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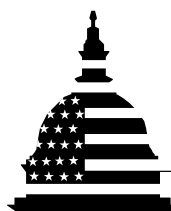
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DOD'S HIGH-RISK AREAS

Successful Business Transformation Requires Sound Strategic Planning and Sustained Leadership

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GAO

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Highlights of [GAO-05-520T](#), a testimony before the Subcommittee on Readiness and Management Support, Committee on Armed Services, U.S. Senate

Why GAO Did This Study

In January 2005, GAO released its 2005 high-risk series update report for the 109th Congress. GAO's high-risk series has increasingly focused on major government programs and operations that need urgent attention and transformation to ensure that the U.S. government functions in the most economical, efficient, and effective manner possible. GAO also emphasizes those federal programs and operations that are at high risk because of their greater vulnerabilities to fraud, waste, abuse, and mismanagement. Of the 25 areas on GAO's 2005 high-risk list, 8 are Department of Defense (DOD) programs or operations and 6 are governmentwide high-risk areas for which DOD shares some responsibility. These high-risk areas touch on all of DOD's major business operations. DOD's failure to effectively address these many high-risk areas results in billions of dollars of waste each year and inadequate accountability to Congress and the American people.

The Subcommittee asked GAO to provide its views on (1) DOD's high-risk areas, including those it shares responsibility for with other federal agencies; (2) an emerging challenge for DOD that merits close attention, involving DOD's approach to risk management; and (3) key elements, such as a chief management official, to successfully address these high-risk areas and achieve business transformation reform.

www.gao.gov/cgi-bin/getrpt?GAO-05-520T.

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DOD HIGH-RISK AREAS

Successful Business Transformation Requires Sound Strategic Planning and Sustained Leadership

What GAO Found

GAO has reported on inefficiencies and inadequate transparency and accountability across DOD's major business areas, resulting in billions of dollars of wasted resources annually. As shown in the following table, these problems have resulted in GAO's designation of eight DOD areas as high-risk, two of which were newly added this year. Progress in addressing one of these new high-risk areas—DOD's overall approach to business transformation—is needed to confront the other seven areas. DOD also shares some responsibility for six other governmentwide high-risk areas, including strategic human capital management. Although DOD's senior leaders have shown commitment to business management reform, little tangible evidence of actual improvement has been seen to date.

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.

In addition to the specific high-risk areas, there are other broad-based challenges facing our government that merit continuing close attention. One emerging area of concern involves the need for DOD along with other agencies to develop and use a strategic risk-based approach for establishing goals, evaluating and setting priorities, and making difficult resource decisions across the department. Strategically managing risks and investment decisions is crucial for DOD as it faces growing questions about the affordability and sustainability of current defense spending.

To move forward, there are three key elements that DOD must incorporate into its business management reform efforts to successfully address the systemic management problems related to its high-risk areas. First, any reform efforts must include a comprehensive, integrated strategic plan with results-oriented performance measures, including a well-defined blueprint (an enterprise architecture) to guide and constrain implementation of such a plan. Second, central control of system investments is crucial for successful transformation. Finally, a legislatively created Deputy Secretary of Defense for Management is essential for providing the strong and sustained executive leadership needed if reform efforts are to succeed.

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to discuss the Department of Defense's (DOD) "high-risk" programs and operations summarized in GAO's 2005 high-risk series update report.¹ During my tenure as Comptroller General, our high-risk series has increasingly focused on those major government programs and operations that need urgent attention and transformation to ensure that our national government functions in the most economical, efficient, and effective manner possible. We also emphasize those federal programs and operations that are at high risk because of their greater vulnerabilities to fraud, waste, abuse, and mismanagement. Some of these high-risk programs and operations are in need of transformation, and several will require action by both the executive branch and Congress for successful transformation to occur.

