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Testimony

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DEPARTMENT OF  
DEFENSE

Further Actions Are  
Needed to Effectively  
Address Business  
Management Problems and  
Overcome Key Business  
Transformation Challenges

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





Highlights of [GAO-05-140T](#), a report to the Subcommittee on Readiness and Management Support, Committee on Armed Services, U.S. Senate

## Why GAO Did This Study

In March 2004, GAO testified before this Subcommittee on the impact and causes of financial and related business weaknesses on the Department of Defense's (DOD) operations and the status of DOD reform efforts. GAO's reports continue to show that fundamental problems with DOD's financial management and related business operations result in substantial waste and inefficiency, adversely impact mission performance, and result in a lack of adequate transparency and appropriate accountability across all major business areas. Over the years, DOD leaders have initiated a number of efforts to address these weaknesses and transform the department. For years, GAO has reported that DOD is challenged in its efforts to effect fundamental financial and business management reform, and GAO's ongoing work continues to raise serious questions about DOD's chances of success. The Subcommittee asked GAO to provide a current status report on DOD's progress to date and suggestions for improvement. Specifically, GAO was asked to provide (1) an overview of the impact and causes of weaknesses in DOD's business operations, (2) the status of DOD reform efforts, (3) the impact of recent legislation pertaining to DOD's transformation and financial improvement initiatives, and (4) suggestions for improving DOD's efforts to improve the reliability of its financial information.

[www.gao.gov/cgi-bin/getrpt?GAO-05-140T](http://www.gao.gov/cgi-bin/getrpt?GAO-05-140T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory Kutz, (202) 512-9095 or [kutzg@gao.gov](mailto:kutzg@gao.gov).

## DEPARTMENT OF DEFENSE:

# Further Actions Are Needed to Effectively Address Business Management Problems and Overcome Key Business Transformation Challenges

## What GAO Found

Although senior DOD leaders have shown commitment to transformation as evidenced by key initiatives such as human capital reform, the Business Management Modernization Program, and the Financial Improvement Initiative, little tangible evidence of improvement has been seen in DOD's business operations. Overhauling the business operations of one of the largest and most complex organizations in the world represents a huge management challenge, especially given the increased demands on our military forces. However, this challenge can be met if DOD employs key elements, such as a comprehensive and integrated business transformation plan. Six DOD program areas are on GAO's high-risk list, and the department shares responsibility for three other governmentwide high-risk areas. Substantial weaknesses in DOD business operations adversely affect its ability to provide timely, reliable management information for DOD and Congress to use in making informed decisions. Further, the lack of adequate transparency and appropriate accountability across all of DOD's major business areas results in billions of dollars annually in wasted resources in a time of increasing fiscal challenges.

### Examples of the Impact of Business Management Problems at DOD

Business area affected	Problem identified and its impact
<b>Military pay</b>	782 of the 829 mobilized Army National Guard and Reserve soldiers from 14 case study units GAO investigated had pay problems. These problems distracted soldiers from their missions, imposed financial hardships on their families, and had a negative impact on retention.
<b>Logistics</b>	Asset visibility and other logistical support problems hampered mission readiness during Operation Iraqi Freedom, including cannibalization of vehicles for parts and duplication of requisitions.
<b>Travel</b>	Ineffective controls over DOD's centrally billed travel accounts led to millions of dollars wasted on unused airline tickets, reimbursements to travelers for improper or fraudulent ticket claims, and issuance of tickets based on invalid travel orders.
<b>Program planning</b>	Overly optimistic planning assumptions used to estimate DOD's annual budget request limit visibility of projected costs. As a result, DOD has too many programs for the available dollars, which often leads to program instability, increased costs, and program termination.

Source: GAO.

Four underlying causes impede reform: (1) lack of clear and sustained leadership for overall business transformation efforts, (2) cultural resistance to change, (3) lack of meaningful metrics and ongoing monitoring, and (4) inadequate incentives and accountability mechanisms. To address these issues, GAO reiterates the key elements to successful reform that are embodied in our prior recommendations and two suggestions for legislative action. First, GAO suggests that a senior management position be established to provide strong and sustained leadership over all major transformation efforts. Second, GAO proposes that business systems modernization money be appropriated to designated approval authorities responsible and accountable for system investments within DOD business areas. Absent this unified responsibility, authority, accountability, and control of funding, the current transformation efforts are likely to fail.

