) (Washington, D.C.: July 30, 2004).

We also found that DOD lacked safeguards to ensure that waivers were granted only under appropriate circumstances.

Our work has shown that DOD would benefit by making use of commercial best practices, such as taking a strategic approach to acquiring services; building on initial efforts to develop a strategic human capital plan for its civilian workforce; and improving safeguards, issuing additional guidance, and providing training to its workforce on the appropriate use of contracting techniques and approaches.³⁶ DOD is undertaking corrective actions, but because most efforts are in their early stages, it is uncertain whether they can be fully and successfully implemented in the near term. A key to resolving DOD's contract management issues will be addressing them as part of a comprehensive and integrated business transformation plan.

Supply Chain Management

In 1990, we identified DOD's inventory management as a management challenge, or a high-risk area, because inventory levels were too high and the supply system was not responsive to the needs of the warfighter. We have since expanded the inventory management high-risk area to include DOD's management of certain key aspects of its supply chain, including distribution, inventory management, and asset visibility, because of significant weaknesses we have uncovered since our 2003 high-risk series was published. For example, during OIF, the supply chain encountered many problems, including backlogs of hundreds of pallets and containers at distribution points, a \$1.2 billion discrepancy in the amount of material shipped to—and received by—Army activities, cannibalized equipment because of a lack of spare parts, and millions of dollars spent in late fees to lease or replace storage containers because of distribution backlogs and losses. Moreover, we identified shortages of items such as tires, vehicle track shoes, body armor, and batteries for critical communication and electronic equipment. These problems were the result of systemic deficiencies in DOD's supply chain, including inaccurate requirements, funding delays, acquisition delays, and ineffective theater distribution.

³⁶GAO, *Best Practices: Improved Knowledge of DOD Service Contracts Could Reveal Significant Savings*, [GAO-03-661](#) (Washington, D.C.: June 9, 2003); and *Best Practices: Taking a Strategic Approach Could Improve DOD's Acquisition of Services*, [GAO-02-230](#) (Washington, D.C.: Jan. 18, 2002).

While DOD reports show that the department currently owns about \$67 billion worth of inventory, shortages of certain critical spare parts are adversely affecting equipment readiness and contributing to maintenance delays. The Defense Logistics Agency (DLA) and each of the military services have experienced significant shortages of critical spare parts, even though more than half of DOD's reported inventory—about \$35 billion—exceeded current operating requirements. In many cases, these shortages contributed directly to equipment downtime, maintenance problems, and the services' failure to meet their supply availability goals. DOD, DLA, and the military services each lack strategic approaches and detailed plans that could help mitigate these critical spare parts shortages and guide their many initiatives aimed at improving inventory management.³⁷

DOD's continued supply chain problems also resulted in shortages of items in Iraq. In an April 8, 2005, report, we reported that demands for items like vehicle track shoes, batteries, and tires exceeded their availability because the department did not have accurate or adequately funded Army war reserve requirements and had inaccurate forecasts of supply demands for the operation.³⁸ Furthermore, the Army's funding approval process delayed the flow of funds to buy them. Meanwhile, rapid acquisition of other items faced obstacles. Body armor production was limited by the availability of Kevlar and other critical materials, whereas the delivery of up-armored High Mobility Multi-Purpose Wheeled Vehicles and armor kits was slowed by DOD's decisions to pace production. In addition, numerous problems, such as insufficient transportation, personnel, and equipment, as well as inadequate information systems, hindered DOD's ability to deliver the right items to the right place at the right time for the warfighter. Among the items the department had problems delivering were generators for Assault Amphibian Vehicles, tires, and Meals Ready-to-Eat.

In addition to supply shortages, DOD also lacks visibility and control over the supplies and spare parts it owns. Therefore, it cannot monitor the responsiveness and effectiveness of the supply system to identify and

³⁷GAO-05-207.

³⁸GAO, *Defense Logistics: Actions Needed to Improve the Availability of Critical Items during Current and Future Operations*, GAO-05-275 (Washington, D.C.: Apr. 8, 2005).

eliminate choke points.³⁹ Currently, DOD does not have the ability to provide timely or accurate information on the location, movement, status, or identity of its supplies. Although total asset visibility has been a departmentwide goal for over 30 years, DOD estimates that it will not achieve this visibility until the year 2010. DOD may not meet this goal by 2010, however, unless it overcomes three significant impediments: developing a comprehensive plan for achieving visibility, building the necessary integration among its many inventory management information systems, and correcting long-standing data accuracy and reliability problems within existing inventory management systems.