Given its size and mission, DOD is one of the largest and most complex organizations to effectively manage in the world. While DOD maintains military forces with significant capabilities, it continues to confront pervasive, decades-old management problems related to its business operations, including systems and processes, that support these forces. Of the 25 areas on our 2005 high-risk list, 8 are DOD programs or operations and 6 are governmentwide high-risk areas for which DOD shares some responsibility. These high-risk areas touch on all of DOD's major business operations. DOD's failure to effectively address these high-risk areas results in billions of dollars of wasted resources each year and inadequate accountability to Congress and the American people. In some cases, such as DOD's financial management and weapon systems acquisition areas, we have been highlighting high-risk challenges for a decade or more. To its credit, the Office of Management and Budget (OMB) has worked closely with a number of agencies that have high risk issues, but to-date has been less involved with DOD. Recently, Clay Johnson, OMB's Deputy Director for Management 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 place additional emphasis on DOD's high-risk areas, including working to help ensure that DOD has action plans for addressing all new "high-risk" areas. Given the magnitude of DOD's problems and the stakes involved, I believe it is critical that OMB actively collaborate with the department to ensure it establishes the action plans

¹GAO, *High-Risk Series: An Update*, [GAO-05-207](#) (Washington, D.C.: January 2005), issued for the 109th Congress.

and milestones needed to address its high risk areas. Continued oversight by Congress, such as this hearing, is key to achieving change at DOD and, in the case of some areas, legislative action will be needed.

Today, I will provide my perspectives on (1) DOD's high-risk areas, including those for which it shares responsibility with other federal agencies; (2) an emerging challenge that merits close attention, involving the need for DOD and other federal agencies to develop comprehensive approaches for risk management; and (3) three key elements to successfully address these high-risk areas and achieve needed reforms. In particular, I will emphasize two suggestions for legislative consideration—the need for central control of systems investment funding and a chief management official—that I have previously testified about.² Implementation of these two suggestions would provide the sustained top-level leadership and accountability needed by DOD to better permit the effective use of transition plans, processes, systems, people, and tools and thereby increase the likelihood of successful business transformation.

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

Summary

While DOD began the new millennium with military forces second to none, it has not been effective in managing its business operations. At a time when DOD is challenged to maintain a high level of operations while competing for resources in an increasingly fiscally constrained environment, weaknesses in DOD's business operations continue to result in reduced efficiencies and effectiveness. 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.

Continuing problems within DOD's business operations and transformation initiatives have resulted in our designation of eight DOD-specific programs and operations to our 2005 high-risk list, which includes two new areas and the expansion of a third area. First, we added DOD's overall approach to

²GAO, *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).

business transformation to the high-risk list because of our concern over DOD's lack of adequate management accountability and the absence of a strategic and integrated action plan for the overall business transformation effort. Unless DOD makes progress in its overall business transformation effort, we believe that it will continue to have difficulties in confronting the other seven DOD-specific high-risk areas in an integrated, departmentwide approach. Second, we added DOD's personnel security clearance program to the list because the increased delays and growing backlogs of security clearances for DOD personnel, contractors, and others present a range of risks in today's security environment. Finally, we expanded our prior high-risk area of inventory management to include DOD's management of certain key aspects of its supply chain, including distribution, inventory management, and asset visibility, because of issues related to supporting the warfighter during Operation Iraqi Freedom. The remaining DOD-specific high-risk areas cover other major business operations such as support infrastructure management, business systems modernization, financial management, weapon systems acquisition, and contract management. Although the Secretary of Defense and senior leaders have shown commitment to business management transformation, little tangible evidence of actual improvement has been seen in DOD's business operations to date. In addition, DOD has not taken the steps necessary to achieve and sustain business reform on a broad, strategic, departmentwide, and integrated basis.

In addition to the DOD-specific high-risk areas, DOD shares responsibility for six other high-risk areas that are governmentwide in scope. A first and critical governmentwide high-risk area, strategic human capital management, has remained high risk because some federal human capital strategies are still not appropriately constituted to meet current and emerging challenges or drive the transformations necessary for agencies to meet these challenges. The National Defense Authorization Act for Fiscal Year 2004³ has given DOD significant authorities to address the way in which defense civilian employees are hired, compensated, promoted, and disciplined, and proposed regulations to implement these authorities have been jointly released by the Secretary of Defense and the Acting Director of the Office of Personnel Management (OPM). The remaining five governmentwide high-risk areas include managing federal real property, protecting federal information systems and the nation's critical

³Pub. L. No. 108-136, § 1101, 117 Stat. 1392, 1621 (Nov. 24, 2003) (amending subpart I of part III of title 5, *United States Code*).

infrastructure, establishing appropriate and effective information-sharing mechanisms to improve homeland security, modernizing federal disability programs, and managing interagency contracting more effectively.