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Mr. Chairman and Members of the Subcommittee:

It is a pleasure to be back before this Subcommittee to discuss financial management and overall business transformation efforts at the Department of Defense (DOD). At the outset, I would like to thank the Subcommittee for having this hearing and acknowledge the important role hearings such as this one serve in addressing DOD's business transformation challenges. DOD spends billions of dollars each year to sustain key business operations that support our forces, including systems and processes related to acquisition and contract management, financial management, supply chain management, support infrastructure management, human capital management, and other key areas. Recent and ongoing military operations in Afghanistan and Iraq and new homeland defense missions have led to higher demands on our forces in a time of growing fiscal challenges for our nation. In an effort to better manage DOD's resources, the Secretary of Defense has appropriately placed a high priority on transforming key business processes to improve their efficiency and effectiveness in supporting the department's military mission. However, as our reports continue to show, fundamental problems with DOD's financial management and related business operations continue to result in substantial waste and inefficiency, adversely impact mission performance, and result in a lack of adequate transparency and appropriate accountability across all major business areas. Of the 25 areas on GAO's governmentwide high-risk list, 6 are DOD program areas, and the department shares responsibility for 3 other high-risk areas that are governmentwide in scope.<sup>1</sup> The problems we continue to identify relate to human capital challenges, ineffective internal control and processes, and duplicative and nonintegrated business information, systems, and operations. The seriousness of weaknesses in DOD's business operations underscores the importance of no longer condoning the "status quo" at DOD.

Although, the Secretary and several key agency officials have shown commitment to transformation, as evidenced by key initiatives such as human capital reform, the Business Management Modernization Program (BMMP), and the Financial Improvement Initiative, little tangible evidence

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<sup>1</sup> GAO, *High-Risk Series: An Update*, [GAO-03-119](#) (Washington, D.C.: January 2003). The nine interrelated high-risk areas that represent the greatest challenge to DOD's development of world-class business operations to support its forces are: contract management, financial management, human capital management, information security, support infrastructure management, inventory management, real property, systems modernization, and weapon systems acquisition.

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of significant broad-based and sustainable improvements has been seen in DOD's business operations to date. Improvements have generally been limited to specific business process areas, such as DOD's purchase card program, and resulted in the incorporation of many key elements of reform, such as increased management oversight and monitoring and results-oriented performance measures. It is important to note that current business transformation initiatives are not integrated and lack many of the key elements that contributed to the success of the narrowly defined initiatives that I will highlight today.

For DOD to successfully transform its business operations, it will need a comprehensive and integrated business transformation plan, people with the skills, responsibility, and authority to implement the plan, an effective process and related tools, such as a Business Enterprise Architecture (BEA),<sup>2</sup> and results-oriented performance measures that link institutional, unit, and individual personnel goals and expectations to promote accountability for results. Over the last 3 years, we have made a series of recommendations to DOD and suggested legislative changes that, if implemented, could help DOD move forward in establishing the means to successfully address the challenges it faces in transforming its business operations.<sup>3</sup> The framework that we have proposed includes several key elements for successful reform, recognizes the complexity of the challenges facing DOD in its efforts to transform the department, and the long-term nature of overcoming these challenges. Moreover, it recognizes that the lack of clearly defined and sustained leadership, an enterprise

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<sup>2</sup> A BEA is a well-defined blueprint for operational and technological change. It generally consists of three integrated components: a snapshot of the enterprise's current operational and technological environment, a snapshot of its target environment, and a capital investment roadmap for transitioning from the current to the target environment.

<sup>3</sup> GAO, *DOD Business Systems Modernization: Billions Continue to Be Invested with Inadequate Management Oversight and Accountability*, [GAO-04-615](#) (Washington, D.C.: May 27, 2004), *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, 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).

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architecture to guide and direct business operational changes, cultural resistance to change, and internal parochialism have impeded the success of previous reform efforts. DOD has agreed with our recommendations and launched efforts intended to implement many of them, but progress has been slow. Unless DOD can address the underlying causes that have contributed to the failure of previous broad-based reform efforts, improvements will remain marginal and confined to narrowly defined business process areas and incremental improvements in human capital policies, business processes, internal controls, and information technology systems.

Today, I will provide my perspectives on (1) the impact that long-standing weaknesses continue to have on the economy, efficiency, and effectiveness of DOD's business operations, (2) underlying causes that have impeded the success of prior efforts, (3) keys to successful reform, and (4) DOD business transformation efforts and interim improvements. In addition, while statutory requirements enacted recently as a part of the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005<sup>4</sup> are a positive step towards improving leadership and accountability over DOD's systems transformation efforts, I will offer two suggestions for legislative consideration related to sustained top-level leadership, responsibility, and accountability that would better permit the effective use of transition plans, processes, people, and tools and thereby increase the likelihood of successful business transformation. My statement is based on previous GAO reports and routine efforts to track the status of open recommendations, as well as on our review of the work of other Supreme Audit Institutions and DOD auditors, and recent DOD reports and studies. Our work was performed in accordance with generally accepted government auditing standards.

