

WAGING WAR ON WASTE: AN EXAMINATION OF DOD'S BUSINESS PRACTICES

HEARING

BEFORE THE

OVERSIGHT OF GOVERNMENT MANAGEMENT,
THE FEDERAL WORKFORCE AND THE DISTRICT
OF COLUMBIA SUBCOMMITTEE

OF THE

COMMITTEE ON
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

APRIL 28, 2005

Printed for the use of the
Committee on Homeland Security and Governmental Affairs



U.S. GOVERNMENT PRINTING OFFICE

21-436 PDF

WASHINGTON : 2005

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
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THURSDAY, APRIL 28, 2005

U.S. SENATE,
OVERSIGHT OF GOVERNMENT MANAGEMENT, THE FEDERAL
WORKFORCE AND THE DISTRICT OF COLUMBIA SUBCOMMITTEE,
OF THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:09 p.m., in room SD-562, Dirksen Senate Office Building, Hon. George V. Voinovich, Chairman of the Subcommittee, presiding.

Present: Senators Voinovich, Akaka, Levin, and Lautenberg.

OPENING STATEMENT OF SENATOR VOINOVICH

Senator VOINOVICH. The hearing will please come to order. The Subcommittee on Oversight of Government Management will be in order.

Good afternoon, and thank you all for coming. This afternoon's hearing is entitled "Waging War On Waste: An Examination of the Department of Defense's Business Practices."

The rules of this Committee give the Subcommittee jurisdiction over the management, efficiency, and effectiveness, and economy of all departments, agencies, and programs of the Federal Government.

I will never forget what my predecessor in the Senate John Glenn said, "If you can get on Governmental Affairs, George, do it, because it means that you can meddle in anything you want to."

It is pursuant to this broad oversight jurisdiction that this Subcommittee is holding the first of what will be a series of oversight hearings on the programs and operations of the Department of Defense that have been designated as high risk by the Government Accountability Office. High-risk programs and operations are considered especially vulnerable to waste and mismanagement.

This past January, GAO designated eight areas of DOD as high risk. Many of these problem areas were first identified in the 1990's. In addition, there are six government-wide high-risk areas that DOD shares with all Federal agencies.

Today's hearing focuses specifically on a new area designated by GAO—DOD's approach to business transformation. This high-risk area impacts many facets of the Department's business systems and program areas, including business systems modernization, support infrastructure management, financial management, weapon systems acquisitions, contract management, and supply chain man-

agement. In other words, improvements in this high-risk area are essential to ensure that the Department manages its people, systems, and programs in an efficient manner.

We are holding this hearing because these high-risk areas and the resources and management efforts they consume degrades the ability of our Armed Forces to perform their missions as effectively as possible. We are holding this hearing because the men and women serving abroad and fighting for our freedom and interests deserve the best support possible from the agencies responsible for those missions.

I think there would be a universal agreement that, despite our current best efforts, we need to do better. Let me also say at the onset that we are all in this together. We are all interested in reducing inefficiency at the Department of Defense and providing the best possible support.

As I mentioned at the Subcommittee's hearing on the high-risk list in February, I intend to address the management challenges confronting the Department of Defense in a manner similar to how we have addressed the Federal Government's human capital challenges. In fact, the management challenges at DOD remind me of the government's human capital challenges in a key respect. It is a case of good people caught in a flawed system. At DOD, these challenges are exacerbated by the enormous scope of its operations involving millions of people spanning the globe.

The Subcommittee will examine and explore the management challenges at DOD. Once we have a firm grasp on the challenges, I will work with Senator Akaka, Senator Collins, and all other interested parties in trying to find solutions.

Legislation may be required. Indeed, just last week, Senator Akaka and I joined Senator Ensign in introducing S. 780, which would establish the Deputy Secretary of Defense for Management at the Department of Defense. Other solutions may require new approaches to doing business and can be done internally by the Executive Branch of government.

When the Secretary of Defense Rumsfeld began his efforts to transform the Department of Defense, he meant far more than just the way the Armed Forces fight in the field. He also meant the way the Pentagon itself works on a daily basis. Ironically, Secretary Rumsfeld began his own campaign to transform the defense bureaucracy on September 10, 2001. At a speech at the Pentagon, Secretary Rumsfeld stated, "The modernization of the Department of Defense is a matter of urgency. In fact, it is a matter of life and death, ultimately, every American's."

He went on to say, "This effort will succeed because it must. We really have no choice. It is not in the end about business practices, nor is the goal to improve figures on the bottom line. It's really about the security of the United States of America. Our job is defending America, and if we cannot change the way we do business, then we cannot do our job well, and we must."

In our invitation letter to the Secretary, Senator Akaka and I asked for DOD's response to GAO's assessment, as well as an outline of DOD's comprehensive plan to address these challenges. We also wanted to learn the Department's views on establishing a non-

political chief management officer to oversee the Department's operations.

Based upon the testimony of Under Secretary Wynne before the Armed Services Committee on April 13, DOD is opposed to the idea. As this concept has not yet been fully explored, this strikes me as a little premature in terms of their judgment.

It is my hope that, through oversight, we can affect positive change for the Department of Defense so that the men and women who defend our Nation can get the best possible support.

I now yield to Senator Akaka. Quite frankly, he is far more familiar with these issues than I am, due to his service on the Armed Services Committee, where he is the Ranking Member of the Readiness and Management Support Subcommittee.

Senator Akaka, I thank you for your leadership. And it is just wonderful that the two of us are involved in this Subcommittee, particularly on this subject.

OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA. Thank you very much, Mr. Chairman.

Again, I say it is a pleasure working with you to increase government efficiency through the oversight of government operations in high-risk programs. And I also want to say it is good to see our witnesses again, as they have really helped to shape what we are doing here.

As you know, 2 weeks ago, the Armed Services Readiness Subcommittee held a hearing on management weaknesses at DOD. As that panel's Ranking Member, I had the opportunity to discuss with Comptroller General Walker and DOD officials the problems facing the Department. At that hearing, I reiterated my disappointment that out of 25 high-risk areas on the year 2005 list, 8 are unique to DOD, and 6 are government-wide areas that apply to DOD.

I sincerely appreciate Senator Voinovich's interest in working on this issue by adding DOD's management challenges to the portfolio of this Subcommittee. I am proud to join you, Mr. Chairman, in this effort because I believe we are at a crossroads with the Department of Defense, given the growing deficit and the costs associated with the war in Iraq.

GAO has long pointed to the billions of taxpayer dollars wasted annually because of systemic weaknesses in DOD's business operations. Every extra tax dollar that DOD spends on business systems is one less dollar for our war fighters.

Today's hearing, which builds upon both our February hearing and this month's Armed Services Readiness Subcommittee hearing, keeps the pressure on DOD to resolve its long-standing financial and business management problems. Until DOD drops its cultural resistance to change and addresses the lack of sustained leadership within the Department, we will continue to see DOD occupying the bulk of the high-risk list.

To deal with these challenges at DOD, the Readiness Subcommittee has enacted legislation addressing several of the DOD high-risk areas. For example, after DOD failed to have a promised enterprise architecture blueprint for its business systems in place by March 2003, we required the Department to develop and imple-

ment a new financial management architecture and transition plan by early 2004. I am troubled that there is no plan today, despite statutory requirements.

To improve efficiencies across the more than 4,000 non-integrated and duplicative business systems, the Fiscal Year 2005 Defense Authorization Act placed conditions on the obligation of funds for defense business systems modernization, which included approval requirements and accountability for purchases over \$1 million.

As I noted, the barriers to DOD's business transformation are long-standing and deep-rooted. But there is progress. In addressing congressional mandates, and as Mr. Berkson will testify, DOD has taken steps toward improvement. For example, in May 2003, DOD established the Business Management Modernization Program Committee.

However, despite these efforts, there continues to be an overall lack of progress in DOD's business transformation efforts. Wheels are turning without much forward movement. The lack of sustained leadership and commitment to business transformation is why I worked with Senator Ensign, the Chairman of the Readiness Subcommittee, and with you, Chairman Voinovich, on a legislative proposal recommended by the Comptroller General to establish the position of chief management officer, a CMO, within DOD.

I am hopeful our measure, S. 780, will be included in this year's DOD authorization bill. This new position will create a Level 2 deputy secretary, who will be responsible for business operations at DOD, including planning and budgeting, acquisitions, logistics, financial management, and human resources and personnel. The CMO would also be responsible for developing and implementing a department-wide strategic plan for business reform.

Our bill does not add another layer of bureaucracy at DOD. Rather, it divides the responsibilities of the existing deputy secretary between policy and management so that both areas receive adequate attention. DOD needs one person whose term of office overlaps administrations and who will be accountable and responsible for leading change. Without one person in charge of overall business transformation within DOD, I fear the Department's programs will remain on GAO's high-risk list for many years to come.

Our war fighters are supported through the various management systems within DOD. We can no longer afford a fragmented and half-hearted approach to DOD business transformation. No less than the security of our Nation depends upon it.

Our growing deficit puts us on an unsustainable fiscal path that will damage our national security, as General Walker observes in his testimony. This is not a partisan issue, and it can only be resolved by bipartisan cooperation.

I want to again commend Chairman Voinovich for his efforts. We intend to do everything we can to ensure DOD solves these management problems. I look forward, Mr. Chairman, to the testimony of our distinguished witnesses, and I thank you for having this hearing.

Senator VOINOVICH. Senator Lautenberg, I want to thank you very much for being here today and I am looking forward to your statement.

OPENING STATEMENT OF SENATOR LAUTENBERG

Senator LAUTENBERG. Thanks very much, Mr. Chairman. It is a pleasure to work with you and Senator Akaka. In particular, you have established a reputation for getting to the bottom of things in your term as mayor, governor, and U.S. Senator. We greatly admire that quality.

Two weeks ago, Comptroller General Walker told the Senate Subcommittee that the DOD, the Department of Defense, can't account for tens of millions of dollars that it spent in Iraq, Afghanistan, and elsewhere in the U.S. war on terrorism. And I quote you here, General Walker, trying to figure out where the money went is "like pulling teeth."

This isn't, unfortunately, anything new. For years, the Government Accountability Office has reported that DOD squanders billions of taxpayer dollars through waste, fraud, and abuse, and poor management. Now this would be a serious matter for any part of our government. It is especially serious in this case because the Department of Defense is the Federal Government's largest purchaser.

Now reference was made to Secretary Rumsfeld's speech on September 10, 2001, the day before the great American tragedy took place. Secretary Rumsfeld then said that he never saw an organization that couldn't save 5 percent of its budget with better management. In DOD's case, that comes to \$21 billion. So we should all be concerned about management practices at the Pentagon.

Now I am especially concerned about several sweetheart contracts that were given to the Halliburton Company. They had been the beneficiary of a \$2.5 billion no-bid contract and a cost-plus contract that actually provides an incentive to waste taxpayer dollars.

Now under this cost-plus arrangement, also known as LOGCAP, Halliburton gets reimbursed for every dime that it spends. And then, on top of that, it gets a calculated percentage for profit. And that is why Halliburton didn't hesitate to pay \$1.50 for a can of soda. After all, it wasn't their money. And that is why they overcharged taxpayers more than \$27 million for meals that were never even served to our troops. After all, it wasn't their money.

And that is why they overcharged the Army \$61 million for gasoline delivered to Iraq. Once again, it wasn't their money. It came out of the pockets of American taxpayers.

Now, Mr. Chairman, I understand that cost-plus contracts are sometimes justified by special circumstances. When that is the case, the contractor must account for every dollar spent. And Halliburton hasn't done that.

Army auditors wanted to withhold payments from Halliburton because it couldn't account for how it spent hundreds of millions in taxpayer dollars. But as it always seems to do, the Pentagon gives Halliburton special treatment, waiving the requirement for accountability.

Now we saw something in the newspapers just a couple of days ago about four Marines who had been in combat, and they were brave, loyal troopers. But they pointed out that lack of proper armor on the Humvees was responsible for the deaths of their colleagues because the armor was not only inadequate, it also was too

short to really protect them. So the head wounds that came from shrapnel killed four of their colleagues.

Families in this country are giving their sons and daughters, husbands and wives. And when they see this profligate spending, when they couldn't get the equipment they want, they are justifiably complaining about the lack of appropriate protections for themselves. The American people want to get to the bottom of these contracts, and allegations that they are not available turn out to be truths.

The public wants to know whether Halliburton or any other company is engaged in war profiteering. Yet no Senate committee has held a bipartisan hearing about these specific allegations of waste, fraud, and abuse.

Mr. Chairman, once again, I thank you for convening this hearing today. And I hope that when the full Committee holds a hearing in the future that one of the things that they will focus on, Halliburton and its contracts. Not because I want to pick on Halliburton, but because they are the most glaring example of unaccountability.

And coming from the corporate world, as I have, and good sense, as my colleagues here have, you just can't favor anybody to that extent and then complain about waste.

Thanks, Mr. Chairman.

Senator VOINOVICH. Thank you, Senator Lautenberg.

Today, we have a distinguished panel of witnesses before us. The Hon. David Walker is Comptroller of the United States. I understand you have just flown back from Indonesia to make this hearing. I thank you for your efforts.

Mr. Walker has been sounding the alarm from GAO and conducting valuable evaluations of DOD's business practices for some time.

Joining him is the Hon. Clay Johnson, Deputy Director for Management at the Office of Budget and Management. Mr. Johnson is the leading the charge at OMB on addressing DOD's management challenges.

Mr. Johnson, I commend you and the Bush Administration for the no-nonsense approach you have taken to management issues. The President's management agenda is the most comprehensive results-oriented program that I have seen of any administration during my years in public service. I tell many people that this is one of the Administration's most overlooked achievements, and I believe it will be one of the Bush Administration's greatest legacies.

I would like to state that there are a lot of issues that we are getting into today that, quite frankly, we just haven't bothered with. There is a tendency sometimes to just do nothing. If we do nothing, then we will never see change within the DOD.

I had Steve Perry in my office yesterday from General Services Administration. He was talking about pay-for-performance and how they have changed the attitude over there in the Department in terms of their rating and so on. Quite frankly, he was a yellow on where he was and a green on his progress. So that people are being held accountable for the things that they are doing. And that is something that we ought to be doing, and I congratulate you for that.

Representing the Department of Defense is Bradley Berkson, Acting Deputy Under Secretary of Defense for Logistics and Materiel Readiness. Mr. Berkson, thank you for your service to this country.

On Tuesday, I had the opportunity to meet Ken Krieg, the President's nominee for the Under Secretary of Defense for Acquisition, Technology, and Logistics. He began his service at the Defense Department in July 2001, and it is admirable that Mr. Krieg has decided to remain in public service.

One of the things that I appreciate is the fact that people who have served in the first 4 years of the President's Administration have stuck around because they have all this knowledge and everything. And the fact that they are going to stick around and continue, I think, is really important because their contribution will be so much greater because of the time that they have spent.

I understand that your office will play a role in reforming the Department's business practices. I look forward to working with both of you. When it comes to managing the Department of Defense, we have to do better. I know you realize that. The Secretary does. I applaud your efforts to address these challenges, and we look forward to learning what you intend to do.

If you will stand, it is the custom of this Subcommittee to swear in the witnesses. Do you swear that the testimony you are about to give is the truth, the whole truth, and nothing but the truth, so help you, God?

[Witnesses sworn.]

Senator VOINOVICH. Let the record show that they answered in the affirmative. We will start with Mr. Walker.

**TESTIMONY OF HON. DAVID M. WALKER,¹ COMPTROLLER
GENERAL, U.S. GOVERNMENT ACCOUNTABILITY OFFICE**

Mr. WALKER. Thank you, Mr. Chairman, and other Senators. It is a pleasure to be back before this Subcommittee today to discuss business transformation at the Department of Defense.