DOD, DLA, and the services have undertaken a number of initiatives to improve and transform DOD's supply chain. Many of these initiatives were developed in response to the logistics problems reported during OIF. While these initiatives represent a step in the right direction, the lack of a comprehensive, departmentwide logistics reengineering strategy to guide their implementation may limit their overall effectiveness. A key to successful implementation of a comprehensive logistics strategy will be addressing these initiatives as part of a comprehensive, integrated business transformation.

Strategic Human Capital Management

DOD is attempting to address the critically important governmentwide high-risk challenge of strategic human capital management through its proposed human resources management system, the National Security Personnel System (NSPS). Successful implementation of NSPS is essential for DOD as it attempts to transform its military forces and defense business practices in response to 21st century challenges. In addition, this new human resources management system, if properly designed and effectively implemented, could serve as a model for governmentwide human capital transformation. DOD is one of several federal agencies that have been granted the authority by Congress to design a new human capital system as a way to address the governmentwide high-risk area of strategic human capital management. This effort represents a huge undertaking for DOD, given its massive size and geographically and culturally diverse workforce.

³⁹GAO, *Defense Inventory: Improvements Needed in DOD's Implementation of Its Long-Term Strategy for Total Asset Visibility of Its Inventory*, [GAO-05-15](#) (Washington, D.C.: Dec. 6, 2004).

As I recently testified on DOD's proposed NSPS regulations,⁴⁰ our ongoing work continues to raise questions about DOD's chances of success in its efforts to effect fundamental business management reform, such as NSPS. I would like to acknowledge, however, that DOD's NSPS regulations take a valuable step toward a modern performance management system as well as a more market-based and results-oriented compensation system.

On February 14, 2005, the Secretary of Defense and the Acting Director of Office of Personnel Management (OPM) released the proposed NSPS regulations for public comment. Many of the principles underlying those regulations are generally consistent with proven approaches to strategic human capital management. For instance, the proposed regulations provide for (1) elements of a flexible and contemporary human resources management system, such as pay bands and pay for performance; (2) right-sizing of DOD's workforce when implementing reduction-in-force orders by giving greater priority to employee performance in its retention decisions; and (3) continuing collaboration with employee representatives. (It should be noted, however, that 10 federal labor unions have filed suit alleging that DOD failed to abide by the statutory requirements to include employee representatives in the development of DOD's new labor relations system authorized as part of NSPS.)

Despite this progress, we have three primary areas of concern about the proposed NSPS regulations. DOD's proposed regulations do not (1) define the details of the implementation of the system, including such issues as adequate safeguards to help ensure fairness and guard against abuse; (2) require, as we believe they should, the use of core competencies to communicate to employees what is expected of them on the job; and (3) identify a process for the continuing involvement of employees in the planning, development, and implementation of NSPS.

DOD also faces multiple implementation challenges once it issues its final NSPS regulations. Given the huge undertaking NSPS represents, another challenge is to elevate, integrate, and institutionalize leadership responsibility for this large-scale organizational change initiative to ensure its success. A chief management official or similar position can effectively provide the continuing, focused leadership essential to successfully completing these multiyear transformations. Additionally, DOD could

⁴⁰GAO, *Human Capital: Preliminary Observations on Proposed DOD National Security Personnel System Regulations*, [GAO-05-432T](#) (Washington, D.C.: Mar. 15, 2005).

benefit if it develops a comprehensive communications strategy that provides for ongoing, meaningful two-way communication to create shared expectations among employees, employee representatives, managers, customers, and stakeholders. Finally, appropriate institutional infrastructure could enable DOD to make effective use of its new authorities. At a minimum, this infrastructure would include a human capital planning process that integrates DOD's human capital policies, strategies, and programs with its program goals, mission, and desired outcomes; the capabilities to effectively develop and implement a new human capital system; and a set of adequate safeguards—including reasonable transparency and appropriate accountability mechanisms—to help ensure the fair, effective, and credible implementation and application of a new system.

We strongly support the need for government transformation and the concept of modernizing federal human capital policies within both DOD and the federal government at large. There is general recognition that the federal government needs a framework to guide human capital reform. Such a framework would consist of a set of values, principles, processes, and safeguards that would provide consistency across the federal government but be adaptable to agencies' diverse missions, cultures, and workforces.