There are other important broad-based challenges facing our government that we will be closely monitoring even though we have not yet categorized them as high risk. One emerging area of concern involves the need for DOD along with other agencies to develop and use a strategic risk-based approach for establishing goals, evaluating and setting priorities, and making difficult resource decisions. Strategically managing risks and investment decisions across the department is crucial for DOD as it faces growing questions about the affordability and sustainability of the rate of growth in defense spending and the shift in focus from conventional threats posed by the Cold War era to more unconventional and asymmetric threats evidenced in the events of September 11, 2001. To its credit, we understand that DOD is attempting to implement a risk management framework for making broad, strategic investment decisions across the department, and we are monitoring this effort.

Regarding the way forward, 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 and action plan with results-oriented performance measures that link institutional, unit, and personnel goals, measures, and expectations. Second, we propose that those responsible for business systems modernization control the allocation and execution of funds for DOD business systems. 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 Chief Management Official (CMO), who would serve as the Deputy Secretary of Defense for Management. We believe that the new CMO position should 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. Articulating the role and responsibilities of the position in statute and establishing a term that spans administrations underscores the importance of a professional, nonpartisan approach to this business management-oriented position. This position would elevate, integrate, and institutionalize the attention essential for addressing key stewardship responsibilities, such as strategic

planning, enterprise architecture development and implementation, information technology management, and financial management, while facilitating the overall business management transformation within DOD.

DOD’s High-Risk Areas, Including Governmentwide High-Risk Areas

Numerous systems problems, inefficiencies, and wasted resources continue to trouble DOD’s business operations, resulting in our designation of 14 high-risk areas that are either DOD-specific programs or governmentwide high-risk areas for which DOD shares some responsibility. As shown in table 1, we have designated two new high-risk areas for DOD this year. The first, DOD’s approach to business management transformation, represents an overarching high-risk area, encompassing the other seven key DOD-specific business operations that we have designated as individual high-risk areas. The second, DOD’s personnel security clearance program, was added to our 2005 high-risk list because of delays in completing hundreds of thousands of background investigations and adjudications (a review of investigative information to determine eligibility for a security clearance). Many of the remaining DOD-specific areas have been on the list for a decade or more. In addition to the DOD-specific high-risk areas shown in table 1, I will later discuss the six governmentwide areas, such as human capital management, for which DOD shares responsibility with other federal agencies.

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 was formerly entitled DOD inventory management.

DOD's Approach to Business Transformation

DOD's approach to business management transformation represents an overarching high-risk area, encompassing several other key business operations. 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, 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 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 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.

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, including systems and processes related to support infrastructure,⁴ finances, weapon systems acquisition, the management of contracts, and the supply chain. We have previously testified on inefficiencies in DOD's business operations, such as the lack of sustained leadership, the lack of a comprehensive and integrated business transformation strategic and action plan, and inadequate incentives.⁵ 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.

⁴Support infrastructure includes categories such as force installations, central logistics, the defense health program, and central training.

⁵[GAO-05-140T](#); GAO, *Department of Defense: Long-standing Problems Continue to Impede Financial and Business Management Transformation*, [GAO-04-907T](#) (Washington, D.C.: July 7, 2004), and *DOD Business Systems Modernization: Billions Continue to Be Invested with Inadequate Management Oversight and Accountability*, [GAO-04-615](#) (Washington, D.C.: May 27, 2004).

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 would provide the attention essential for addressing key stewardship responsibilities—such as strategic planning, performance management, business information management, and financial management—in an integrated manner, while helping to facilitate the overall business transformation effort within DOD.