At the outset, I would like to thank you, Mr. Chairman, and all Members of this Subcommittee for your continued commitment to engage in oversight of key management operations and issues, including the Department of Defense.

Mr. Chairman, I would also like to commend you, Senator Akaka, and Senator Ensign for your leadership and your sponsorship of proposed legislation to establish a Deputy Secretary of Defense for Management. Implementing a CMO position, in our opinion, is critical to successfully transforming DOD's business operations.

While DOD maintains military forces with unparalleled capabilities, it continues to confront pervasive and decades-old management problems related to business operations that support these forces. These management problems cost the American taxpayer billions of dollars a year.

DOD senior leadership is committed to transforming DOD's business operations to correct these problems and has taken a number of steps to begin this effort. We recognize that overhauling the

¹ The prepared statement of Mr. Walker appears in the Appendix on page 33.

business operations of one of the largest and most complex organizations in the world represents a daunting challenge, and it is not a new challenge.

The extent of this challenge is further demonstrated by our 2005 high-risk list, which you touched on before, Mr. Chairman. Counting the six government-wide high-risk areas, DOD has 14 of 25 high-risk areas, and several of these have been on the list since the beginning.

Although OMB has worked closely with a number of agencies that have high-risk areas historically, over several administrations, OMB has been much less engaged with regard to DOD. Quite candidly, Mr. Chairman, the Congress has been much less engaged in oversight of DOD over many years as well. That must change.

To his credit, Clay Johnson, OMB's Deputy Director for Management, recently reaffirmed plans to re-engage with GAO on the new high-risk list and to make as much progress as possible in the second term of the Bush Administration. He is also committed to working with DOD on a much more active basis to help make sure that they put together a plan to address all their high-risk areas. I think it is critically important that they do so. In addition to OMB's engagement, it is critically important that Congress stay on the case as well with regard to these matters.

There are a number of institutional barriers to change at DOD. DOD has begun several broad-based reform efforts to transform its business operations over several decades. But to date, there has been little tangible evidence of substantial and sustained progress. Yes, there has been progress, but not substantial enough and, clearly, not sustained.

We do not fault the ability or commitment of those individuals who have been involved in these efforts over the years, including those who are involved at the present point in time. Our work has identified four underlying causes or institutional barriers that we think represent real impediments to long-term progress.

First, the lack of sustained leadership and accountability for correcting problems. Mr. Chairman, the simple truth is that nobody is in charge of business transformation at DOD. If there was, I would want to know why they are not here today and why they weren't at the hearing last week. Nobody is in charge of overall business transformation at DOD.

Second, cultural resistance, service parochialism, and stove-piped operations—or I call them hardened silos—that end up reinforcing the status quo. The absence of a department-level, results-oriented business culture that places values on plans containing results-oriented goals and performance measures, coupled with centralized monitoring processes, inadequate incentives, and accountability mechanisms for change, and historically inadequate oversight has led to our current situation.

There are three key elements that we have noted in my testimony—which I would respectfully request, Mr. Chairman, be included in the record—that have to be addressed in order to be successful. First, there has to be a plan. There is no comprehensive strategic and integrated business transformation plan at DOD, which sets priorities, has appropriate key milestones, and puts individuals responsible for accomplishing certain objectives within

specified timeframes. To my knowledge, there never has been one over decades. But there clearly is not one now.

Second, there needs to be more centralized control over the billions of dollars in systems investments. Third, DOD needs a chief management official.

I want to conclude by talking about the chief management officer position. I want to discuss what it would and would not do, because there is some misinformation with regard to this position. First, the CMO would be responsible and accountable for overall business transformation, not for policy issues such as military transformation.

This responsibility would involve planning, integrating, and executing an overall business transformation plan. That is, with all due respect, a full-time job that has never been filled.

The CMO would not assume the responsibility of the under secretaries of defense, the service secretaries, or other DOD officials for day-to-day management of various business activities. Quite candidly, the under secretaries and the service secretaries have full-time jobs dealing with their day-to-day responsibilities, and it is inappropriate to have a new layer involved in discharging those responsibilities.

At the same time, the breadth and complexity of DOD's management problems and the overall level that this has to be addressed within the Department precludes the under secretaries, such as the DOD comptroller and also the under secretary for AT&L, for asserting the necessary authority over selected players and processes while continuing to fill their substantial day-to-day responsibilities.

Since the CMO and DOD managers would have clearly delineated roles and responsibilities, creating a CMO would not add another hierarchical layer to oversee day-to-day management of the Department. As Senator Akaka mentioned your legislation clearly delineates roles and responsibilities and makes it very clear that this is not a new layer. It does, however, for the first time, make somebody responsible and accountable for business transformation.

Some say this concept was tried in the past and didn't work. I would respectfully suggest that people need to go back and read the legislation and the related legislative history. Such an assertion compares apples and oranges.

Over 30 years ago, Secretary of Defense Mel Laird asked Congress to establish an additional deputy secretary of defense for many of the same reasons we are proposing now, and Congress did so. But there were a number of substantive differences. Your legislation clearly delineates responsibility and authorities, makes it clear that it is not a new layer and level, and focuses the individual full time on business transformation. That past legislation did not do that. It did not specify duties and responsibilities for the new position thereby creating potential confusion and overlaps.

Second, unlike your legislation, which would provide for a 7-year term appointment, therefore, making sure that you had a professional which had enough continuity to try to be able to make real and sustainable progress. The past legislation did not do that.

Therefore, in form, you may call it the same thing, but in substance, it is very different. Mr. Chairman, I believe that we have to focus on substance, not form.

In closing, I would like to quote two secretaries of defense. The first quote, "Management deficiencies that we have all observed in the past have, in large measure, been due to insufficient senior management attention to the affairs of the Department of Defense. I am convinced that authorization for an additional deputy secretary will provide the capability for this necessary level of attention. At the same time, I think it is particularly important that we do not increase the layers of management within the department."

That was Secretary Mel Laird, February 9, 1972—33 years ago.

The second secretary of defense's quote. "Our challenge is to transform not just the way we deter and defend, but the way we conduct our daily business. Let us make no mistake. The modernization of the Department of Defense is a matter of some urgency. In fact, it could be said that it is a matter of life and death, ultimately, every American's. Every dollar squandered on waste is one denied to the war fighter."

That was Secretary of Defense Donald Rumsfeld, September 10, 2001. I strongly agree with both secretaries. How many more years and decades will we have to continue to deal with the status quo?

Mr. Chairman, as you and Senator Akaka mentioned before, this is all about supporting the war fighter and recognizing fiscal realities. The status quo is unacceptable and unsustainable, and we appreciate your, and the Members of this Subcommittee's, interest.

Thank you.

Senator VOINOVICH. Thank you, General Walker. Mr. Johnson.

**TESTIMONY OF HON. CLAY JOHNSON, III,¹ DEPUTY DIRECTOR
FOR MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET**

Mr. JOHNSON. Mr. Chairman and Senators, thank you.

We are all working to make sure the Defense Secretary's commitment to business transformation is translated into demonstrable improvement in all of DOD's business operations. OMB's experience is that management opportunities—normal opportunities and super complex opportunities, like those at DOD—get addressed 100 percent of the time when four things exist.

There is top management commitment to solving the problem. There is a clear picture of what needs to be accomplished. There is a clear, aggressive action plan, like General Walker talked about, for solving the problem. And there is a clear definition of who is responsible overall, and who is supposed to do what by when.

OMB's role in this is that we help ensure that these elements exist so DOD, or any agency, can most assuredly get to where it wants to be in the desired timeframe. We also help agency leadership ensure that progress occurs as planned and scheduled. In the case of the high-risk items, we also help ensure that Congress and GAO are satisfied with the Agency's plans and progress.

Mr. Chairman, I look forward to working with you and your Subcommittee on these matters. You have a proven record of getting more for the taxpayers' money, and that is what all of us are focused on and capable of doing here.

Thank you.

Senator VOINOVICH. Thank you. Mr. Berkson.

¹ The prepared statement of Mr. Johnson appears in the Appendix on page 68.

**TESTIMONY OF BRADLEY M. BERKSON,¹ ACTING DEPUTY
UNDER SECRETARY OF DEFENSE FOR LOGISTICS AND MA-
TERIEL READINESS, U.S. DEPARTMENT OF DEFENSE**

Mr. BERKSON. Chairman Voinovich, Senators, thank you for the opportunity to appear before this Subcommittee and discuss business transformation at the Department of Defense, and thank you for your kind comments.

Since this is my first appearance before the Senate, I would like to briefly describe to you my background and how it is relevant to DOD business transformation.

I have been working on business transformation full time since arriving at the DOD 2 years ago. I am currently serving as Acting Deputy Under Secretary of Defense for Logistics and Materiel Readiness. In this role, I am the senior DOD logistics official. Logistics, by the way, is probably the largest business operation at the Pentagon. I am engaged daily in transforming our Nation's \$129 billion DOD logistics and supply chain enterprise.

I am an engineer by training. I earned an MBA from Harvard, and I was a partner in McKinsey & Company, where I was serving leading commercial enterprises around the globe on matters of strategy, organization, finance, and business operations. I have worked in the commercial sector from start-ups to the world's largest corporations.

Mr. Chairman, you mentioned in the last hearing on this subject the need for talent from the private sector that would come into government and help ensure and accelerate transformation. I hope my background had some of the qualities that you would like to see.

I would like to frame the challenge of business transformation within DOD. What has been most surprising to me in coming from the commercial world to DOD is the dramatic difference in scale and complexity. DOD has the world's largest fleet of aircraft, but it is not an airline. We have the largest fleet of ships, but are not a shipping company. We have one of the largest fleets of trucks, and we are not a trucking company. We have the largest fleet of ground vehicles, and we are not a car rental company.

We are the second-largest operator of warehouse space, but logistics is a supporting mission. In the private world, any one of our programs, armories, depots, shipyards, transportation modes, or logistics systems would be of sufficient scale to compete in the global market.

A key point to note, though, is although we have world-scale business operations, business is not our mission. In every commercial forum in which I have ever served or worked for, the business missions were primary, particularly finance. For example, the mission of General Electric is to make money for its stockholders. It does so by aligning its business operations, personnel, and capabilities to maximize its financial performance.

As I understand it, the mission of the Department of Defense is to defend the United States of America from its enemies. The job of the secretary of defense is to see that that mission is accom-

¹The prepared statement of Mr. Berkson appears in the Appendix on page 71.

plished. Business transformation is necessary, but it is not sufficient for the secretary to be successful in his duties.

When Secretary Rumsfeld announced his intentions to transform the Department of Defense, I feel certain that business transformation was central to that intent. Twenty-four hours later, our country faced the most significant challenge to its security in several decades, requiring complete attention be focused on defending our country.

While he and our senior leadership have remained consistent in driving their vision for transformation, the ability of the Department of Defense to focus exclusively on fixing business operations in the midst of our largest sustained military campaign since Vietnam is problematic.

That said, I would like to show you what we have been doing over there. The chart to my right depicts some of the results of DOD business transformation. In this case, it is the cycle time performance for the F404 engine.¹ This is the engine on the F-18 Superhornet.

Overall cycle time for this engine has been reduced by an order of magnitude. We have taken it from 85 to 5 days. This was accomplished using Lean 6 Sigma. Lean 6 Sigma is a business process improvement methodology widely used in industry, and it has helped us to achieve dramatic performance improvements not only in the F404, but in dozens of systems and locations from Pearl Harbor to Warner Robins, from tank engines to radar systems.

In my opinion, Lean 6 Sigma has the most potential of any single initiative to transform the business operations of the Department. We have plans within each of the services and at OSD to accelerate and institutionalize it.

Another bold transformation is found in our performance-based approach to buying.² Historically, DOD has been a buyer of parts and labor. This left us with the job of integrating these and other production factors across the Department. Led by us in logistics and materiel readiness, through performance-based logistics, we are emphasizing the more valuable task of managing outputs vice inputs.

In the last 4 years, DOD has migrated over 100 systems to performance-based contracts. The results of this can be seen in the chart to my left. This chart shows the readiness of several of our critical weapon systems in a PBL regime on the left and under a traditional support approach on the right.

We have responded to suggested improvements from people, from folks like Mr. Walker, not only by improving the traditional approaches, like inventory management, but in transformational ways, like eliminating the need for inventory. The next chart shows our distribution cycle time to the CENTCOM area of operations.³ This is for aerial shipments. It shows that we have cut the time nearly in half.

¹The chart entitled "Focus on continuous improvement (Maintenance Cycle Time Days)" submitted by Mr. Berkson appears in the Appendix on page 104.

²The chart entitled "Performance Based Logistics (PBL) proven in the Global War on Terrorism" submitted by Mr. Berkson appears in the Appendix on page 105.

³The chart entitled "IRAQ Air Shipments Cycletime" submitted by Mr. Berkson appears in the Appendix on page 106.

Using leading-edge technologies, like radio frequency identification, or RFID, and unique identification, or UID, the DOD is leading the world in applying these cutting-edge technologies to its business operations.

In closing, Mr. Chairman, I would like to reiterate the great strides we are making in transforming the business operations of the DOD. We have daunting challenges in scale and complexity. At the same time, we have an unswerving commitment to mission accomplishment.

We are convinced that transforming the business operations at DOD, as you are, are key to serving our war fighters and our Nation. My colleagues and I are dedicated to making that happen.

I invite you and your fellow Subcommittee Members to receive our briefings on the business process changes we are making, especially Lean 6 Sigma. I would also encourage you to visit the locations and meet the people that have been making it happen.

Thank you for the opportunity to testify, and I would be happy to answer your questions.

Senator VOINOVICH. Thank you, Mr. Berkson.

General Walker, last month, the deputy secretary of defense moved DOD's business transformation efforts from the under secretary of defense comptroller to the under secretary of defense for acquisitions, technology, and logistics. Do you think that this organizational shift will create a clear and accountable business transformation effort?

Mr. WALKER. No, I don't think it is enough. There is a lot of work that needs to be done in AT&L. There are high-risk areas that deal with AT&L. It is true to say that some progress has been made. There is no question about that. You have just heard several examples of where progress has been made. But much more work needs to be done.

As you know, AT&L is involved both on the policy side, as well as on the operational management side, and there are major challenges on both sides of the house dealing with AT&L. So I believe you still need a chief management official. I don't believe that the head of AT&L can do both jobs.

I believe it is important that, in addition to having a person at the right level focus full time on business transformation, they need to have a term appointment. You need somebody who has a proven track record of success, who has the requisite experience, who, if they do a good job, is going to be there for at least 7 years.

I have been in the private sector for 21 years and consulted all over the world on change management it takes 7-plus years to achieve effective cultural transformation. Namely, to make changes that will stick beyond the person who started it.

We don't have anybody at DOD that long. It is going to take more than 7 years at DOD, but we don't have a fighting chance unless we have somebody with the right kind of track record focused full time for a sustainable period in order to give us a fighting chance of success.

Senator VOINOVICH. Could you point to some other agencies where this concept has worked?

Mr. WALKER. This is a relatively new concept. If you look in the government, most of the presidential appointee positions that exist

with Senate confirmation are not term appointments. There are some notable exceptions. The comptroller general of the United States, my position, has a 15-year term appointment.

Believe me, that makes a huge difference in being able to take on serious management challenges and to engage in a fundamental transformation of an agency. I have been at GAO now 6½ years. I would respectfully suggest that we have engaged in a fundamental transformation in that 6½ years. If I got hit by a truck tomorrow, it is a different place today than it was 6½ years ago.

But other than the comptroller general, then you go to what other positions? The head of the FBI, which is 10 years. The Federal Reserve is 14 years. There are very few term appointments other than board positions like SEC commissioners.