Key Elements for Successful Business Transformation

Although DOD has a number of initiatives to address its high-risk areas, we believe that DOD must fundamentally change its approach to overall business transformation effort before it is likely to succeed. We believe there are three critical elements of successful transformation: (1) developing and implementing an integrated and strategic business transformation plan, along with an enterprise architecture to guide and constrain implementation of such a plan; (2) establishing central control over systems investment funds; and (3) providing sustained leadership for business reform efforts. To ensure these three elements are incorporated into the department's overall business management, we believe Congress should legislatively create a full-time, high-level executive with long-term "good government" responsibilities that are professional and nonpartisan in nature. This executive, the Chief Management Official (CMO), would be a strategic integrator responsible for leading the department's overall business transformation, including developing and implementing a related strategic plan. The CMO would not assume the responsibilities of the undersecretaries of defense, the services, and other DOD entities for the day-to-day management of business activities. However, the CMO would be

accountable for ensuring that all DOD business policies, procedures, and reform initiatives are consistent with an approved strategic plan for business transformation.

Reform Efforts Must Include an Integrated, Comprehensive Strategic Plan

Our prior work indicates that agencies that are successful in achieving business management transformation undertake strategic planning and strive to establish goals and measures that align at all levels of the agency. The lack of a comprehensive and integrated strategic transformation plan linked with performance goals, objectives, and rewards has been a continuing weakness in DOD's business transformation. Since 1999, for example, we have recommended that a comprehensive and integrated strategic business transformation plan be developed for reforming DOD's major business operations and support activities. In 2004, we suggested that DOD clearly establish management accountability for business reform. While DOD has been attempting to develop an enterprise architecture for modernizing its business processes and supporting information technology assets for the last 4 years, it has not developed a strategic and integrated transformation plan for managing its many business improvement initiatives. Nor has DOD assigned overall management responsibility and accountability for such an effort. Unless these initiatives are addressed in a unified and timely fashion, DOD will continue to see billions of dollars, which could be directed to other higher priorities, wasted annually to support inefficiencies in its business functions.

At a programmatic level, the lack of clear, comprehensive, and integrated performance goals and measures has handicapped DOD's past reform efforts. For example, we reported in May 2004 that the lack of performance measures for DOD's business transformation initiative—encompassing defense policies, processes, people, and systems—made it difficult to evaluate and track specific program progress, outcomes, and results. As a result, DOD managers lacked straightforward road maps showing how their work contributed to attaining the department's strategic goals, and they risked operating autonomously rather than collectively. As of March 2004, DOD formulated departmentwide performance goals and measures and continued to refine and align them with outcomes described in its strategic plan—the September 2001 Quadrennial Defense Review (QDR). As previously discussed, DOD outlined a new risk management framework in the QDR that DOD was to use in considering trade-offs among defense objectives and resource constraints, but as of March 2005 DOD was still in the process of implementing it.

Finally, DOD has not established a clear linkage among institutional, unit, and individual results-oriented goals, performance measures, and reward mechanisms for undertaking large-scale organizational change initiatives that are needed for successful business management reform. Traditionally, DOD has justified its need for more funding on the basis of the quantity of programs it has pursued rather than on the outcomes its programs have produced. DOD has historically measured its performance by resource components, such as the amount of money spent, people employed, or number of tasks completed. Incentives for its decision makers to implement behavioral changes have been minimal or nonexistent. The establishment of a strategic and integrated business transformation plan could help DOD address these systemic management problems.

Central Control over Business Systems Investment Funds Is Crucial

DOD's current business systems investment process, in which system funding is controlled by DOD components, has contributed to the evolution of an overly complex and error-prone information technology environment containing duplicative, nonintegrated, and stovepiped systems. We have made numerous recommendations to DOD to improve the management oversight and control of its business systems modernization investments. However, as previously discussed, a provision of the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, consistent with the suggestion I have made in prior testimonies, established specific management oversight and accountability with the "owners" of the various core business mission areas. This legislation defined the scope of the various business areas (e.g., acquisition, logistics, finance, and accounting), and established functional approval authority and responsibility for management of the portfolio of business systems with the relevant under secretary of defense for the departmental core business mission areas and the Assistant Secretary of Defense for Networks and Information Integration (information technology infrastructure). For example, the Under Secretary of Defense for Acquisition, Technology, and Logistics is now responsible and accountable for any defense business system intended to support acquisition activities, logistics activities, or installations and environment activities for DOD.