Personnel Security Clearance Program

The second high-risk area is DOD's personnel security clearance program. Delays in completing hundreds of thousands of background investigations and adjudications (a review of investigative information to determine eligibility for a security clearance) have led us to add the DOD personnel security clearance program to our 2005 high-risk list. 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 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.⁶ Since fiscal year 2000, DOD has declared its personnel security clearance investigations program to be a systemic weakness⁷—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

⁶GAO, *DOD Personnel: Inadequate Personnel Security Investigations Pose National Security Risks*, [GAO/NSIAD-00-12](#) (Washington, D.C.: Oct. 27, 1999).

⁷*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).

adjudicative process as a material weakness.⁸ 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.⁹

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 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 2004¹⁰ 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.

Support Infrastructure Management

The third high-risk area is DOD's support infrastructure management, which we first identified as being high risk in 1997. DOD has made progress and expects to continue making improvements in its infrastructure management, but much work remains to be done. DOD's support

⁸Committee 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).

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

¹⁰ Pub. L. No. 108-136 § 906 (Nov. 24, 2003).

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 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 unneeded 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 integrate, 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

The fourth high-risk area is DOD's business systems modernization program, which we first designated as high risk in 1995. We continue to

categorize DOD's business systems modernization program as a high-risk area because of a lack of an enterprise architecture to guide and constrain system investments and 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.¹¹ 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 solutions.¹² 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.¹³ One reason for this limited progress is DOD's failure to adopt key

¹¹GAO, *Information Technology: Architecture Needed to Guide Modernization of DOD's Financial Operations*, [GAO-01-525](#) (Washington, D.C.: May 17, 2001).

¹²[GAO-04-615](#) and *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).

¹³GAO, *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).

architecture management best practices that we recommended,¹⁴ 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 2005,¹⁵ 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 the Office of Management and Budget (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 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.¹⁶ 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 reported¹⁷ 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.

To address certain provisions and requirements of the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005,¹⁸ on March 24,

¹⁴GAO-01-525.

¹⁵Ronald 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).

¹⁶GAO-04-731R.

¹⁷GAO-04-731R.

¹⁸10 U.S.C. §2222.

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,¹⁹ 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. While this committee may serve as a useful planning and coordination forum, it is important to remember that committees and task forces do not lead, people do. In addition, DOD still needs to designate a person to have overall responsibility and accountability for this effort for a sustained period of time. This person must have the background and authority needed to successfully achieve the related objectives for business systems modernization efforts.

On March 19, 2005, the Deputy Secretary of Defense delegated the authority for the review, approval, and oversight of the planning, design, acquisition, development, operation, maintenance, and modernization of defense business systems to the designated approval authority for each business area.²⁰ However, according to DOD's annual report to

¹⁹ The designated approval authorities are the Under Secretary of Defense for Acquisition, Technology, and Logistics for business systems related to acquisition, logistics and installations and environment; the Under Secretary of Defense (Comptroller) for business systems related to financial management and strategic planning and budgeting; the Under Secretary of Defense for Personnel and Readiness for business systems related to human resource management; and the Assistant Secretary of Defense for Networks and Information Integration/Chief Information Officer of the Department of Defense for business systems related to information technology infrastructure or information assurance.

²⁰ 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.

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 2005²¹ 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. More importantly, the obligation of these funds without the requisite approval by the DBSMC is deemed a violation of the Anti-Deficiency Act.²²

As DOD develops a comprehensive, integrated business transformation plan, such a plan must include an approach to resolve the business systems modernization problems. We were recently briefed on the department's conceptual framework for business system modernization. While the framework has merit and is a good first step, the department will need to translate its framework into a comprehensive and integrated plan of action. This plan should include priorities, key stakeholders, timeframes, and accountability and it should be linked to institutional, unit, and individual reward systems. To this end, it is critical that DOD provide the implementation of our many business systems modernization-related recommendations in this plan.