Senator VOINOVICH. How about the Internal Revenue Service?

Mr. WALKER. You are correct. Thank you, Mr. Chairman. The commissioner of the Internal Revenue Service, I believe, has a 5-year appointment.

Mr. JOHNSON. Social Security is now term.

Mr. WALKER. Social Security is now term. I think both of those are very good examples. Thank you, Clay. Those are very good examples because both of those jobs are not intended to be policy jobs. As you know, tax policy is set by the Treasury Department in conjunction with the White House and others. The Internal Revenue commissioner is supposed to basically handle tax administration.

The head of the Social Security Administration is supposed to handle administration of Social Security's huge retirement income, disability, and survivors benefits responsibilities. They are not in policy positions.

So there are some analogies in government, Mr. Chairman. Thank you, Clay, for mentioning that.

Senator VOINOVICH. Mr. Johnson, this afternoon, you outlined a template for addressing DOD's supply chain management challenges in your testimony. I commend you for your efforts because this issue has been on the list since 1990.

Based on your testimony, it appears that the Administration is taking what I would like to refer to it as a "bottom-up approach" to solving DOD's business transformation efforts. What steps will the Administration take to ensure that the Department of Defense is taking also a "top-down approach" to solve the overreaching high-risk area of business transformation?

Mr. JOHNSON. Right. You talked about Ken Krieg earlier. I have talked to Ken about this because it is one thing to look at, how to tackle each one of the seven, but then with what priority? All seven probably can't and shouldn't be tackled with the same priority. Some are more important than others. Some are more problematic. Some have huge costs associated with them. All that needs to be looked at as a total.

And there is a change now taking place, as you know, with the deputy secretary. And so, what Ken suggested we do is if and when Secretary England is confirmed for being the deputy secretary, that we then sit down with him and review this and understand what he would recommend be the priorities and the timeframes. Because we can agree on amongst ourselves and GAO on a 3-year time-

frame or a 6-year timeframe on some of these things, but it should not be done without the consent and the full participation of, today without a CMO, of the deputy secretary.

So you talk about as soon as Gordon, if and when he is confirmed for the position, gets in there and gets settled, that we sit down and work out the corporate timeframes for this. He has to be there to create an attitude and an approach to business transformation.

One of the things that needs to be understood about a chief management officer is that the most fantastically talented chief management officer will be totally ineffective if the secretary of defense and the President are not fully supportive of management change to the Defense Department. No term, no set of credentials can make a management officer effective at the Defense Department, or any place else, if the head of that Department or the President don't consider it to be a very high priority. And so, it is important in this case that the deputy be there and be involved, intimately involved, in setting the timeframes and the priorities for overall business transformation.

I think, as I understand it from Ken, and his suggestion to Senator Ensign on the subject of a chief management officer is that he be allowed a little time to get in there and survey the situation. I think he had agreed totally that there needs to be a person that is clearly in charge of this, and that is working with the relevant under secretaries to drive their individual initiatives. Let him have a chance to take a look at the situation and come back and engage you all in a more intelligent debate about the pros and cons of a chief management officer.

Senator VOINOVICH. As I mentioned, I think that Mr. Krieg has been with the current administration for 3½ years and hopefully is going to stick around. But once a new administration steps in, how do we keep the momentum going?

I would like to know that if we get things moving in the DOD, and I leave this place, that there is somebody who will be there to make sure that business transformation is accomplished.

Senator AKAKA.

Senator AKAKA. Thank you very much, Mr. Chairman.

Mr. Berkson, the GAO has testified previously that cultural resistance to change and the lack of sustained leadership are two underlying causes of DOD's inability to resolve its long-standing financial and business management problems.

As you know, I joined with Senators Voinovich and Ensign in introducing legislation establishing the position of chief management officer. In your written testimony, you said that the creation of this office would "further remove the Secretary of Defense from vital and timely information on the workings of the department."

In the absence of such a new position, who, in your opinion, is responsible for creating and implementing the business transformation plan at DOD?

Mr. BERKSON. Senator, thank you for the question, and I appreciate your comments.

In reaction to the notion of the cultural efforts and the term efforts, I would also like to just also get us back to the scale. At one point, we were talking about when an issue was raised about sepa-

ration of the military and the business side of the Department of Defense. I will just give you it from where I am working, Senator.

My job has been full time on business transformation for the last 2 years. And if I look at what do I need, did I need another supervisory role with expertise like a number of our senior officials—Secretary Wynne, Secretary England, Ken Krieg? I mean, Mr. Krieg actually hired me. So that requirement for more bosses hasn't been what I have been missing.

To really get this done, you need fundamental transformation across a \$130 billion logistics enterprise and a \$450 billion overall enterprise. And my experience so far, in doing this every day, has been actually driving the change down to the workers, the managers, and the people who run shipyards, the people who run depots, the people who run our distribution warehouses. That is where the real business operations occur.

And transformation, in my experience so far there, has really been about introducing and driving change in transformation ways of thinking. Lean 6 Sigma is a transformation way of thinking. Unique identification and RFID is a transformation way of thinking.

We just had our first receipt of RFID. Radio frequency identification tag was placed on by one of our suppliers and received in a DLA distribution warehouse this week, using Wide-Area Work Flow. I just picked off three of the major business transformations we have been working on, and they are starting to come together.

I agree that it takes a long time to do this. But the thing that I am not sure of and I haven't seen is how another supervisor in this role, given how complex and vast this enterprise is, how that person would bring me something that would allow me to do this.

If I look at what the real characteristics of the proposed legislation, I think definitely we are looking at it and considering it carefully. If I just tick off a few of the things, a Level 2 with business experience who is third in precedence. Currently, that describes for the business operations, the under secretary of defense for acquisition, technology, and logistics.

Under Title 10, he must have business experience. Or he or she must have business experience. The chief business operations of the Department of Defense, in my experience so far, are in those acquisition, technology, and logistics arenas. And the secretary has just designated and as the Congress has designated a chairman for business transformation, the BMM program. And again, now that Secretary Wynne and the AT&L has that role by law, he is the third in the order of precedence for all matters related to that.

So as I look at the structure of what is being proposed, I try to understand how it is going to continue to move us down. I know the intent is very strong, and we really want to improve. And we are all desperately working to make that happen, but I step back, and I have secondary questions.

One is I have a role that can do that. Another issue that I would raise—these are my personal opinions—is that I ask what does the AT&L do in the event that all the business operations at the Defense Department, which he is currently responsible for—acquisition, technology, logistics—are now superseded and taken up to a

level, and a level which, as I am hearing more about it, which is not going to interact with the military.

In my experience, I am the chairman of the Joint Logistics Board. So I have all of the joint logistics leadership in my room when I am leading that board. That board is primarily made up of three-star and four-star general officers and admirals in our Nation's defense. They are the senior business leadership who is driving a majority of our business operations.

The notion of separating the business from the military operations in logistics at least, where I am familiar, is something I cannot even imagine. Logistics in our operations is a military maneuver. A convoy is a military operation. And the notion of that separation is something that I struggle to understand.

Senator AKAKA. General Walker, do you have anything to add?

Mr. WALKER. If I can, Senator. I thought your question was who is in charge? The answer is nobody. Memos get issued from time to time at DOD. I have seen plenty of them.

The problem is you don't solve problems with issuing memos, and you can't take a command and control approach to the civilian side of business transformation. I can show you memo after memo after memo appointing somebody in charge. It's not memos but results that count.

With all due respect, Management 101, you have to have somebody who is in charge. You have to have, as Clay Johnson said, committed and sustained leadership from the top. You have to have a plan that clearly sets priorities and fixes responsibility and accountability. You have to link institutional unit and individual performance measurement and rewards systems in order to make sure everybody is pulling in the same direction in order to achieve the priorities within the specified timeframes.

We also have to recognize these things are interrelated. But my point is that none of these things have been done in 30-plus years.

Senator AKAKA. Mr. Chairman, may I ask Mr. Walker just one more question to follow up on what he said?

Mr. Walker, the issue is span of control. Mr. Wynne has no authority over financial systems, which are the responsibility of the comptroller. He has no responsibility for personnel systems, which are Dr. Chu's responsibility. Mr. Walker, would you care to comment on that?

Mr. WALKER. Thank you, Senator Akaka. You are exactly right.

The fact of the matter is AT&L is right now the third-ranking person. It is a Level 2 position. I would respectfully suggest that the under secretary for AT&L has a full-time job dealing with the logistical and acquisition transformation that Brad has mentioned. Some progress has been made, no doubt about it. But much remains to be done. That sounds like a typical GAO report.

In addition to that, AT&L has to deal with a number of high-risk areas and also is involved in the military transformation side of the business in addition to the business transformation side. Ordinarily there is no way that we are going to be able to afford and sustain all the weapon systems that are currently in the pipeline. It isn't going to happen.

So you are correct, Senator Akaka, in noting that in Chairman Voinovich's, Senator Ensign's and your bill recognizes that we need

to take a more strategic and intergrated approach crossing a number of different under secretaries of which AT&L doesn't have responsibility and authority, as well as the service secretaries and the military. Thank you.

Senator AKAKA. Thank you, Mr. Chairman.

Senator VOINOVICH. Senator Lautenberg.

Senator LAUTENBERG. Thank you very much, Mr. Chairman.

There is a culture in the military, I think, that almost defies the kind of control that we like to see. The war fighters have their job, and they do it wonderfully. We want them to pay attention to it.

But I see a difference in availability of materiel, when we are budgeting, especially with these supplementals. I mean, there frankly is not a lot of detail that is explored when we do these things. Mr. Berkson, we are happy that you are here. You bring a lot of experience. But I think there is another look to be had at whether or not the business side of the thing can be separated from the management side of the war fighters.

And I served on a hospital board. They never had a doctor in charge, chairman of the board. And there are lots of examples where the skilled person, the scientist, doesn't run the company. Someone else runs the company, and those who are assigned their responsibilities pick up from there.

Because, very frankly, Mr. Chairman, I am delighted that you are holding this hearing because I think it triggers a kind of thinking in our minds that doesn't go into the budgeting process. Yes, there is an Armed Services Committee, and they are diligent, and there are good people on the committee.

But I think it needs an intermediate step. You have budgeting. You have reauthorization. You have appropriations. And when it comes to the military and you see the stars. It took me 3 years to make corporal. And when I used to see a captain's bars, my knees used to knock, and you know, here we sit among the stars. And it is transformational.

Here comes a guy with all these ribbons that he has earned in his lifetime and his career, heroic medals, many of them, and they make the case. And it is really kind of hard to say no. It is hard to say, "Hey, but how are you spending this money?"

Mr. Chairman, I went full time in uniform in 1943, and I drew KP on a train going from New Jersey to Camp Crowder, Missouri, where I had basic training. And the worst guy in the world to work for was the cook because he had very few people to pick on. So he picked on those who were assigned KP duty, and I was one of those.

And when we got to the end of the journey, we had these full jars. I remember them. I think they are number 10 size. But they are big ones with pickles and mustard and ketchup, and he said, "Throw them out."

I said, "Throw them out?" I came from a poor family, and we would have given anything to have a jar of pineapple that size. And I said, "Sarge, why are we throwing these away?" He said, "Shut up and throw them away. Because you know what happens if I get there, and I have got stuff left over? Do you know how much I get the next time?"

Well, you don't have to be a mathematician to figure that one out. And we have seen flagrant abuses in the contracting side.

This high-risk list began, I believe, in 1990? In 1992, contracting was listed as one of the worst parts of the DOD expenditures or purchasing routine. And there were eight areas of high risk listed then. And Mr. Berkson, you have a right to be satisfied or at least encouraged with some of the progress made, as demonstrated by your proofs here. But we still have eight units, high-risk units listed as areas that need serious attention, that are easily subjected to waste, fraud, and abuse.

So I don't know when we catch up, but I think thought has to be given to how the whole management process is done. A four-star general may be a brilliant tactician, strategist in fighting the battle, but that doesn't mean that he also ought to be making the financial decisions. He ought to be making the recommendations, but I think there ought to be some intermediary step that should get a look.

We have lots of questions, and I appreciate the fact that Senator Akaka and Senator Voinovich have asked some of the questions. I am going to ask one here because you have heard me talk about Halliburton, and I, for some time now, have wanted to look at how Halliburton has managed its own money.

One question I have, Mr. Johnson—forgive me. I understand that DOD recently decided to pay Halliburton in full for its work, overruling Army auditors' recommendation that it be penalized for overcharging on its contract. Do you, or perhaps Mr. Berkson is the one that I should address this to. Do you know why DOD overruled the Army auditors' recommendations?

Mr. BERKSON. Sir, I would have to take that question for the record. I am not familiar with it.

Senator LAUTENBERG. Well, I hope so. Was OMB, Mr. Johnson, involved in this decision?

Mr. JOHNSON. I really know nothing about it. I can get back to you on that.

Senator LAUTENBERG. Well, I would appreciate it. And Mr. Walker, earlier this month, you said that in a Senate subcommittee that DOD is unable to track how it spent tens of millions of dollars in Iraq and Afghanistan and elsewhere in the war against terror. I just heard you say a couple of minutes ago that no one was responsible or no one in charge for tracking these things?

Mr. WALKER. There are persons in charge of tracking that. What I said was that there is not a single person who is responsible and accountable for overall business transformation.

As you know, Senator Lautenberg, DOD's financial management is one of the areas that has been on GAO's high-risk list for a long time. There are interrelated problems here. I mean, DOD has thousands of legacy systems that are non-integrated. In many cases, you have to input a 16-digit code for a single transaction, and you might have to enter the same transaction into multiple systems.

The comptroller may have recently taken a step to make sure that there is separate visibility over the use of supplemental funds, such that, hopefully, you would be able to find out how that pot of money was used in a more efficient manner than has been the case in the past.

We are doing work, at the request of the Congress, to find out how the supplemental funds were spent. It is very difficult getting detailed records. Furthermore, a lot of costs are based upon estimates rather than actual. We will be reporting later this summer, but I expect that there will potentially be a material difference between what we come up with and what has been reported.

Senator LAUTENBERG. Colleagues, I just say this. That DOD is the one place where if you make mistakes, it doesn't matter. You can always get more money if you need it.

And once again, Mr. Chairman, I commend you for holding this hearing, and I think follow-up is critical here. I thank the witnesses.

Senator VOINOVICH. Thank you, Senator Lautenberg.

We are going to follow up, just like I did on reform of the personnel system. I am going to devote 5½ years to this. We are going to have a lot of hearings on DOD transformation. We are going to stay on this.

I am really pleased that we have the Ranking Member today with us and anxious to hear the questions he would like to ask the witnesses.

It seems to me that we just can't keep going on like this. We are talking about a \$22 billion savings. Today, we have a tight Federal budget and a rising deficit. A billion dollars would make a big difference. This has got to stop.

Senator Levin.

OPENING STATEMENT OF SENATOR LEVIN

Senator LEVIN. Thank you very much, Mr. Chairman. I think half of our discretionary spending now is Department of Defense spending.

First, let me thank you and commend you and Senator Akaka for what you are doing here. This is not particularly glamorous work, and that is an understatement.

I remember back in the early 1980's, when Bill Cohen and I served as Chairman and Ranking Member of this Subcommittee, we took on a lot of issues. We made some progress in some of those issues—competition in contracting. We made progress in inventory management. We used to have hundreds of warehouses stocked with stuff, when we wanted just-in-time delivery to replace it. We made some real progress there.

We made some real progress on commercial products, making it easier to buy commercial products. But there is a whole area of financial management which you have identified, where we did not make much progress. Despite some efforts, we just have not made progress.