This legislation also requires that the responsible approval authorities establish a hierarchy of investment review boards, the highest level being the Defense Business Systems Management Committee (DBSMC), with DOD-wide representation, including the military services and defense agencies. The boards are responsible for reviewing and approving investments to develop, operate, maintain, and modernize business

systems for their business-area portfolio, including ensuring that investments are consistent with DOD's business enterprise architecture. However, as I pointed out earlier, DOD has not yet established the lower level investment review boards as required by the legislation.

Although this recently enacted legislation clearly defines the roles and responsibilities of business systems investment approval authorities, control over the budgeting for and execution of funding for systems investment activities remains at the DOD component level. As a result, DOD continues to have little or no assurance that its business systems modernization investment money is being spent in an economical, efficient, and effective manner. Given that DOD spends billions on business systems and related infrastructure each year, we believe it is critical that those responsible for business systems improvements control the allocation and execution of funds for DOD business systems. However, implementation may require review of the various statutory authorities for the military services and other DOD components. Control over business systems investment funds would improve the capacity of DOD's designated approval authorities to fulfill their responsibilities and gain transparency over DOD investments, and minimize the parochial approach to systems development that exists today. In addition, to improve coordination and integration activities, we suggest that all approval authorities coordinate their business systems modernization efforts with a CMO who would chair the DBSMC. Cognizant business area approval authorities would also be required to report to Congress through a CMO and the Secretary of Defense on applicable business systems that are not compliant with review requirements and to include a summary justification for noncompliance.

Chief Management Official Is Essential for Sustained Leadership of Business Management Reform

As DOD embarks on large-scale business transformation efforts, we believe that the complexity and long-term nature of these efforts requires the development of an executive position capable of providing strong and sustained change management leadership across the department—and over a number of years and various administrations. One way to ensure such leadership would be to create by legislation a full-time executive-level II position for a CMO, who would serve as the Deputy Secretary of Defense for Management. This position would elevate, integrate, and institutionalize the high-level attention essential for ensuring that a strategic business transformation plan—as well as the business policies, procedures, systems, and processes that are necessary for successfully implementing and sustaining overall business transformation efforts within DOD—are implemented and sustained. An executive-level II position for a CMO would

provide this individual with the necessary institutional clout to overcome service parochialism and entrenched organizational silos, which in our opinion need to be streamlined below the service secretaries and other levels.

The CMO would function as a change agent, while other DOD officials would still be responsible for managing their daily business operations. The position would divide and institutionalize the current functions of the Deputy Secretary of Defense into a Deputy Secretary who, as the alter ego of the Secretary, would focus on policy-related issues such as military transformation, and a Deputy Secretary of Defense for Management, the CMO, who would be responsible and accountable for the overall business transformation effort and would serve full-time as the strategic integrator of DOD's business transformation efforts by, for example, developing and implementing a strategic and integrated plan for business transformation efforts. The CMO would not conduct the day-to-day management functions of the department; therefore, creating this position would not add an additional hierarchical layer to the department. Day-to-day management functions of the department would continue to be the responsibility of the undersecretaries of defense, the service secretaries, and others. Just as the CMO would need to focus full-time on business transformation, we believe that the day-to-day management functions are so demanding that it is difficult for these officials to maintain the oversight, focus, and momentum needed to implement and sustain needed reforms of DOD's overall business operations. This is particularly evident given the demands that the Iraq and Afghanistan postwar reconstruction activities and the continuing war on terrorism have placed on current leaders. Likewise, the breadth and complexity of the problems and their overall level within the department preclude the under secretaries, such as the DOD Comptroller, from asserting the necessary authority over selected players and business areas while continuing to fulfill their other responsibilities.

If created, we believe that the new CMO position could be filled by an individual appointed by the President and confirmed by the Senate, for a set term of 7 years with the potential for reappointment. As prior GAO work examining the experiences of major change management initiatives in large private and public sector organizations has shown, it can often take at least 5 to 7 years until such initiatives are fully implemented and the related cultures are transformed in a sustainable way. Articulating the roles and responsibilities of the position in statute would also help to create unambiguous expectations and underscore Congress's desire to follow a professional, nonpartisan, sustainable, and institutional approach to the

position. In that regard, an individual appointed to the CMO position should have a proven track record as a business process change agent in large, complex, and diverse organizations—experience necessary to spearhead business process transformation across DOD.