Financial Management

The fifth high-risk area is DOD's financial management program, which we first designated as high risk in 1995. As I testified before the House Committee on Government Reform in February 2005,²³ and as discussed in our report on the U.S. government's consolidated financial statements for fiscal year 2004,²⁴ DOD's financial management deficiencies, taken together, represent a major impediment to achieving an unqualified opinion

²¹Pub. L. No. 108-875, § 332, 118 Stat. 1811, 1854 (Oct. 28, 2004) (*codified at* 10 U.S.C. § 2222 (a)(2)).

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

²³GAO, *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).

²⁴For 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.

on the U.S. government's consolidated financial statements. 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.

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 controls²⁵—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 has 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 Army's nonintegrated systems, which require extensive error-prone manual data entry, further delay access to pay and benefits.

²⁵GAO, *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).

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 2004²⁶ 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. 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 possible if implemented as part of a comprehensive and integrated approach to transforming all of DOD's business operations.

²⁶GAO, *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).

Weapon Systems Acquisition

The sixth high-risk area is DOD's acquisition of weapon systems. We designated this as a high-risk area in 1990, and it remains so today. 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

The seventh high-risk area is DOD's contract management program, which we designated as a high-risk area in 1992. DOD, the government's largest purchaser at over \$200 billion in fiscal year 2003, is unable to assure that it is using sound business practices to acquire the goods and services needed to meet the warfighter's 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 not yet fully implemented 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.²⁷

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 current and future DOD 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

²⁷GAO, *Contract Management: Agencies Can Achieve Significant Savings on Purchase Card Buys*, [GAO-04-430](#) (Washington, D.C., Mar. 12, 2004).

encountered in Operation Iraqi Freedom (OIF).²⁸ Further, we have reported that DOD's extensive use of military logistical support contracts in OIF and elsewhere required strengthened oversight.²⁹ 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.³⁰ 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.³¹ In July 2004, we found that DOD personnel waived competition requirements for nearly half of the task orders reviewed.³² 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. 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;

²⁸GAO, *Rebuilding Iraq: Fiscal Year 2003 Contract Award Procedures and Management Challenges*, [GAO-04-605](#) (Washington, D.C.: June 1, 2004).

²⁹GAO, *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).

³⁰GAO, *Contract Management: Opportunities to Improve Surveillance on Department of Defense Service Contracts*, [GAO-05-274](#) (Washington, D.C. Mar. 17, 2005).

³¹[GAO-04-605](#).

³²GAO, *Contract Management: Guidance Needed to Promote Competition for Defense Task Orders*, [GAO-04-874](#) (Washington, D.C.: July 30, 2004).

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.³³ 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

The eighth high-risk area is DOD's supply chain management program. In 1990, we identified DOD's inventory management as 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.

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—

³³GAO, *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).

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.

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.³⁴ 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 eliminate choke points.³⁵ 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

³⁴GAO, *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).

³⁵GAO, *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).

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.

DOD Management Weaknesses Contribute to Governmentwide High-Risk Areas

I would now like to spend a few minutes discussing the six governmentwide high-risk areas where DOD shares responsibility with other federal agencies. First, I would like to provide our preliminary observations on DOD's attempt to address a critically important governmentwide high-risk area—strategic human capital management—through its new human resources management system, the National Security Personnel System (NSPS). I also will briefly discuss DOD's need to address five additional governmentwide high-risk challenges as part of the transformation of its business management practices.

Strategic Human Capital Management

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 resource 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 has been granted the authority by Congress to design a new human capital system as a way to address the first governmentwide high-risk area, strategic human capital management. This effort represents a huge undertaking for DOD, given its massive size and geographically and culturally diverse workforce. As I recently testified on DOD's proposed NSPS regulations,³⁶ 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

³⁶GAO, *Human Capital: Preliminary Observations on Proposed DOD National Security Personnel System Regulations*, [GAO-05-432T](#) (Washington, D.C.: Mar. 15, 2005).

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 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) rightsizing 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 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 includes 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.