And it is essential that there be Senators such as the two of you who are just willing to sink your teeth into this subject, and your determination to do this for 5½ years, or whatever it takes, is as far as I am concerned not just music to my ears, it should be music to the ears of every taxpayer in this country. Because it takes Senators like you or Members of Congress like you who will just take it on and not let it go. And I am very appreciative of that.

Just a few questions, and I apologize that I couldn't get here earlier. First, for you, Mr. Walker, I want to congratulate the GAO.

Without your efforts here, the task of the few senators and members of Congress who are willing to take on an unglamorous area would just be probably impossible. They need your full assistance, and I know they have had it, and they are going to continue to have it.

But shortly after the then-DOD comptroller Dov Zakheim was confirmed, he came before the Armed Services Committee. He testified that the Department would prepare a comprehensive business enterprise architecture and transition plan to serve as a blueprint for fixing the Department's "systems and business processes—now isolated from each other across the functional areas—logistics, health care, accounting, finance, and others."

He promised to have that blueprint in place by March 2003. And we went through this with the then-comptroller to press him for the very type of blueprint which, you have so effectively pointed out, does not exist.

Well, March 2003 obviously has come and gone. It is 2 years later. DOD spent hundreds of millions of dollars on a contract to develop a business enterprise architecture. So, Mr. Walker, is it fair to say that more than 2 years after the date set by Dr. Zakheim that we still do not have that blueprint that he promised us?

Mr. WALKER. We don't have it yet, Senator. My understanding is they are working on it and trying to put something together by the end of this fiscal year, but you may want to ask the DOD witness.

Senator LEVIN. OK. I will do that in a moment. You, I think, told the Armed Services Committee last year that the Department had made no significant progress in addressing its financial management problems. Is that still true?

Mr. WALKER. They still do not have a comprehensive plan for dealing with their financial management problems.

Senator LEVIN. All right. So now, Mr. Berkson, where is the plan? Where is the beef? Where is the plan?

Mr. BERKSON. On which aspect, Senator?

Senator LEVIN. Well, we were promised—I will read it to you again—a comprehensive business enterprise architecture to serve as a blueprint to fix the Department's—and I am quoting Dr. Zakheim here—the Department's "systems and business processes—now isolated from each other across the functional areas—logistics, health care, accounting, finance, and others."

Where is that architecture?

Mr. BERKSON. OK. First of all, I want to take that question for the record. I will tell you about my knowledge of where that plan is. At this point, and I think pursuant to legislation that described a new structure for the business management modernization plan, they are currently developing and, in fact, installed Mike Wynne as the vice chairman of a group that will be actively reviewing all of the investments in what is called, I think the term is, an investment review board.

So all investments over \$10 million, I think that is the threshold, for IT systems, we are setting up the architecture and the infrastructure and the efforts to manage that consistent with the legislation. In doing that, there has also been a transfer of that role,

of driving that process from the comptroller to the AT&L side. And there are a number of folks that are in the midst of, and I think Mr. Wynne testified to this as well, in the midst of redrafting and formulating how we are going to proceed and go forward on that.

It is very challenging. In fact, again, this is my experience in serving and seeing dozens and hundreds of these implementations put in in different companies around the world. Ours is, by far, the most challenging of any that I have ever seen. And the team is at work and is, I think, putting a plan together that will address that. And again, I need to take that for the record because it is not exactly what I do.

Senator LEVIN. What is the time table?

Mr. BERKSON. I think in order to be compliant with the authorization act, that team and process is to be in place, with regard to business systems approval of the investment review board, by the end of the fiscal year is my understanding.

Senator LEVIN. This fiscal year?

Mr. BERKSON. My understanding is, again, according to the act, we—

Senator LEVIN. Well, forget the act, putting the act aside for a moment, how are you coming along? Will you meet that deadline?

Mr. BERKSON. The deadline for being compliant with the act?

Senator LEVIN. In the act. Assuming it is the end of the fiscal year, will you meet that deadline?

Mr. BERKSON. My understanding—again, it is not my area of the Defense Department—is that they are working to meet that deadline.

Senator LEVIN. Mr. Johnson, last year's defense authorization act, this is what the Armed Services Committee basically did. We told the Department to stop spending money on financial audits.

And the reason for this was as follows. The GAO consistently told us that there is a right way and a wrong way to fix the Department's financial management problems. The right way is to attack the problems at the root by fixing the business systems that yield bad data. The wrong way is to unleash an army of auditors to audit the system into compliance, to try to audit the system into compliance but without addressing the underlying systems' problems.

Now the DOD agreed with that assessment. The Department told us last year, however, that it still wanted as much as \$2 billion to try to achieve an auditable financial statement by fiscal year 2007, which is before the Department is going to address its underlying system problems. We responded by prohibiting them from spending more money on financial audits until they have a business enterprise architecture and transition plan in place, which is the origin, I believe, of what Mr. Berkson made reference to.

Now I understand, Mr. Johnson, that some of the pressure on DOD to get an auditable financial statement as soon as possible comes from OMB. Do you agree with the assessment that the right way to fix DOD's financial management problems is to attack them at the root, rather than just try to get a favorable audit without fixing the underlying system problems?

Mr. JOHNSON. I do.

Senator LEVIN. Long question, short answer?

Mr. JOHNSON. And I don't think the 2007 goal came from us. It was what I heard the very first time I met with Dov Zakheim. And I had a meeting last week with Defense Comptroller Tina Jonas, and they laid out exactly what you talked about, which is the goal is not to get a clean audit.

The goal is to have an audit reflect the business practices that are as they should be and that are creating the disciplines within the Defense Department that will allow us to address material weakness, that will allow us to get a clean audit, or both are, in fact, the business practices that would allow us to save money or improve service. That it is a reflection of just what you said, improved disciplines, improved method of operation, and it is not a clean audit for the sake of a clean audit. So I agree totally with that. And they do, too.

Mr. WALKER. Clay Johnson is correct, 2007 was the DOD's date. They don't have a plan to meet that date, and they don't have a prayer to meet that date.

Mr. JOHNSON. They don't have a desire to meet that date.

Mr. WALKER. Well, good thing. But they need a plan, just like they need a plan for the other areas that we are talking about. Furthermore, I think it is important to note some of the words that you touched on.

There are assertions coming out of DOD saying that they can't make progress in certain areas because the act is written such that they can't spend money on things that they want to address. To me, there is a fundamental difference between financial management and financial auditing. Executive leadership has an ongoing responsibility to assure that they have appropriate controls in place, that they have appropriate financial management systems in place, and that they continuously improve those controls and systems.

That is different than spending a lot of money to try to re-create the books and engage in work-around auditing procedures or by doing preliminary audit assessments before you have done the basic work. I think there may be some problems with regard to nomenclature here. I think they need to be able to make progress with regard to internal controls, and with regard to improving financial management systems.

What they shouldn't be doing is spending money on audits or work-around procedures or preaudit assessments before they have laid the fundamental foundation.

Senator LEVIN. Thank you, Mr. Chairman. And the defense authorization bill is being marked up in a few weeks. If you or Senator Akaka or our witnesses have suggestions for any steps that can be taken immediately that will move in the direction that I know we all want to move, I am sure that Senator Warner and I will be happy to consider any suggestions.

These are long-term solutions, not the next few week solutions. But I just say that on the chance that there may be something immediate which does need attention. And I also want to assure you and Senator Akaka that both Senator Warner and I are very open to any suggestions and recommendations that this Subcommittee may have.

Senator VOINOVICH. I really appreciate that because you have all of this history, and so does Senator Akaka. I have very little.

And I think that if we can collaborate on some of these things because part of the problem around here is you have the authorization committee, then you have the appropriations committee. And it is going to take, I think, in many instances, appropriations and authorization to work together and team up to get the kind of result that we would like to get.

I am going to have another round, if it is all right with you, Senator Akaka?

Mr. Berkson, I have a question that has two parts. First, on April 13, Under Secretary Wynne testified before the Senate Armed Services Committee on readiness and management. In his testimony, he said the acquisition, technology, and logistics workforce fell from 149,439 employees in March 1998 to 134,000 employees in September 2004.

At the same time, the number of contract actions, over 100,000, increased from 101,663 in fiscal year 1998 to 160,338 in 2004. Could you describe the impact that these dynamics have on AT&L's ability to manage its workload?

Mr. BERKSON. Yes. Senator, I will have to, respectfully, take that one for the record. The acquisition workforce is outside of my domain. So I will have to get back with you on that one.

Senator VOINOVICH. The Deputy Secretary of Defense moved business transformation from the Under Secretary of Defense Comptroller to the Under Secretary of Defense for AT&L. AT&L's workforce is already operating with the resource limitations.

The question is do they have the ability to take this on?

Mr. BERKSON. With regard to the place with which I would want to have responsibility for business transformation, I actually support and think it is very valuable to have the acquisition, technology, and logistics under secretary driving the business management modernization program.

The majority—again, as you look in commercial industry and you look in our system—the majority of the business functions and operations are in the AT&L portfolio. And to the extent that we are trying to go beyond audits and we are trying to improve processes and improve operations, the senior executive leading those business operations should, in my opinion, be actively responsible for the systems that support those.

So that migration is a very good move and, I think, will actually improve the progress we make. And we will apply the improvements we need to the places where the business operations are most significant and most large scale.

Senator VOINOVICH. One thing you said earlier was that you are trying to drive it down to where the people are that are actually getting the work done. Is there any effort in the Department to look at total quality management and empowering the people in those agencies to come back with recommendations on how they can do it better?

Or are we in the same area we have been for years, where somebody comes in and says, "This is the way you are going to get the job done because some consultant told us this is the way you are supposed to do it."

Mr. BERKSON. What has been most successful in business process change, and TQM was a term that was popular and an active program pursued over 10 years ago. What we have found to be more successful in taking TQM and actually going on as it has evolved—as you know, TQM drove concepts like 6 Sigma, GE's program to minimize variance and get working on quality. Quality and 6 Sigma are closely related. And then the Toyota production system, which is Lean, has also driven a lot of value. And we have combined those.

But what the most valuable force of application of those has actually been directly from the working-level of the Department, literally at the business operations. The example I showed you where we went from 85 to 5 days is a group of sailors out at the Lemoore Naval Air Station. Those sailors—those aren't a kind of business gurus or consultants—and their experiences in industry, a very strong and intelligent commander came in from industry and realized how much value these processes could have. And she took it upon herself to make that happen at Lemoore.

And we have now dozens and dozens of cases where we have started that business transformation literally from the ground up, and we are essentially constructing a network now that connects and provides resources so that those happen and can accelerate, and best practices can be shared across the massive scale we have.

So, it is an interesting concept. But the top-down, one has to be very careful when you apply it. "I am from the Office of Secretary of Defense. I am here to help you" is sometimes helpful and necessary. But also it is often better to let many of those changes start springing up and then feed them and grow them and make them accelerate. And that is what we have found so far.

These changes, as they are coming, and we have been putting the vision out and providing resources and driving them, now we are actually working at the working levels to create them and make them happen.

Another one that we just have to be really clear on. There seems to be this discussion that came up, some of the discussion today. I have three air logistics centers. They are the largest industrial operations of the Department of Defense.

I have three air logistics centers at Hill Air Force Base; Ogden, Utah; and Oklahoma City. These are run by military leaders. I have three NADEPs, naval aviation depots, again, \$500 million businesses—huge businesses. These are run by military officers, 06s—captains, Navy captains. I have probably a half dozen Army depots also run by 06s.

Our business operations are run by the military. So the separation of the business from the military is very difficult. And driving change, therefore, isn't something I just do as a civilian workforce. I have to have every sailor, soldier, airman, and marine in the logistics side capable as any GM employee of driving change and working their team out and being able to provide that kind of expertise at that level.

And again, the notion is I have to go work that right down at the cold face, and I have to drive that change from there and then accelerate it. And again, driving it from the top is, again, we have a focus on it.

But I struggle in trying to figure out, as I have been doing this, I can't separate the military from the civilian. The change has to happen in a thousand different places around the system. And to do that requires things—process changes, Lean 6 Sigma, taking the next generation of TQM—and efforts that have been done in the commercial sector and applying them here.

So I think your hypothesis and your drive on a TQM as an approach is right. I think I would suggest some alternatives. But it has to be driven in these hundreds and thousands of different locations where we are running the business.

Senator VOINOVICH. In Ohio, we have Wright-Patterson Air Force Base and the materiel command in Dayton, Ohio.

One thing that bothers me is, we get general after general, at the end of their career, taking over command. They are there for 3 years and then leave. I don't understand why the military moves these people around every 3 years.

I think we need to look at time commitment, when it comes to reforming the DOD. We can't expect reform to happen when turnover is so frequent.

Mr. WALKER. Mr. Chairman, I think that is a good point. In fact, I remember testifying several years ago before a Senate Subcommittee of Armed Services regarding how much turnover there is.

Starting from the secretary of defense, deputy secretary, under secretary, all the way down to the program managers or program directors. I mean, there is preprogrammed turnover in the case of some of these critical positions, and it just doesn't make sense to have preprogrammed turnover to the extent that we currently have it.

I have to follow up on something that both Clay and Brad said. You absolutely need committed and sustained leadership when you are talking about transformation. Let's talk about one of the most important transformation efforts going on at the Department of Defense right now, NSPS, normally the National Security Personnel System.

They are currently in the meet and confer period. I asked this morning whether or not there are any PASs, presidential appointees, with Senate confirmation—participating actively in the face-to-face meetings among the meet and confer period. The answer I was given was no. As a result, it is my understanding that the president of AFGE, and other key unions, have not been participating either.

This is the most probably fundamental transformation issue on the civilian side that is going to happen in the Department of Defense. I mean, how can you not have top people actively and visibly engaged in these types of substantive discussions. In my view, human capital is key to my successful transformation effort?

I hope I am wrong on that, and I am going to follow up to try to make sure. But I am very disappointed if that is the case.

Senator VOINOVICH. I agree with you, Mr. Walker. NSPS is the most important transformation effort going on within the DOD. Having all parties involved with the process is imperative.

I have received many complaints about the process and I hope the DOD is listening. I spent time yesterday with Steve Perry and

stressed to him my support for NSPS but also my concerns with involvement of all interested parties. I plan to monitor the implementation.

Senator Akaka.

Senator AKAKA. Thank you, Mr. Chairman.

After hearing the comments from General Walker, I can't help but think of our Chairman and human capital, which is rearing up as a huge problem for our country. And I know, Mr. Chairman, we will certainly look at NSPS. We know if it is not done correctly, we are going to be in trouble.

Let me follow up on something, Mr. Berkson, since we have heard a response from General Walker, can you respond to Mr. Walker's comments on NSPS?

Mr. BERKSON. Unfortunately, no, sir. I am not involved in the NSPS rollout. So I can't do it. I absolutely support and know how important that a human capital change is, and I get very parochial about it.

I need very high-performing business people. And if you were to give me something, it probably wouldn't be another boss. It would be 50, 100 people I could get in quickly to help me go about the change in the Department at the various levels that we can work. So I am clearly committed to making that happen, and it is a very daunting personnel challenge.

Senator AKAKA. Mr. Johnson.

Mr. JOHNSON. On NSPS, there is one person in charge, who is talking about whether there should be a chief management officer. Gordon England is the person that the secretary has put in charge of the NSPS adoption process.

So if things are not working there, it is not because—or if they are working there, it is because there is a very capable person in charge. So what I suggest you do is ask Gordon England because he is the one that is responsible for that, and he is very involved in all of that.

I don't know about your particular claim was if someone from the union was there, they cut them off. But whether there are PAS people involved or not in individual meetings, I don't know. But I do know there is a very well-regarded, high-ranking PAS person in charge of the whole thing, and he is the one that needs to be held accountable for whether it works or not.