Furthermore, to improve coordination and integration activities, we suggest that all business systems modernization approval authorities designated in the Ronald W. Reagan National Defense Act of 2005 coordinate their efforts with the CMO, who would chair the DBSMC that DOD recently established to comply with the act. We also suggest that cognizant business area approval authorities would also be required to report to Congress through the CMO and the Secretary of Defense on applicable business systems that are not compliant with review requirements and include a summary justification for noncompliance. In addition, the CMO would enter into an annual performance agreement with the Secretary that sets forth measurable individual goals linked to overall organizational goals in connection with the department's business transformation efforts. Measurable progress toward achieving agreed-upon goals should be a basis for determining the level of compensation earned, including any related bonus. In addition, the CMO's achievements and compensation should be reported to Congress each year.

Concluding Observations

The long-term fiscal pressures we face as a nation are daunting and unprecedented. The size and trend of our projected longer-term deficits mean that the nation cannot ignore the resulting fiscal pressures—it is not a matter of whether the nation deals with the fiscal gap, but when and how. Unless we take effective and timely action, our near-term and longer-term deficits present the prospect of chronic and seemingly perpetual budget shortfalls and constraints becoming a fact of life for years to come. These pressures will intensify the need for DOD to make disciplined and strategic investment decisions that identify and balance risks across a wide range of programs, operations, and functions. To its credit, DOD is in the process of implementing a risk management framework to use in considering trade-offs among defense objectives and resource constraints and establishing department-level priorities, rather than relying on incremental changes to existing budget levels. We recognize what a large undertaking developing a departmentwide risk management framework will be and, while we are still monitoring DOD's efforts to implement the framework, we have preliminary concerns based on our work reviewing other DOD reform efforts. Unless DOD is better able to balance its resources, DOD will

continue to have a mismatch between programs and budgets, and will be less likely to maximize the value of the defense dollars it spends.

DOD continues to face pervasive, decades-old management problems related to its business operations and these problems affect all of DOD's major business areas. While DOD has taken steps to address these problems, our previous work has uncovered a persistent pattern among DOD's reform initiatives that limits their overall impact on the department. These initiatives have not been fully implemented in a timely fashion because of the absence of comprehensive, integrated strategic planning, inadequate transparency and accountability, and the lack of sustained leadership. As previously mentioned, the Secretary of Defense has estimated that improving business operations could save 5 percent of DOD's annual budget. This represents a savings of about \$22 billion a year, based on the fiscal year 2004 budget. In this time of growing fiscal constraints, every dollar that DOD can save through improved economy and efficiency of its operations is important to the well-being of our nation. Until DOD resolves the numerous problems and inefficiencies in its business operations, billions of dollars will continue to be wasted every year.

DOD's senior leaders have demonstrated a commitment to transforming the department and have taken several positive steps to begin this effort. To overcome the previous cycle of failure at DOD in implementing broad-based management reform, however, we believe that three elements are key to successfully achieve needed reforms. First, DOD needs to implement and sustain a strategic and integrated business transformation plan. Second, we believe that the implementation of two proposed legislative initiatives—establishing central control of business system funds and creating a CMO—is crucial. We believe that central control over business system investment funds would better enable DOD to ensure that its resources are being invested in an economical, efficient, and effective manner. As long as funding is controlled by the components, it is likely that the existing problems with stovepiped, duplicative, and nonintegrated systems will continue. We support the need for legislation to create a CMO, in part, because we doubt that there is a single individual—no matter how talented and experienced—who could effectively address all that needs to be addressed at DOD, including conducting a global war on terrorism, transforming the military, and tackling long-standing, systemic business transformation challenges. We believe that a CMO, serving a 7-year term with the potential for reappointment, would have the institutional clout and an adequate term in office to work with DOD's senior leadership across

administrations to make business transformation a reality. Since the CMO would not have responsibility for day-to-day management, this position would not superimpose another hierarchical layer over the department to oversee daily business operations. Instead, the CMO would be responsible and accountable for strategic planning, performance and financial management, and business system modernization, while facilitating overall business transformation. Without the strong and sustained leadership provided by a CMO, DOD will likely continue to have difficulties in maintaining the oversight, focus, and momentum needed to implement and sustain the reforms to its business operations.

Mr. Chairman and Members of the Subcommittee, this concludes my prepared statement. I would be happy to answer any questions you may have at this time.

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