Other Related Governmentwide High-Risk Areas

In addition to the governmentwide human capital high-risk area, DOD shares responsibility for five other high-risk areas. These areas are managing federal real property, protecting federal information systems and the nation's critical infrastructure, establishing appropriate and effective information-sharing mechanisms to improve homeland security, modernizing federal disability programs, and managing interagency contracting more effectively.

- **Managing federal real property:** In January 2003, we designated federal real property as a high-risk area due to long-standing problems with excess and underutilized property, deteriorating facilities, unreliable real property data, and costly space challenges. To better manage federal real property, DOD is preparing for a round of base realignments and closures (BRAC) in 2005 to eliminate excess physical capacity and rationalize its infrastructure with the defense strategy. For BRAC 2005, we will continue to serve as an independent and objective observer of the process and will assess and report on DOD's decision-making processes leading up to the proposed realignment and closure recommendations. From our vantage point, we will determine to what extent DOD follows a clear, transparent, consistently applied process—one where we can see a logical flow between DOD's analysis and its decision making. Although we do not attend or participate in deliberative meetings involving BRAC, we are permitted access to the minutes of these meetings and to officials involved in the process.

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- **Protecting federal information systems and the nation's critical infrastructure:** Although DOD has made some improvements, significant information security weaknesses at DOD as well as other federal agencies continue to place a broad array of federal operations and assets at risk of fraud, misuse, and disruption. In November 2002, for example, a British computer administrator was indicted on charges that he accessed and damaged 98 computers in 14 states from March 2001 through March 2002, causing some \$900,000 in damage to the computers. The attacks rendered the networks of the Earle Naval Weapons Station in New Jersey and the Military District of Washington inoperable. We reported in 2003 that DOD had undertaken a defensewide information assurance program to promote integrated, comprehensive, and consistent practices across the department to prevent similar attacks on its information systems and had recently issued policy guidance and implementation instructions.³⁷ However, we found that DOD did not have mechanisms in place for comprehensively measuring compliance with federal and department information security policies and ensuring that those policies are consistently practiced throughout DOD. In fact, DOD reported several material control weaknesses, which included needing to decrease the time necessary for correcting reported weaknesses and ensuring that computer security policies were enforced and security capabilities were tested regularly.
 - **Establishing appropriate and effective information sharing mechanisms to improve homeland security:** Recent events and changes in the overall security environment have served to reinforce the importance of having appropriate and effective information and knowledge-sharing mechanisms in place that cross organizational, geographic, and sectoral boundaries. Progress has been made since the tragic events of September 11, 2001, but much remains to be done. Achieving success in this area will involve the combined efforts of many agencies, including DOD, as well as a range of other key players.
 - **Modernizing federal disability programs:** Our work examining federal disability programs has found that these programs are neither well aligned with 21st century realities nor positioned to provide meaningful and timely support for Americans with disabilities. Since

³⁷GAO, *Information Security: Further Efforts Needed to Fully Implement Statutory Requirements in DOD*, [GAO-03-1037T](#) (Washington, D.C.: July 24, 2003).

GAO designated this area as high risk in 2003, the Department of Veterans Affairs (VA) and the Social Security Administration (SSA) have made some progress toward improving their disability programs. However, both VA and SSA still have difficulties managing their disability programs. They experience lengthy processing times for disability claims and lack a clear understanding of the extent of possible inconsistencies in their disability decisions. Furthermore, these programs remain grounded in outmoded concepts of disability that have not been updated to reflect the current state of science, medicine, technology, and labor market conditions.

The U.S. government is faced with the return of more than 10,000 servicemembers who have sustained combat-related injuries in the current conflicts in Afghanistan and Iraq. Reassessing the impact of disabilities on their work capacity is especially important in light of recent advances in medicine and improved prosthetics, which have enabled some service members to return to active duty. This example illustrates the potential for better aligning federal disability programs with social changes that focus on supporting the work capacities of all people with disabilities. In light of the projected shrinkage of the workforce, focusing on work capacity is becoming increasingly important for the U.S. economy.