Senator AKAKA. Mr. Walker.

Mr. WALKER. Senator Akaka, yes, it is my understanding that Gordon England is responsible and accountable, he has been deputized by the secretary for NSPS. He is a very capable professional and an excellent choice by the President to nominate as deputy secretary.

It is also my understanding that during this very critical meet and confer period, that no PAS—not just Gordon England, but any PAS—is involved in any meet and confer meetings dealing.

I am hoping that is wrong, but that is what I was told this morning. We are going to follow up and try to find out whether or not that is accurate.

Mr. JOHNSON. But that is a process concern. The question is, is it having an impact? But I mean, again, Gordon England is the one to ask that.

Mr. WALKER. I would respectfully suggest there are two things you have to get right because if you don't get them right, you fight a 2-front war. One, you have to get the policy framework right. Two, you have to get the process right.

If you don't get both right, your odds of success change dramatically. Process is important. You need to have top people visibly involved. Not in every meeting, however, you are not going to get the top labor leaders there if you don't have top people from the Department there. They are going to delegate it, too.

You are going to have people there who are not empowered to make a decision, and this isn't negotiations. It is meet and confer. But nonetheless, you have to have people who are empowered to make decisions at some of the meetings. There is a lot more details that it wouldn't be appropriate for a PAS to be involved with.

Senator AKAKA. Well, I really appreciate learning from your experiences and having your wisdom. Mr. Berkson, I am asking that you bring our concerns to Secretary Rumsfeld so he will be aware of them.

Mr. Johnson, DOD, and you, have alluded to this DOD business transformation requires a commitment from both the Legislative and Executive Branches. Do you support creating a chief management officer at DOD?

Mr. JOHNSON. Let me give you my personal opinion. It is probably a pretty good idea. It is not a silver bullet. You can put the kind of person that General Walker has suggested, put them in a term, although I don't think the term buys you anything. But again, that is my personal opinion. And it is possible that you won't get the transformation that we all want.

It has to be, as I mentioned earlier, a high priority for the administration, for the President and the secretary. Because if it is not, the most effective chief management officer can be made to be ineffective.

For instance, I am in a specific management position that has been created at OMB. This position has existed since 1990. Some of the people in my position have been effective. More than that have not.

So the presence of a management person in that at OMB has not necessarily guaranteed that the Federal Government, the Executive Branch would be as focused on management as I think we are today. It is not a silver bullet.

Senator AKAKA. General Walker.

Mr. WALKER. I agree with Clay, but it is not a silver bullet. You have to have the President's commitment. You have to have the secretary of defense's commitment. You need more OMB involvement. So I agree with that.

However, I would respectfully suggest that while it, in and of itself, is not a silver bullet, having a CMO is essential if you want to be successful.

Senator AKAKA. Let me ask a final question, Mr. Chairman. Mr. Johnson, today and at our February hearing, you pledged your commitment to working more closely with DOD on addressing the high-risk areas. And you heard Mr. Berkson say there is no business modernization plan.

DOD needs help. So my question is what are your goals over the next 3 years regarding DOD high-risk areas?

Mr. JOHNSON. Well, let me tell you what we have been doing since the hearing in February. OMB, the people that work for the DOD, the DOD branch, and GAO have been working on supply chain management to figure out, get agreement on what a good plan looks like, and we are very close.

We will be back to you within not days, not months, but in a few weeks with a plan for that particular area as an example of the level of detail—the clarity of the definition of success, the specificity of due dates, the clarity about who is responsible for doing what to whom by when—for you all to say this is adequate or inadequate.

Then once there is agreement on that, the staff at DOD and GAO and OMB are generally pleased with what we have. I think if you would ask any of them, they would say there has been very good working relationship between the three entities. We think we are going to come to you in a couple of weeks with something that you all will be impressed with.

Once there is agreement on that, or if there is not, then we will get something to where we are in agreement on, and we will go back and work with DOD and GAO to develop similar templates, similar plans for the other six areas.

So then, all of a sudden now, there is a plan with all of the clarities that I have talked about and all of the implied accountabilities that I have talked about when you talk about your next 5½ years, my suggestion to you is that is what all your hearings be focused on is their adherence to those plans.

And it shouldn't be a hearing upon the due date or a month after the due date when the whole thing is supposed to be finished. It ought to be with the kind of regularity that you are talking about, where it is every 6 months or whatever. And the same thing with OMB working with DOD on whether they are adhering to the plan and accomplishing the subgoals that they laid out for themselves.

So that is the approach we are taking. And that is the approach we have taken with the one area. And it is very important that it be to everybody's satisfaction, and we are close to getting back to you with a proposed approach using one of the seven areas as an example.

Senator AKAKA. General Walker, Mr. Berkson's testimony discusses the accomplishments of the Defense Acquisition University. However, you testified that, and I am quoting, "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."

You correctly point to DOD workforce reductions between 1989 and 2002 that resulted in a loss of skills and competencies needed to ensure proper acquisition and contracting. Do you believe this is an issue of insufficient staff or improperly trained contract and auditing staff, or both? And has GAO examined the training issue?

Mr. WALKER. We believe that the acquisition workforce is under significant stress. We believe that there are real issues with regard to whether or not it is an adequate size. There are clearly skills, imbalances, and succession planning challenging.

The Defense Acquisition University does a good job. We have partnered with the Defense Acquisition University on some areas of mutual interest and concern. We have actually provided some information and I think even co-instructed certain classes from time to time. We have also taken some of their classes. It is a quality organization.

But the workforce as a whole is part of the high-risk area that deals with human capital at DOD. I might note that with regard to Clay's comment, he is correct that we are trying to work on a constructive basis with OMB and DOD to come up with a model for one area, namely, supply chain management.

But I would respectfully suggest that DOD has 14 because it has got 8 on its own and 6 that it shares with others in high risk, and they need to have plans on all 14.

Senator AKAKA. All right. Well, thank you very much, Mr. Chairman.

Senator VOINOVICH. Thank you very much for your testimony.

Clay, I would like to stress to you the importance of having everyone involved in implementing your plan to reform the DOD's supply chain management process.

Mr. JOHNSON. Well, that has got to be a key part of that plan, what is the plan.

Senator VOINOVICH. Yes. But the people that are doing the work are the ones that should have input in driving the plan and saying this is what we think needs to be done.

I have been visiting bases in Ohio and it has been a great experience for me. About 8 years ago, Patterson Air Force base in Springfield, Ohio was asked to put together an additional training facility for F-16 pilots.

The reason why they have been successful is that team has been working together. They worked it out. They talked about it. They brought in the technology. It is an example of where you have had a team together that can feed off each other. This was their baby, they had a plan, and they were really proud of what they were doing.

I would like to find out who decides that these people are rotated every 3 years.

Mr. WALKER. My son is in the Marine Corps. He is a Captain and fought in Iraq.

That, my understanding, is long-standing policy to try to be able to make sure that military officers get a broad range of experience within a certain period of time in order to position them for promotion to the next level.

I think that we need to relook at a number of the critical positions, especially in the acquisitions area. The problem is when you have preprogrammed turnover nobody is really responsible and accountable. Everybody is focused on trying to make sure nothing bad happens during their, in many cases, 2-year or 3-year tours.

We are talking about weapon systems that, in some cases, involve hundreds of billions of dollars.

Senator VOINOVICH. So the Joint Chiefs of Staff probably, that is—

Mr. WALKER. Well, no. It is a combined effort. Mr. Chairman, I will provide more for the record because I know I am under oath

here. My understanding is that the desire for the frequent turnover has come from the services. That is not something that has come from the OSD or from the under secretaries or even from the service secretaries.

It is something that the services have wanted to do, and I think it is something that has been in existence for many years. This needs to be relooked at.

Senator VOINOVICH. I want to thank all of you for testifying today. This hearing is adjourned.

[Whereupon, at 3:59 p.m., the Subcommittee was adjourned.]

A P P E N D I X

GAO

United States Government Accountability Office

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

For Release on Delivery
Expected at 2:00 p.m. EDT
Thursday, April 28, 2005

DEFENSE MANAGEMENT

Key Elements Needed to Successfully Transform DOD Business Operations

Statement of David M. Walker
Comptroller General of the United States



GAO-05-629T

April 28, 2005

G A O
Accountability Integrity Reliability
Highlights

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.

DEFENSE MANAGEMENT**Key Elements Needed to Successfully Transform DOD Business Operations****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*	1990

Source: GAO.

*This 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.

United States Government Accountability Office

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, 2006).

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.⁶ 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.⁷ 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

⁶ GAO-05-325SP.

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

⁸ GAO, *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*	1990*

Source: GAO.

*This 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 2006. 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, 2006).

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-01-526 (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. 106-875, § 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.²⁰ 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

²⁰GAO, *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).

³⁴GAO-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.³⁰ 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.

³⁰GAO, *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 2006, 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.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF **MANAGEMENT** AND BUDGET
WASHINGTON, D.C. 20503

Testimony of the Honorable Clay Johnson III

before the

Subcommittee on Oversight of Government Management,
the Federal Workforce and the District of Columbia
of the
Senate Committee on Homeland Security and Governmental Affairs

April 28, 2005

OMB agrees that fixing the management deficiencies highlighted by GAO's High Risk List has the "potential to save billions of dollars, dramatically improve service to the American public, strengthen public confidence and trust in the performance and accountability of our national government, and ensure the ability of government to deliver on its promises."

Agencies have proven that management problems can be solved, that the risk of waste, fraud, abuse or mismanagement can be greatly diminished. Employees at the Social Security Administration reduced errors in the Supplemental Security Income program sufficiently to warrant GAO removing it from its list in 2003. This year, the Forest Service, Student Financial Aid programs, and the Federal Aviation Administration improved the reliability of their financial information so much that GAO removed them from the list.

These agencies are to be congratulated for these accomplishments. They have shown that solving the problems is possible if they ensure key elements are in place:

- top management commitment to solving the problem
- a clear picture of what needs to be accomplished
- a clear, aggressive action plan for solving the problem, and
- a clear definition of who's responsible overall, and who's supposed to do what by when.

The Department of Defense (DoD), in no small part because it is one of the largest and most complex organizations in the world, owns 7 Of 25 High-risk areas. DoD is working to improve its management practices, to reduce the risks to which GAO's list refers. Some of the risks will take longer to reduce than others, and none of the risks will be reduced quickly. But they will be reduced to acceptable, commendable levels. In the meantime, it is important that GAO and Congress understand what DoD is doing to realize these opportunities to improve its management practices.

As you and your staff are aware, Mr. Chairman, OMB, GAO and DoD have been working to clarify what it means to reduce the risk in what GAO has called DoD's Supply Chain Management, though the focus is primarily on DoD's management of its inventory. As stated now, DoD needs to focus its efforts in the following areas in order to provide more efficient and effective supply support to warfighters:

1. Asset Visibility:
 - Improve Asset Visibility across the department. Develop near-term goals to increase asset visibility and long-term goals to achieve total asset visibility.
 - More fully incorporate asset visibility into DoD's logistics business enterprise architecture and DoD's long-term logistics IT system modernization programs.
2. Forecasting:
 - Improve Inventory Management (reduce percentage of low-usage inventory, increase availability of high usage, and increase availability of critical inventory).
 - Update and improve material requirements process to identify required war reserve stocks and computer models to forecast wartime supply demand and items with long procurement lead times.
3. Distribution:
 - Improve seamless flow of materiel in support of deployed forces.

DoD will lay out a general plan of attack to accomplish these goals, give approximate dates for accomplishing them and specify who is accountable for accomplishing them. Once there is sufficient agreement in this area among DoD, OMB, GAO, and the relevant Members of Congress, we will ensure that there is agreement on what needs to be accomplished and the plans of action for achieving it for the high-risk areas not only at DoD, but in all areas on GAO's high-risk list as well. As a first step in the process, we have identified the individuals at OMB, GAO, and the agencies who will be accountable for addressing the issues.

Of course, DoD's greatest management challenge is to achieve and sustain business reform on a broad, strategic, department-wide and integrated basis. Clearly, the Secretary of Defense is committed to such reform. That commitment must be translated into demonstrable improvement in all of the Department's business operations. As he ensures all the elements of success I mentioned above are in place, lasting improvement will occur.

Mr. Chairman, I will ensure you and the staff of this Subcommittee are kept informed of our progress on these matters.

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COMMITTEE

TESTIMONY OF
BRADLEY BERKSON
DEPUTY UNDER SECRETARY OF DEFENSE (ACTING)
(LOGISTICS & MATERIEL READINESS)
BEFORE
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT,
THE FEDERAL WORKFORCE AND THE DISTRICT OF COLUMBIA
OF THE
SENATE COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL
AFFAIRS

April 28, 2005

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**Overview of the Department of Defense
Business Transformation**

**Mr. Bradley Berkson
Deputy Under Secretary of Defense (Acting)
(Logistics and Materiel Readiness)**

Chairman Voinovich, Senator Akaka and Members of the Committee:

Thank you for the opportunity to appear before you and discuss Business Transformation at the Department of Defense. Since this is my first appearance before the Senate, I would like to briefly describe to you my background and how it is relevant to DoD business transformation. I have been working on business transformation full-time since arriving at the Department of Defense two years ago. I am currently serving as Acting Deputy Under Secretary of Defense for Logistics and Materiel Readiness. In this role, I am acting as the senior DoD logistics official. Logistics, by the way, is probably the largest business operation at the Pentagon. I am engaged daily in transforming our Nation's \$129 billion DoD logistics and supply chain enterprise. I am an engineer by training, earned an MBA from Harvard, and was a Partner at McKinsey & Company where I served leading commercial enterprises around the globe on matters of strategy, organization, finance, and business operations. I have started and sold a business. I was President of a large private corporation. I have worked in the commercial sector from start ups to the world's largest corporations. Chairman Voinovich, you mentioned in the last hearing on this subject the need for talent from the private sector to come into the government to help accelerate transformation. I hope my

background has some of the qualities you had in mind.

I would also like to emphasize how honored I am to appear before you today. I am so grateful for the privilege of being able to serve our great country and in particular, I am humbled to have the opportunity to serve our men and women in uniform who daily risk their lives in the defense of America. I am also grateful for the work of this Committee and its commitment and dedication to improve the effectiveness and efficiency of government. I also thank you Mr. Chairman and Senator Akaka for the support you have provided us at DoD.

The Challenge

I would like to frame the challenge of business transformation within DoD. What has been most surprising to me in coming from the commercial world to DoD is the dramatic differences in scale and complexity. DoD has the world's largest fleet of aircraft, but is not an airline. We have the largest fleet of ships, but are not a shipping company. We have one of the largest fleets of trucks, and we are not a trucking company. We have the largest fleet of ground vehicles, but are not a rental car company. We are the second largest operator of warehouse space, but logistics is a supporting mission. In the private world, any one of our programs, armories, depots, shipyards, transportation modes, or logistics systems would be of sufficient scale to compete in the global market. I worked for Exxon early in my career, arguably the largest scale player at that time in the commercial sector. In comparison to DoD, it doesn't come close.

As far as complexity is concerned, there is no rival excepting the Federal Government as a whole. We are engaged in multiple fundamental business operations.