The last two National Defense Authorization Acts afford us an opportunity to develop information and analysis that could be used to reassess the basis for current federal disability policies. The National Defense Authorization Act for Fiscal Year 2004 established the Veterans' Disability Benefits Commission.³⁸ This commission is charged with studying the benefits provided to compensate and assist veterans who suffer disabilities attributable to military service, and their survivors.³⁹ The law requires the commission to study, among other things, the appropriateness of such benefits, the appropriate standard for determining whether a veteran's disability should be compensated, and the appropriateness of a schedule for rating disabilities based on average impairment of earning capacity. The Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 mandated a GAO study of the disability benefits that are payable under federal, state, and local

³⁸ Pub. L. No. 108-136, § 1501, 117 Stat. 1392, 1677 (Nov. 24, 2003).

³⁹ § 1502.

laws to federal, state, and local government employees.⁴⁰ To the extent feasible, the study is to focus on benefits for disabilities incurred in the performance of jobs in which employees perform tasks with risks that are analogous to the risks associated with the performance of military tasks by members of the armed forces. In addition, DOD is mandated to study the adequacy of current and projected disability benefits that are available to disabled members and former members of the armed forces for service-connected disabilities,⁴¹ including a comparison of the disability benefits for members of the armed forces with commercial and other private sector disability benefits. We believe these studies should provide important information and analysis for deliberations on more fundamental reform of the design, cost, and feasibility of federal disability programs.

- **Managing interagency contracting:** In recent years, federal agencies have been making a major shift in the way they procure many goods and services. Rather than spending a great deal of time and resources contracting for goods and services themselves, they are making greater use of existing contracts already awarded by other agencies, in particular for buying services. These contracts are designed to leverage the government's aggregate buying power and provide a much-needed simplified method for procuring commonly used goods and services. These contract vehicles offer the benefits of improved efficiency and timeliness; however, they need to be effectively managed. Our work and that of some agency inspectors general has revealed instances of improper use of interagency contracts. For example, we recently reviewed selected DOD contracts and task orders for Iraq reconstruction and found some task orders under the General Services Administration (GSA) schedules program that did not satisfy legal requirements for competition because the work was not within the scope of the underlying contracts.⁴² More broadly, the GSA Inspector General conducted a comprehensive review of the contracting activities of GSA's Federal Technology Service, an entity that provides contracting services for agencies across the government, and reported that millions of dollars in fiscal year 2003 awards did not comply with laws and regulations.

⁴⁰Pub. L. No. 108-375, § 666(d).

⁴¹§ 666(a).

⁴²[GAO-04-605](#).

Administration officials have acknowledged that the management of interagency contracting needs to be improved. As the largest customer for interagency contracts, it is particularly important that DOD successfully tackle the challenge of better managing its use of interagency contracts. We have reported on challenges DOD has faced in using interagency contracts. For example, we found that DOD waived competition requirements for a significant percentage of supply schedule orders we reviewed, frequently based on an expressed preference to retain the services of incumbent contractors.⁴³ DOD concurred with our recommendations to develop guidance for the conditions under which waivers of competition may be used, require documentation to support waivers, and establish approval authority based on the value of the orders.

In conjunction with the OMB and GSA, DOD is taking a number of steps—including developing new skills assessments, setting standards for the acquisition workforce, and coordinating training programs aimed at improving the capacity of the federal acquisition workforce—to properly handle the growing and more complex workload of service acquisitions. DOD also has recently issued a new policy designed to improve oversight of its use of other agencies' contracts.

Need for Risk Management Approaches Is an Emerging Concern

In addition to specific areas that we have designated as high risk, there are other important broad-based challenges facing our government that are serious and merit continuing close attention. One emerging area of concern involves the need for instilling a disciplined approach within DOD, as well as other agencies, for identifying and managing risk across a wide range of programs, operations, and functions. As a framework for decision making, we have advocated a comprehensive threat and risk management approach that fully links strategic goals to plans and budgets, assesses the values and risks of various courses of action as a tool for setting priorities and allocating resources, and provides for the use of performance measures to assess outcomes.