We are the world's primary researcher, designer, and developer of military hardware and software. While we depend heavily on private industry to assist us, the DoD has research, program management, product development, and procurement responsibility that spans more different types of product categories than any commercial firm that I know. From ships, to planes, to communications networks, to ground vehicles, to satellites, our product development scope is unprecedented. Furthermore, we don't stop at development. We take these products and utilize them around the world to provide services and capabilities to our warfighters. The comparison would be that we have the R&D and manufacturing responsibility of a Boeing in addition to the service operations of Delta Airlines and FedEx. While major integrated companies of the 19th century used to have similar capabilities (Ford for example used to make its own steel), our weapons system development efforts remain as the most vertically integrated business operation around. Typically, the market would disintermediate the value chain by creating players that specialize in one aspect thereof. Because of the limited number of customers for weapons systems and similarly limited set of suppliers, vertical market failure occurs requiring the DoD to maintain significant capabilities. Further, we don't want our enemies to have the best weapons. We have a preference for keeping them in the hands of our closest allies and our own forces. While we make every effort to utilize the commercial sector and find competitive sources of supply, we end up with a fairly limited set of suppliers for these complex products.

Our supply chains are equally complex. We have at least three major categories of supply chain. The first, most complex, and most expensive is our weapons system

support supply chain. Once the weapons systems are developed and fielded, the support, supply, and maintenance of these awesome tools requires enormous investments and infrastructure. Our depots, shipyards, intermediate maintenance facilities, supply and purchasing systems, and parts inventory are utilized by our team of dedicated military and civilian artisans to keep these systems available for our warfighters. The next major supply chain category is commercial commodities. DoD is the largest consumer of petroleum products in the world. We buy massive quantities of food, textiles, pharmaceuticals, construction materials, etc. The final category of supply chain is that involved in supporting deployed ground forces in austere international locations. This category connects the weapons systems and commercial commodities to the warfighter. In this environment, many of the quintessential business functions of the supply chain become truly military operations. No commercial company in my experience has ever had to face the supply chain complexity of operating to support of several hundred thousand people, moving hundreds of miles, with no indigenous logistics infrastructure, and no fixed communications network. The feat that we accomplished in Operation Enduring Freedom (OEF) and Operation Iraqi Freedom (OIF) in the business operation of supplying our forces is unprecedented in the commercial world. Regarding the supply chains, our scope and complexity is not seen in any commercial entity.

This complexity also transcends our business systems. We are in the process of implementing business systems that are, as well, unprecedented in scale and complexity when compared to the commercial sector. Our challenging business requirements, in part, drive this complexity. Furthermore, not only do we have all the same requirements

of a commercial company with regards to changing business practices, we have a unique set of statutory, regulatory, and reporting requirements that exacerbate and multiply the complexity of our transaction systems.

Finally, and a point which I have not heard very often in the past, the business functions are ancillary to the mission of the DoD. In every commercial firm in which I have worked, the business functions were primary, particularly finance. The mission of General Electric is to make money for its stock holders. It does so by aligning its business operations, personnel, and capabilities to maximize its financial performance. As I understand it, the mission of the Department of Defense is to defend the United States of America against its enemies. The job of the Secretary of Defense is to see that mission accomplished. Business transformation is necessary, but not sufficient for the Secretary to be successful in his duties. When Secretary Rumsfeld announced his intentions to transform the Department of Defense, I feel certain that business transformation was central to that intent. Twenty four hours later, our country faced the most significant challenge to its security in several decades requiring his complete attention be focused on defending our country. While he and our senior leadership have remained consistent in driving their vision for transformation, the ability of the Department to focus exclusively on fixing its business operations in the midst of our largest sustained military campaign since Vietnam remains problematic. By the way, I am not convinced that adding another player to the mix will help. Adding complexity to the organization is the last thing I would recommend to you today. I think the work of transformation of business operations falls to me and my colleagues in acquisition.

personnel, finance, and logistics. This is a task which we are all spending our full efforts, while at the same time actively providing support for our service members living in harms way. I have seen great progress made by the DoD in many areas of business transformation in my two years aboard. I look forward to working with the Senate to help accelerate and widen these efforts.

The Key Business Processes

In my estimation, having spent the last two years in full time study of the business of the DoD, I would suggest this committee look into three key business processes to achieve the most “bang for the buck”, those being product development (Acquisition), supply chain (Logistics), and the supporting business systems infrastructure (BMMP). I have excluded the personnel management and related entitlements as the issues there are related more to the problems our country faces in the whole regarding health care and benefits. This is not to say that I would suggest you ignore personnel. On the contrary, the personnel involved in these business processes likely comprise 40-50% of the DoD’s entire staff.

DoD’s Weapon Systems Acquisition

GAO continues to assess weapon systems acquisition as high risk, but it acknowledges some of the positive steps we have taken. I want to be clear that we have made excellent progress in changing how we think about what we call “big acquisition”, including how we develop and manage our requirements as well as the acquisition programs to meets those needs. DoD has changed its requirements processes and the acquisition processes in significant ways that emphasize the identification of joint

network-centric capabilities while employing an evolutionary approach to rapidly acquire advanced warfighting capability. Our evolutionary acquisition programs are divided into increments of capability based on stable, well defined requirements; mature technology; and full funding. The anticipated results are reduced cycle time and programs that are delivered on time and within budget. Let me give you some specific examples of the thought process, and how it relates to some of the larger acquisition programs.

- **Future Combat System (FCS).** The budget delays fielding of the initial FCS Unit of Action by four years, while providing for the introduction of advanced technologies developed for the FCS into the current force. Rather than wait for the "final product", we have taken an approach that reduces overall risk to the FCS program, while still allowing the current force to benefit from many of the near-term possibilities flowing out of the program development activities.
- **Shipbuilding.** The new DD(X) destroyer, the CG(X) cruiser, and the Littoral Combat Ship (LCS) are representative of evolutionary acquisition in the context of a family of systems employing common technologies. DD(X) development is the baseline for CG(X) and technologies developed for DD(X) will be installed on CVN-21 and LHA(R) platforms. The fully open architecture Combat Systems Suite of the DD(X) will be the backbone for all future surface forces. In these cases, the budget maintains the integrity of the evolutionary acquisition process, keeping each program in its appropriate place in the development and initial construction cycle.

We are also taking a more corporate view of our acquisition process through the initiation of Capability Area Reviews. These reviews allow senior department officials to review our capability areas from the 50,000-foot level to ensure we are seeing individual programs and systems-of-systems in the integrated and networked operating context for which they are intended. These reviews allow us to identify disconnects and inconsistencies more quickly than we would with an individual program approach and to facilitate early and effective corrective action. We believe this is key to ensuring a comprehensive and integrated approach to achieving the transformed warfighting capabilities that we need.

Part of our overall approach includes responding to joint warfighting requirements in an even more effective manner. Beginning in FY 2006, the Department will initiate transformation of our very successful Advanced Concept Technology Demonstration (ACTD) effort into the Joint Capabilities Technology Demonstration (JCTD) program. The JCTD program acknowledges our commitment to support the joint warfighter, and explicitly takes into account the funding challenges associated with the rapid fielding of new technology. This new program will be based on suggestions we have received from Congress and the GAO, and I believe it will help us to maintain our department-level focus on important joint capabilities and to accelerate acquisition and fielding.

To meet the urgent operational needs of the Warfighters, we created a Joint Rapid Acquisition Cell (JRAC). The JRAC is responsible for assisting in the resolution of immediate warfighting needs of Combatant Commanders' and/or the Military Departments' certified and prioritized Urgent Operational Needs that have been validated

by the Chairman, Joint Chiefs of Staff. The JRAC has already had a favorable impact on 16 critical programs and the reprogramming of over \$400M to enhance intelligence gathering and dissemination, quickly identify terrorists, safely explode IEDs, and protect our warfighters.

Another initiative of the Department is the Defense Acquisition Management Information Retrieval (DAMIR) which streamlines acquisition program management reporting. We are re-engineering the very processes by which we gather and report management information concerning acquisition programs. The DAMIR ultimately will enable the OSD, the Military Services, and other participating communities to access information relevant to their missions regardless of the agency or where the data resides. Also, beginning this month, we are happy to say that the Defense Committees will have access to Purview, DAMIR's presentation layer. Right on members' and staffs' desktops, Purview will provide unclassified acquisition information that typically is received in the annual paper copy of the Selected Acquisition Reports (SARs). Future releases over the next year will add additional information. By supplementing this with a hard copy classified annex, we can eliminate the hard copy annual SARs.

- **Systems Engineering Emphasis – Increase the Knowledge Base:** While mentioning these process improvements, I should note that the Department has reinvigorated our approach to systems engineering by issuing comprehensive and well designed policy, revamping our education and training programs, and implementing a robust outreach program to ensure the policies are institutionalized throughout the department and with our industry partners. The primary outreach

emphasis is on individual programs to establish a sound initial and total life cycle program management structure. We expect this to lead to much improved control over our design and manufacturing processes, enhance our analysis of program status, and create an improved knowledge base for management decision making. Through the Defense Acquisition Board, the Department has reviewed many programs where a lack of systems engineering has contributed to cost, schedule, and technical problems. Sound systems engineering practices are critical to our ability to field affordable weapon systems, on time, and that provide the capabilities we need on the battlefield.

- **AT&L's Scientist and Engineers:** Our focus on systems engineering extends to our science and engineering workforce today and in the future. Since 1999 more than 12 major studies warn of the deteriorating situation within the U.S. science and engineering workforce. Last year Congress provided the Science, Mathematics and Research for Transformation (SMART) legislation that authorized the Department to carry out a scholarship program with an employment payback component. To ensure we maintain an effective workforce, the Department proposed making the SMART Pilot a permanent program. We also seek your support in providing additional authorities that will would improve substantially our ability to develop, recruit, and retain individuals who will be critical in fulfilling the Department's national security mission.

In sum, the Department has taken many substantive steps toward improving the effectiveness, focus, and transparency of our weapons system acquisition process. We

have no intention of stopping here, and we will do all that we can to support the needs of our warfighters using the most efficient, responsive systems we can design.

Supply Chain Management

In the supply chain area, I want to first compliment Dave Walker and his staff for their assessments of DoD logistics and supply operations, dating back to the 1990's. I believe GAO has conducted more than 60 studies in this area since 1990—with 13 completed in 2003 and 2004--and the DoD has generally endorsed and implemented their recommendations. The "high risk" area identified by GAO is primarily focused on "Inventory Management." Supply Chain Management is a term as I described earlier in our testimony which goes far beyond the primary area of GAO's concern. It includes all aspects of procurement, supply, distribution, maintenance, manufacturing, and associated systems and processes. As we have discussed with GAO, this term is so broad that we need clarify exactly what the GAO has in mind to fix. So we have done that. Working with the Office of Management and Budget, we have identified the following areas that are critical to addressing GAO's concerns:

1. Asset Visibility:
 - Improve Asset Visibility across the department. Develop near-term goals to increase asset visibility and long-term goals to achieve total asset visibility.
 - More fully incorporate asset visibility into DoD's logistics business enterprise architecture and DoD's long-term logistics IT system modernization programs.

2. Forecasting:

- Improve Inventory Management (reduce percentage of low-usage inventory, increase availability of high usage, and increase availability of critical inventory).
- Update and improve material requirements process to identify required war reserve stocks and computer models to forecast wartime supply demand and items with long procurement lead times.

3. Distribution:

- Improve the seamless flow of materiel in support of deployed forces.

The overall effectiveness of the total supply chain was demonstrated in OEF, which began less than a month after the September 11 attacks and removed the Taliban from power in short order. In support of OIF, which led to the overthrow of Saddam Hussein in a matter of weeks, we moved and sustained a ground force farther and faster than ever before. Those accomplishments would not have been possible without an effective total supply chain.

The GAO report notes that DoD currently owns about \$67 billion in inventory in 2002. It should also be noted that when inventory management was added to the High-Risk Series in 1990, DoD inventory was over \$100 billion and the initial GAO focus was on efforts to reduce the inventory in the wake of the Cold War. When military readiness concerns surfaced in the late 1990's, DoD undertook steps to bolster

inventories for critical spare parts. Budgetary limitations and the extended lead times for critical parts—up to the three years for some aviation spares—posed significant challenges, but the supply chain was able to respond well enough to effectively support OEF and OIF.

The DoD supply chain has been a focus item of mine from the day I interviewed with the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L)) in 2002. I have led efforts to move towards Knowledge Enabled Logistics. Knowledge Enabled Logistics means asset tracking, conditioned based maintenance, performance based support from our industry providers, lean maintenance in all of the Depots, and integrating the Supply and Distribution folks to focus fully on factory to fighter. The introductions of Joint Deployment and Defense Distribution Operations Centers (JDDOCs) into Central Command in January 2004, and more recently into Korea, PACOM, EUCOM, and SOUTHCOM, led to better-synchronized theater distribution and greatly reduced the goods in flow, while putting warfighter customer needs first. This means Trusted Logistics from the customer perspective, an end to duplicate ordering, and paying attention to retrograding repairs back to the U.S. with the same intensity as getting warfighting capability into theater. We have introduced Unique Identification and introduced changes to the International Standards Organization as a foundation element to knowing the stock, and also Radio Frequency Identification in partnership with commercial industry to manage inventory levels throughout the system, and throughout the theater when fully deployed. Over time all of our purchases that meet certain criteria will come to us both marked and tagged. I think the latest statistics

demonstrate positively that we are very close to Trusted Logistics with the performance we have fostered.

Clearly ongoing operations demonstrate both the effectiveness of the Department's supply chain and some areas for continued improvement. Recent achievements include:

- We have integrated and focused the 500 initiatives which Dave's staff identified (and we found when I joined DoD) into four specific strategic initiatives: (1) achieve Joint Theater Logistics Management; (2) transform weapon system support; (3) compress our organically managed supply chain and achieve asset visibility; and (4) modernize our business systems.
- Industry continues to provide exceptional performance based support to our weapon systems. We are realizing 30 to 40 percent increases in materiel availability, a 70 to 80 percent reduction in lead times, and historically high readiness levels for systems deployed in Iraq today.
- Responded as rapidly as possible (given lead time) to improve materiel availability. Today, materiel availability for the Defense Logistics Agency is 88 percent (versus a target of 85 percent) and backorders hit a historic low in March 2004.
- Through aggressive partnering with industry, DLA's cost recovery rate is at a historic low of 15 percent this year.
- Increased the number of recoverable items returned from theater for repair each quarter by a factor of twenty in the past year.

- Established a new contractor-operated distribution depot using a commercial warehouse system in Kuwait in September 2004.

Even with these accomplishments, we have some areas for improvement, including further reducing our response time and variability in that response time. To address those areas the Department will continue to aggressively implement joint theater logistics, performance based weapon system sustainment, lean organic procedures, radio frequency identification, and an integrated end-to-end distribution process. We published our strategy for achieving Knowledge Enabled Logistics on December 10, 2004 and we are currently documenting specific actions and milestones to implement that strategy. We expect to publish those actions and milestones as a “Logistics Roadmap” in July 2005.

Business Systems Modernization

Although recently designated by GAO as a “High Risk Area” in its January 2005 report, the Department’s approach to Business Transformation is moving in the right direction. On February 7, 2005, the Deputy Secretary established the Defense Business Systems Management Committee (DBSMC) and designated USD(AT&L) as his Vice Chairman. The Committee will oversee business transformation and ensure funds are obligated for defense business systems modernization in accordance with the requirements of the Fiscal Year 2005 National Defense Authorization Act (NDAA). Additionally, USD(AT&L) has assumed direct responsibility for the Business Management Modernization Program (BMMP).

As described in our March 15, 2005 Annual Report to the Congressional Defense Committees, we are on track with establishing a strategic and integrated plan for business transformation with specific goals, measures and accountability mechanisms. Our efforts to ensure effective control and accountability over the Department's business transformation address many of the concerns and recommendations identified in the recent draft GAO report (GAO-05-381, March 16, 2005), on DoD's Business Systems Modernization.

These actions make sense because most of the processes that support financial management and the Department's goal of financial transparency reflected in clean audits are AT&L processes. Additionally, having the Deputy Secretary of Defense and the USD(AT&L) overseeing this program sends a clear message regarding senior leadership involvement. Placing the program under acquisition oversight will instill program discipline as we move from focus on architecture development to rapid implementation of business capabilities.

We have also delegated responsibility for review, approval, and oversight of defense business systems to the Approval Authorities specified in the 2005 NDAA. As part of the investment review board process, we are defining a management structure that clearly defines the relationship between OSD and the Components for investment review responsibilities. I believe these steps will ensure the management accountability and sustained engagement by senior DoD leadership recommended by GAO in the report I mentioned earlier.

We have made significant progress to date on creating data standards and strategies, translating over 145,000 requirements into business rules for financial compliance, developing an initial Business Enterprise Architecture, and improving control of IT spending. Additionally, we have made great gains in defining processes & standards for Unique Identification as a means of achieving Total Asset Visibility, developing a Standard Financial Information Structure (SFIS) that will enable financial transaction traceability, and creating a single face to industry for all components using information technology.

As you are aware, a number of DoD Components are making substantial investments in Enterprise Resource Planning (ERP) systems. In addition to ensuring that we provide the services with data standards and business rules to ensure interoperability among these systems, and complying with DOD-wide Business Enterprise capability requirements, USD(AT&L) is working closely with the ASD(NII) and the business mission area owners to ensure that these transformational systems are acquired properly and that their potential benefits are achieved as soon as possible. Our initiatives in this area include (1) establishing Blanket Purchase Agreements for Commercial-Off-the-Shelf (COTS)/ERP software and associated system integration services under the Enterprise Software Initiative, (2) publication of a Defense Acquisition Guidebook section on best practices in acquiring COTS software, and (3) mapping the decision points and information requirements of the DoD Acquisition Framework to the natural decision points of the COTS/ERP acquisition process. Finally, as part of the realignment of the

BMMP into AT&L, we are establishing an ERP center of expertise. This team of subject matter experts will work with the components to further encourage sharing of best practices, reuse of capabilities already developed, and rapid implementation of DOD rules and data standards.

We are working to address GAO's concerns with the DoD's business system inventory and enterprise architecture. As we stated in our March 15 Report, DoD has improved the accuracy of its business system inventory. A standard definition of a system is being used to ensure a consistent inventory and business systems are now being recorded in a single repository, the DoD Information Technology Portfolio Data Repository (DITPR). We are on track to complete a Business Enterprise Architecture sufficient to clearly define the DOD Business Enterprise and its associated capabilities and systems, as well as the component Business Enterprises and their capabilities and systems, by this fall as required by the 2005 NDAA.

While significant work remains, I am confident that the strategy we have adopted and the steps we have taken will achieve the transformation we desire and account for shortcomings identified by GAO in their recent reviews.

To complete the thought on who should play the role of Chief Management Officer (CMO), I believe this could counter to where industry has been going, and may further remove the Secretary of Defense from vital and timely information on the

workings of the Department. I am told that this has been tried once before. I would ask that you carefully consider this history before reaching again for this solution.

Conclusion

Before closing, I would like to note how extremely proud I am of the team that is dedicated its lives to transforming DoD's business operations. One metric of their ability and dedication can be found in the awards they win. Some highlights of these are: The Defense Acquisition University was recently recognized by the American Society for Training and Development at the #1 training organization for 2004 in America. Ms Lisa Romney, one of AT&L's procurement analysts, was selected as a Fed 100 winner. Ms. Mae DeVincentis of DLA was recognized as one of CIO Magazine's 2004 CIO 100 winners; Defense Supply Center Columbus employee Mr. Hance Barnett received the Military Packaging Hall of Fame award from the National Institute of Packaging, Handling and Logistics Engineers; Mr. Ted Glum, Director of the Defense Microelectronics Activity was selected as the 2005 Federal Laboratory Consortium's Laboratory Director of the Year; USCENTCOM's Deployment Distribution Operations Center and the USMC's 1st Force Service Support Group received the Supply-Chain Council's Award for Excellence in Supply Chain Operations; and the Light Armored Vehicle Lifecycle Logistics Support Tool (a Commercial Technologies for Maintenance Activities project) was honored with the National Center for Advanced Technology's 2004 Defense Manufacturing Excellence.

In closing Mr. Chairman, thank you for the opportunity to testify before the Committee about our business transformation. I would be happy to answer any questions you and the Members of the Committee may have.

Post-Hearing Questions from Senator Daniel Akaka

1. Acquisitions for DOD weapons systems has been on the GAO High-Risk List for 15 years. One such program cited in your testimony is the Airborne Laser. As you know, in May 2004, GAO issued a report at my request on cost increases in this Missile Defense Agency program. Your testimony on weapons acquisition programs notes that “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.” Your description appropriately captures MDA programs. Is this a problem at the Missile Defense Agency, and if so, what needs to be done to correct it?

Response from Mr. Walker

The Missile Defense Agency (MDA) has taken a number of actions designed to establish more realistic schedules, develop life-cycle cost estimates, and define performance goals for the Ballistic Missile Defense System (BMDS). However, it must take additional steps if it is to fully implement the knowledge-based practices that allow leading commercial developers to produce sophisticated products within budget and on schedule. For example, knowledge-based practices show that before MDA asks decisionmakers to invest in the development of future blocks, such as Block 2008, the technologies critical to that block should be mature; funds should be available to develop, produce, and sustain that block throughout its life; and there should be enough time to complete the block's development and production before it must be available to the warfighter. Additionally, a knowledge-based acquisition strategy requires that before a production commitment is made, the developer should demonstrate that the product will meet the needs of the user and that the processes are in place to reliably produce the product.

There are indications that MDA is beginning development of future blocks with mature technology. For example, in Block 2008, MDA is including only those elements whose technologies have been demonstrated. This block is to include the Ground-based Midcourse Defense (GMD), Aegis Ballistic Missile Defense, and Terminal High Altitude Area Defense (THAAD) configurations whose technologies are being demonstrated during Block 2004 or were demonstrated earlier. In addition, there are indications that MDA is taking a more knowledge-based approach to maturing technology. In fiscal year 2004, MDA directed the Airborne Laser (ABL) Program Office to abandon its unrealistic schedule of demonstrating ABL's critical technologies through a lethality demonstration by December 2005. Instead, MDA directed the program to focus on achieving nearer term knowledge that is needed before the lethality test can occur, such as proving that the element's chemical laser is capable of producing a laser beam. Similarly, MDA has directed the Kinetic Energy Interceptor program to slow its development efforts until its critical technologies, such as the interceptor booster's performance, are demonstrated.

Additional actions are needed, however, to ensure that MDA is matching technology, time, and money prior to asking decisionmakers to make a significant investment in a block. MDA's progress toward developing a lifecycle cost estimate came too late for decisionmakers tasked with deciding whether to invest in Block 2004. MDA did not deliver a lifecycle-type cost estimate for Block 2004 until the end of the block was nearing and decisions on development and production were made. In its fiscal year 2006 budget documents, MDA made a lifecycle cost estimate for Block 2008 available. However, the estimate is embedded in budget data that may be time consuming to extract. Additionally, the operation and sustainment cost included in the lifecycle cost estimate involves some uncertainty because MDA has not completely determined the reliability of block components or the cost of their repair and it has not determined how long each block will be in the field before it is replaced with a newer configuration. Because of this latter uncertainty, the lifecycle cost estimate does not include a total estimate of each block's operation and sustainment cost; rather it is an annual estimate of this cost.

Also, in a knowledge-based system, firm requirements are matched with mature technologies, time, and money before decisionmakers are asked to invest significant amounts of money in a product's development. MDA is setting goals for each block but goals are somewhat weaker than requirements because they are easily changed if they are not attainable. MDA did not even establish performance goals for Block 2004 until after a significant investment was made in the block.

Finally, the decision to enter production and move forward with fielding has not been knowledge-based. A production decision was made much too early for the Ground-based Midcourse Defense (GMD) portion of Block 2004 and is resulting in the initial capability being unproven. MDA has exacerbated this decision by continuing production of the unproven Block 2004 configuration during Block 2006. It remains to be seen whether MDA will delay production decisions for future blocks until after each block has been fully demonstrated.

2. In your testimony, you noted that the Defense Authorization Act for FY 05 (P.L. 108-375) requires that the obligation of funds exceeding \$1 million for the modernization of business systems must be approved by the Defense Business Systems Management Committee or the obligation would be in violation of the Anti-Deficiency Act. Do you believe that DOD is now in violation of the Anti-Deficiency Act?

Response from Mr. Walker

The provision in the fiscal year 2005 defense authorization act concerning the review of business systems modernizations exceeding \$1 million does not go into effect until October 1, 2005. Therefore, the department is not currently in violation of the Anti-

Deficiency Act. However, as discussed in our recent report¹ DOD is not in compliance with the National Defense Authorization Act for Fiscal Year 2003, which required the DOD Comptroller to determine that system improvements with obligations exceeding \$1 million meet the criteria specified in the act.² Based on limited information provided by DOD, system improvements totaling about \$243 million of obligations over \$1 million were not reviewed by the DOD Comptroller in fiscal year 2004. As shown in the following table, cumulatively, based upon DOD's reported data, system improvements totaling about \$651 million of obligations over \$1 million were not reviewed by the DOD Comptroller before obligations were made since passage of the 2003 act.

DOD Business Systems with Obligations in Excess of \$1 Million for Modernizations Not Submitted to the DOD Comptroller (Dollars in Millions)

Component	Fiscal year 2003	Fiscal year 2004	Total
Army	\$78	\$40	\$118
Navy	62	93	\$155
Air Force	53	79	\$132
Defense Logistics Agency	168	10	\$178
TRICARE	6	17	\$23
U.S. Transportation Command	1	1	\$2
Defense Finance and Accounting Service	40	3	\$43
Total	\$408	\$243	\$651

¹ GAO, *DOD Business Systems Modernizations: Billions Being Invested without Adequate Oversight*, GAO-05-381 (Washington, D.C.: Apr.29, 2005).

² Subsection 1004(d) of the Bob Stump National Defense Authorization Act for Fiscal Year 2003, Pub. L. No. 107-314, 116 Stat. 2458, 2630 (Dec. 2, 2002), provides that any amount in excess of \$1 million may be obligated for financial system improvements before approval of DOD's enterprise architecture and a supporting transition plan only if the DOD Comptroller makes a determination that the improvement is necessary for (1) critical national security capability or critical safety and security requirements or (2) prevention of significant adverse effect on a project that is needed to achieve an essential capability. The act further provides that after the architecture is approved, the DOD Comptroller must determine before making obligations that exceed \$1 million for system improvements that such improvements are consistent with the enterprise architecture and the transition plan. The provision was repealed on October 28, 2004, by the Ronald 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. §§ 185, 2222), which enacted a new similar \$1 million limitation on obligations for business systems modernizations.

Post-Hearing Questions from Senator Daniel Akaka
“Waging War on Waste: An Examination of DOD’s Business Practices”
April 28, 2005
Subcommittee on Oversight of Government Management, the Federal Workplace, and the
District of Columbia

Question for Mr. Johnson:

1. One of the challenges facing DOD is strategic human capital management. The Comptroller General has repeatedly discussed the lack of a comprehensive strategic workforce plan at DOD to guide its human capital efforts. And yet, in the December 2004 Executive Branch Management Scorecard from OMB, the Department achieved a green rating for success in developing and using a comprehensive human capital plan. How do you explain this apparent discrepancy?

Answer:

DoD does have a Strategic Human Capital Plan for 2004-2009, as do the military services and other major components. The December 2004 scorecard reflected the agency was green in **progress** for having developed a Strategic Human Capital Plan (SHCP) for 2004-2009 and meeting its deliverables for the quarter. The December 2004 scorecard also reflected the agency was yellow in **status** for having developed the SHCP. DoD is currently updating this plan for FY 2006-2011 to take advantage of the new National Security Personnel System (NSPS) and to provide for the restructuring expected from the 2005 Base Realignment and Closure process.

The discrepancy is in terminology - strategic human capital planning versus workforce planning. The Strategic Human Capital Plan describes what the agency will do to ensure that its employees have the mission-critical competencies required to carry out the agency's strategic goals. This includes workforce planning, which encompasses succession planning, recruitment and retention plans, achieving performance goals, and addressing programmatic challenges unique to the agency. Workforce planning links directly to the agency's human capital, strategic and annual performance plans and is used to make decisions about structuring and deploying the workforce. It also includes the workforce analysis process.

GAO references the lack of workforce planning at DoD as the driver for its overall strategic human capital plan. OPM is currently working with DoD on its efforts to do more comprehensive workforce planning Department-wide, as opposed to being driven by the individual components.

Hearing Date: April 28, 2005
Committee: SASC
Member: Senator Voinovich
Witness: Mr. Berkson
Question #1

AT&L Workforce

Question: First, on April 13, Secretary Wynne testified before the Senate Armed Services Subcommittee on Readiness and Management. In his testimony he said that the Acquisition, Technology, and Logistics (AT&L) Workforce fell from 149,439 employees in March 1998 to 134,539 employees in September 2004. At the same time, the number of contract actions over \$100,000 increased from 101,663 in FY 1998 to 160,338 in FY 2004. Could you please describe the impact that these dynamics have on the AT&L's ability to manage its workload?

Answer: As the AT&L workforce has been shrinking, it must work harder than ever to manage increasing requirements, and an expanding range of complex acquisitions, including performance based contracting, services acquisition, major defense systems, and research and development. We must continue to match the resources and capabilities of the AT&L Workforce to the demands that are placed upon them. We must continue to use new tools such as the expanded workforce management and streamlining flexibilities provided by the National Defense Authorization Act for Fiscal Year 2004 and the anticipated performance management tools afforded by the new National Security Personnel System, and we must leverage technology to manage smartly and strategically workforce competencies and enable a high performance learning environment.

We must also continue to work with both Department-wide and Component human capital strategic planning efforts to identify competency and skill gaps in the workforce and ensure that these gaps are continuously updated to reflect new missions and technologies of the Department. We need to continue to develop current and future personnel to face the challenges of a changing environment. The workforce must conduct all business with integrity -- the foundation of our acquisition system. They must possess business acumen so they can be "smart acquirers." They must be results driven, and be comfortable operating in a performance based business environment. They must be change able and change ready and have the ability to smartly react to and implement change. They must possess the management and personal skills needed to operate in a multifunctional, team-based, integrated digital environment.

Finally, we anticipate that the results of the Quadrennial Defense Review assessment of how to structure and resource better acquisition functions, will provide the Secretary with recommendations to make the acquisition processes more effective and more attuned to the current acquisition environment.

Question: Second, in March 2005, the Deputy Secretary of Defense moved DOD's business transformation efforts from the Under Secretary of Defense, Comptroller, to the Under Secretary of Defense for AT&L. Since the AT&L workforce is already operating with resource limitations, in your estimation, can the leadership, management, and employees handle the added responsibility of transforming the Department's business practices?

Answer: Yes, we have excellent senior leadership and management that are committed to transforming our business operations to achieve improved warfighter support while enabling financial accountability across DoD. The decision to move DoD's business transformation efforts to the Under Secretary of Defense for AT&L was done in part to take advantage of the highly diverse expertise of the AT&L workforce. The diversity of skills available within AT&L will enable us to manage more effectively business transformation across the Department and ensure that the Department is successful transforming its business practices.

In addition, the National Security Personnel System will provide the Department with an expanded set of tools for assigning and reassigning employees in response to mission changes and priorities. Department managers will have a greater ability to acquire, advance, and shape their workforce in response to organizational needs, and to compete for and retain the best talent.

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 Question #2

Question: The FY 2005 Defense Authorization Act required DoD to develop a transition plan that includes an acquisition strategy for new systems, including a list of information technology legacy systems that will be phased out with termination dates and a list of existing systems that will be modified to become part of the new enterprise architecture. This action gets directly at DoD's business transformation efforts. Could you please tell us what steps the Department is taking to comply with the law?