Emerging requirements from the changing security environment, coupled with increasingly limited fiscal resources across the federal government, emphasize the need for DOD to develop and use a risk-based strategic

⁴³GAO-04-874.

framework for establishing realistic 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 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. According to DOD, these risk areas are to form the basis for DOD’s annual performance goals. They are to be used to track performance results and link to planning and resource decisions. 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 this 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, including the use of overly optimistic assumptions in estimating funding needs, which often result in a mismatch between programs and budgets. We are currently monitoring DOD’s efforts to implement its risk management framework.

Sound Strategic Planning, Centralized Control over Business Systems Investments, and Sustained Leadership Are Key to Successfully Addressing DOD’s High-Risk Areas

Although DOD has a number of initiatives to address its high-risk areas, we believe that DOD must fundamentally change its approach to the overall business transformation effort before it is likely to succeed. We believe there are three critical elements of successful transformation—developing and implementing an integrated strategic and action plan along with an enterprise architecture to guide and constrain implementation of such a plan, establishing central control over systems investment funds, and providing sustained leadership. To ensure these 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 should have appropriate authority over all of DOD’s business operations, as well as central control of all business transformation-related funding with the designated approval authorities assigned responsibility for transformation activities within their specific business process areas.

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.⁴⁴ The lack of a comprehensive and integrated strategic and action plan linked with performance goals, objectives, and rewards has been a continuing weakness in DOD's business management transformation. Since 1999, for example, we have recommended that a comprehensive and integrated strategy and action plan be developed for reforming DOD's major business operations and support activities.⁴⁵ In 2004, we suggested that DOD clearly establish management accountability for business reform.⁴⁶ 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 comprehensive and integrated strategy or action 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 2004⁴⁷ that the lack of performance measures for DOD's business management 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.

⁴⁴GAO, *Defense Management: Tools for Measuring and Managing Defense Agency Performance Could Be Strengthened*, [GAO-04-919](#) (Washington, D.C.: Sept. 13, 2004).

⁴⁵ GAO, *Defense Reform Initiative: Organization, Status, and Challenges*, [GAO/NSIAD-99-87](#) (Washington, D.C.: Apr. 21, 1999).

⁴⁶[GAO-04-551T](#).

⁴⁷[GAO-04-731R](#).

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 an integrated, comprehensive strategic 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 2005,⁴⁸ consistent with the suggestion I have made in prior testimonies,⁴⁹ 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.

⁴⁸Pub. L. No. 108-375, §332.

⁴⁹[GAO-04-551T](#), and GAO, *Department of Defense: Further Actions Needed to Establish and Implement a Framework for Successful Business Transformation*, [GAO-04-626T](#) (Washington, D.C.: Mar. 31, 2004).

This legislation also requires that the responsible approval authorities establish a hierarchy of investment review boards, the highest level being the 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 chief management official (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 organizational change initiatives, such as business management transformation, the complexity and long-term nature of these initiatives requires the development of an executive position capable of providing strong and sustained leadership—over a number of years and various administrations. One way to ensure sustained leadership over DOD's business transformation 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. This position would elevate, integrate, and institutionalize the attention essential for addressing key stewardship responsibilities, such as strategic planning, human capital management, performance and financial management, acquisition and contract management, and business systems modernization, while facilitating the overall business management reforms within DOD.

The day-to-day demands placed on the Secretary of Defense, the Deputy Secretary, and others make it difficult for these leaders to maintain the oversight, focus, and momentum needed to resolve the weaknesses in 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. A CMO could provide the sustained and focused leadership that these other top officials are unable to provide.

If created, 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. Articulating the roles and responsibilities of the position in statute would help to create unambiguous expectations and underscore Congress's desire to follow a professional, nonpartisan 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 and serve as an integrator for DOD's needed business transformation efforts. Further, 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 2005⁵⁰ coordinate their efforts with the CMO, who would chair the Defense Business Systems Management Committee that DOD recently established to comply with the act. 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

⁵⁰10 U.S.C. § 222(f).

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 would be a basis for determining the level of compensation earned, including any related bonus. In addition, the CMO's achievements and compensation would be reported to Congress each year.

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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