Answer: Within the Office of the Under Secretary of Defense, Acquisition, Technology and Logistics (USD (AT&L)) the Special Assistant for Business Transformation has assumed management responsibility for the Business Management and Modernization Program (BMMP). One of his responsibilities is the development of the Department's Enterprise Transition Plan (ETP). This plan will include all required elements specified by section 332, of the Ronald Reagan National Defense Act for Fiscal Year 2005. The ETP will be approved by the Defense Business Systems Management Committee (DBSMC) and delivered to Congress by September 30, 2005.

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 Question #3

Question: For the past several years, DoD has been conducting an inventory of their business systems. During their review, the number of systems has nearly doubled. For example, in 2004 DoD reported that they had 2,274 business systems however, data from February 2005 suggests that the Department's count is now up to 4,150 business systems. This includes 450 personnel systems, and over 2,000 logistics systems. Can you please share your thoughts on how the number of systems increased so dramatically? Does the Department have a clear definition of a "Business System?" If so, what is the definition?

Answer: The reported number of business systems has increased dramatically for a number of reasons but mostly because the first report was based on incomplete data. Additionally, we have to ensure that each system included in the count, in fact, did meet the new definition in section 332, of the Ronald Reagan National Defense Act for Fiscal Year 2005

Since the earlier inventory reports, the Department has taken steps to both define and account for its business systems, and to ensure that the various data repositories are consistent and ultimately integrated. The Deputy Under Secretary for Financial Management (DUSD (FM)), Mr. Thomas Modly, and the Special Assistant for Business Transformation, Mr. Paul Brinkley have worked closely with the Office of the Assistant Secretary of Defense for Networks and Information Integration (ASD (NII)) (the Department's Chief Information Officer (CIO)) to establish a single repository for this information. OASD (NII) / CIO has assumed responsibility for the repository. The Department is working hard to refine data collection efforts in this area and ensure the integrity of its business system inventory. At the same time, the DoD Components are updating the information in the repository.

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 Question #4

Question: A November 18, 2004 article in *Inside the Pentagon* reported that a plan entitled Management Initiative Decision 918 (MID 918) was awaiting approval from the Deputy Secretary Paul Wolfowitz. According to the article, the management initiative would give the Pentagon comptroller jurisdiction over the Department's accounting and finance, acquisition, human resources management, logistics, strategy planning and budgeting functions. Since there is so little public information regarding this proposal, could you please provide the status of MID 918? Second if the DoD decides not to pursue this course of action, is there another effort underway to merge and centralize the management function into one organizational unit within the Department?

Answer: MID 918 was drafted in response to the Deputy Secretary of Defense's March 22, 2004 memorandum titled, "Information Technology Portfolio Management." In this memorandum the Deputy Secretary of Defense tasked the Under Secretary of Defense (Comptroller) USD (C) to develop policies and procedures to ensure that DoD IT Business Systems were effectively designed, developed, maintained and used.

Subsequently, Congress enacted section 332 of the Ronald Reagan National Defense Act for Fiscal Year 2005 to assist the Department in effecting business transformation. The USD (Acquisition, Technology & Logistics) (USD (AT&L)) and the USD (C) are working cooperatively to implement section 332. Both Under Secretaries designated senior executives to lead the Department's business transformation efforts. Additionally, they agreed that the Business Management Modernization Program would benefit if it was transferred into the office of USD (AT&L), and was subjected to oversight similar to that provided on a Major Defense Acquisition Program. The Deputy Under Secretary for Financial Management (DUSD (FM)), Mr. Thomas Modly, and the Special Assistant for Business Transformation, Mr. Paul Brinkley have both been appointed and are jointly overseeing the business transformation efforts of the Department.

Hearing Date: April 28, 2005
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 Question #1

Question: Operation Iraqi Freedom (OIF) is one of the largest logistics supply and support efforts in U.S. military history and is requiring the movement of a large number of personnel and equipment over great distances in a hostile environment. GAO examined DoD's logistics efforts and found several problems. One problem was "the failure to effectively apply the lessons learned from Operations Desert Shield and Desert Storm and other operations may have contributed to the logistics support problems encountered during OIF."

What are some of the lessons learned from Operation Iraqi Freedom and what improvements have DOD made to effectively apply these lessons learned?

Answer: In the summer of 2003, the Director of Logistics on the Joint Staff and my office—Logistics & Materiel Readiness, directed a comprehensive look at lessons learned from Operation Iraqi Freedom (OIF). This report called "Objective Assessment of Logistics in Iraq," documents lessons learned in Iraq and recommends an action plan to address the logistics shortcomings of the war. This Action Plan became Department Policy on June 25, 2004, when the Acting Under Secretary of Defense (AT&L) directed the implementation of the recommendations made in the Objective Assessment.

As we studied our logistics support, we found our logistics processes, systems, data and technology were not as integrated and interoperable as we want them to be. This reduced our logistics operations to what was termed by one person we interviewed as the "lowest common denominator." In fact, we found that many of the successes achieved were a result of creative improvisation by people and organizations that recognized the warfighters' needs and worked diligently to satisfy those needs and overcome the gaps. Consequently, we have increased our efforts to achieve the end-to-end integration and interoperability of the logistics processes, systems, data and technology which make up the Department's logistics enterprise. We must be able to give the Combatant Commander the tools needed to exercise Directive Authority over logistics.

Since 2002, the lessons learned have resulted in the implementation of dramatically improved capabilities in support of the warfighter. Some examples include:

- In the area of process, the concept of the Joint Deployment Distribution Operations Center (JDDOC) first stood up in Kuwait as the CENTCOM DDOC as a result of the lessons learned, has been a resounding success, and is now being replicated within other geographic COCOMs. For example, in USPACOM the successes realized in support of the Tsunami Relief Effort can be at least partially attributable to establishment of a JDDOC in that combatant command.
- In the area of systems, Performance Based Logistics was battle tested, and found to be capable of providing required operational availability while leveraging contractor capability. We remain focused on making this the standard across the Department, and today over half of all ACAT I and ACAT II programs are involved in Performance Based Logistics implementations.
- In the area of technology and support processes, we recognized the power demonstrated by RFID in combat environments, the use of RFID is now Department policy, not just a CENTCOM COCOM requirement. The rollout of RFID across the Department, and extension into new applications of the technology, is underway.
- In the area of technology, the Army has taken the lead for the ground force, totally rebuilding logistics communications infrastructure, and is now using VSAT communications instead of the traditional line-of-sight radio communications first used in Iraq. Today, this VSAT communications infrastructure is being rolled out in the Marines Corps, as well.

These are just some examples of the broad transformation we have underway. We have a Logistics Transformation Roadmap, which is bearing fruit today. OIF taught us valuable lessons, and we are converting these lessons into actions which will provide the warfighter capability, transform the logistics enterprise into a seamless chain extended factory to foxhole, deliver what is needed, where it's needed, and in the quantity needed. I believe we are on track in accomplishing these actions.

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 Question #2

Question: In your testimony, you cited DoD's plans to improve Asset Visibility through the use of Radio Frequency Identification and noted that DoD has worked with OMB in identifying Asset Visibility as an area critical to addressing GAO's concerns.

Has DoD established measurable goals in this area? If not, why have we not seen greater improvements in this area, and when will these goals be established?

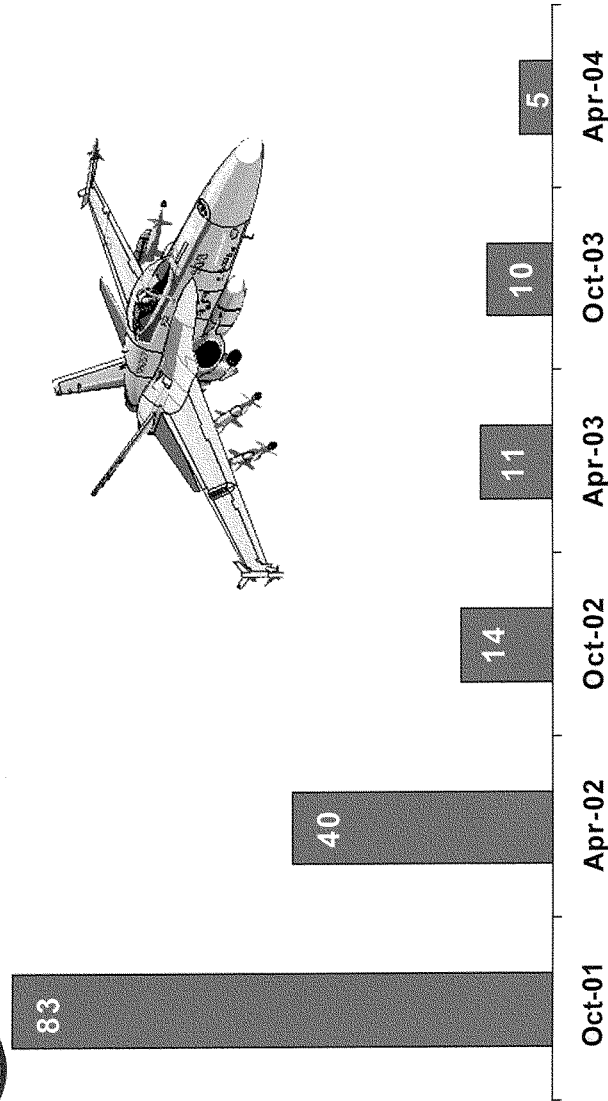
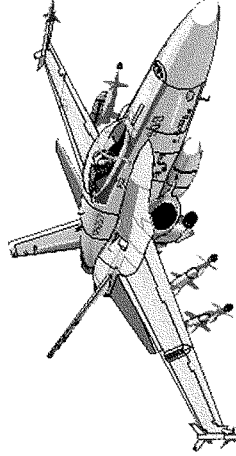
Answer: As I mentioned in my testimony, we are working with OMB to address GAO's concerns. To that end, the Department has developed a plan for improvement of supply chain management with a focus on inventory management and distribution. That plan outlines measurable goals for increasing our inventory management and distribution support to the warfighter. Asset visibility and implementation of RFID are enablers that facilitate our ability to provide the necessary support. We are measuring our implementation of RFID across the DoD. In fact, through our sustained oversight, active RFID tags are attached to over 90% of consolidated shipments flowing into Iraq--a substantial increase over the limited use of RFID prior to the beginning of OIF.

The DoD, like the commercial sector, has just started its implementation of passive RFID. Until passive RFID becomes fully integrated into the transactional level of the DoD supply chain, which will take some years, we cannot expect to take full advantage of the improvements in asset visibility that RFID offers. However, as nodal locations become enabled with passive RFID and tagged materiel begins to flow throughout the supply chain, asset visibility will improve with the ability to capture additional hands-free data and make this information available to military logisticians and the warfighter. Our goals to enable asset visibility across the supply chain revolve around implementing this technology at key nodal locations.

With regard to metrics, we are tracking what nodes are implemented with both passive and active RFID, and how much cargo is tagged. We have an implementation plan which calls for our key strategic distribution nodes to be implemented with this capability by the end of 2007. However, the metrics we are focused on are not asset visibility related, but readiness related. Asset visibility is not an end unto itself. The goal is to increase readiness and measure operational support to the warfighter -- knowing what we have and where it is in the supply chain facilitates that capability.



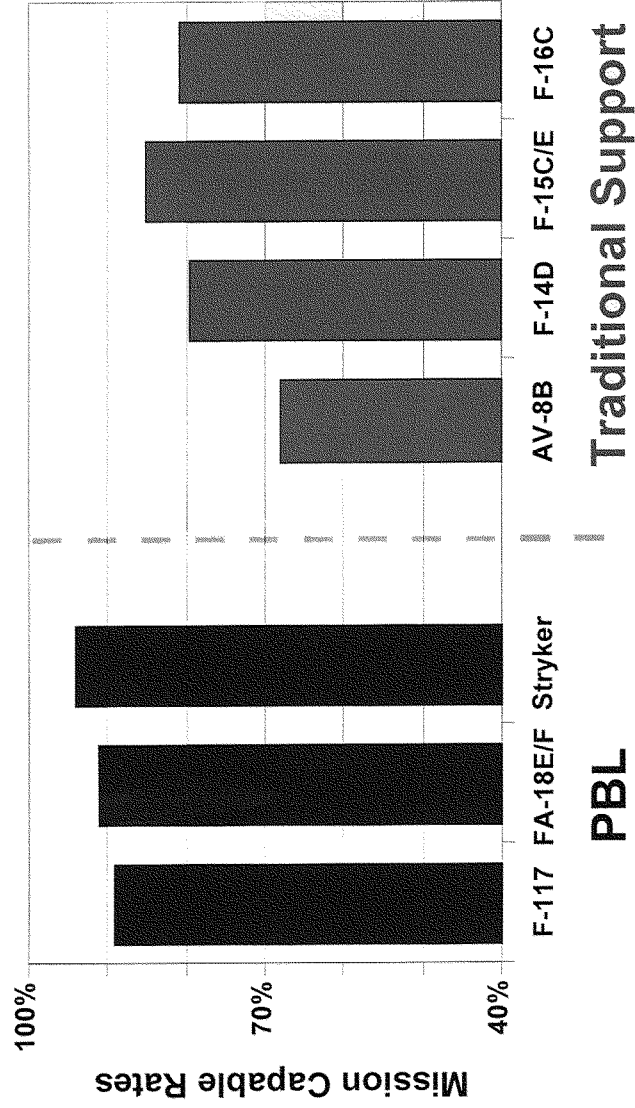
Focus on continuous improvement (Maintenance Cycle Time Days)



AIMD Lemoore Power Plants Shop
F404 Engine Repair Cycle Time

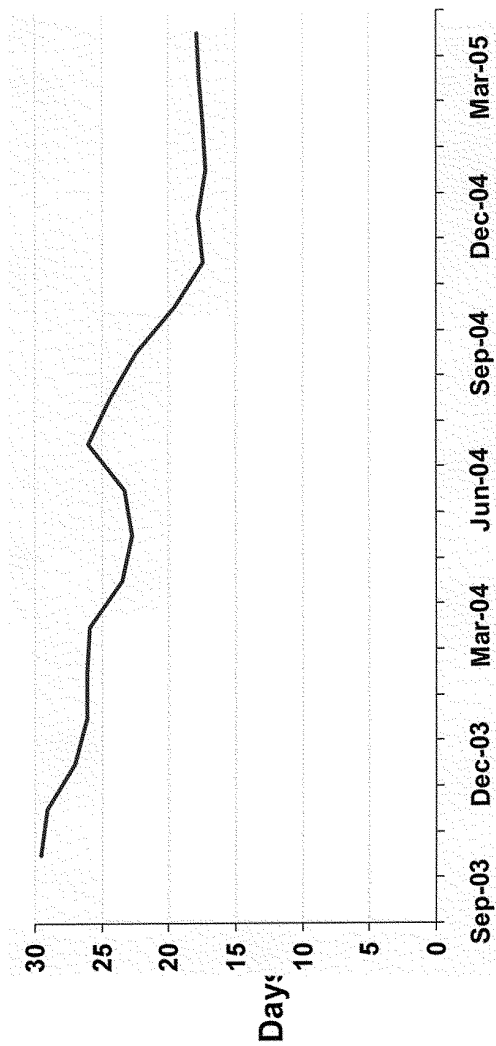


Performance Based Logistics (PBL) proven in the Global War on Terrorism





IRAQ Air Shipments Cycletime



* Data reflects military air shipments –
airlifted materiel (Class IX, ICG 1) palletized at the Defense Logistics Agency depot for units in Iraq