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<sup>4</sup>Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, Pub. L. No. 108-375, §§332, 352, 118 Stat. 1811 (Oct. 28, 2004) (*codified, in part, at* 10 U.S.C. §§185, 2222).

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## Impact of Financial Management and Related Business Process Weaknesses

As I previously stated, and we have reported on for several years, DOD faces a range of challenges that are complex, long-standing, pervasive, and deeply rooted in virtually all major business operations throughout the department. As I testified last March and as discussed in our latest financial audit report,<sup>5</sup> DOD's financial management deficiencies, taken together, continue to represent the single largest obstacle to achieving an unqualified (clean) audit opinion on the U.S. government's consolidated financial statements. While it is important to note that some DOD organizations, such as the Defense Finance Accounting Service (DFAS),<sup>6</sup> the Defense Contract Audit Agency, and the Office of the Inspector General, have clean audit opinions for fiscal year 2004, significant DOD components do not. To date, none of the military services has passed the test of an independent financial audit because of pervasive weaknesses in internal control and processes and fundamentally flawed business systems. Moreover, the lack of adequate transparency and appropriate accountability across DOD's major business areas results in billions of dollars of wasted resources annually at a time of growing fiscal constraints.

In identifying improved financial performance as one of its five governmentwide initiatives, the President's Management Agenda recognized that obtaining an unqualified financial audit opinion is a basic prescription for any well-managed organization. At the same time, it recognized that without sound internal control and accurate and timely financial and performance information, it is not possible to accomplish the President's agenda and secure the best performance and highest measure of accountability for the American people. The Joint Financial Management Improvement Program (JFMIP)<sup>7</sup> principals have defined certain measures, in addition to receiving an unqualified financial statement audit opinion, for achieving financial management success. These additional measures

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<sup>5</sup> GAO, *Fiscal Year 2003 U.S. Government Financial Statements: Sustained Improvement in Federal Financial Management Is Crucial to Addressing Our Nation's Future Fiscal Challenges*, [GAO-04-477T](#) (Washington, D.C.: Mar. 3, 2004).

<sup>6</sup> DFAS's financial statements and corresponding audit opinion pertain only to the administrative functions of DFAS itself and, consequently, do not provide any assurance as to the reliability of the accounting processes and systems DFAS uses to provide services to other DOD components, including the military services.

<sup>7</sup> JFMIP is a joint undertaking of the Office of Management and Budget, GAO, the Department of Treasury, and the Office of Personnel Management, working in cooperation with each other and with operating agencies to improve financial management practices throughout the government.

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include (1) being able to routinely provide timely, accurate, and useful financial and performance information, (2) having no material internal control weaknesses or material noncompliance with laws and regulations, and (3) meeting the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA).<sup>8</sup> Unfortunately, DOD does not meet any of these conditions. For example, for fiscal year 2004, the DOD Inspector General issued a disclaimer of opinion on DOD's financial statements, citing 11 material weaknesses in internal control and noncompliance with FFMIA requirements.

Recent audits and investigations by GAO and DOD auditors continue to confirm the existence of pervasive weaknesses in DOD's financial management and related business processes and systems. These problems have (1) resulted in a lack of reliable information needed to make sound decisions and report on the status of DOD activities, including accountability of assets, through financial and other reports to Congress and DOD decision makers, (2) hindered its operational efficiency, (3) adversely affected mission performance, and (4) left the department vulnerable to fraud, waste, and abuse, of which I have a few examples.

- 782 of the 829 mobilized Army National Guard and Reserve soldiers from 14 case study units we reviewed had at least one pay problem—including overpayments, underpayments, and late payments—associated with their mobilization. DOD's inability to provide timely and accurate payments to these soldiers, many of whom risked their lives in dangerous combat missions in Iraq or Afghanistan, distracted them from their missions, imposed financial hardships on the soldiers and their families, and has negatively impacted retention. ([GAO-04-89](#), Nov. 13, 2003 and [GAO-04-911](#), Aug. 20, 2004)
- DOD incurred substantial logistical support problems as a result of weak distribution and accountability processes and controls over supplies and equipment shipments in support of Operation Iraqi Freedom, similar to those encountered during the prior gulf war. These weaknesses resulted in (1) supply shortages, (2) backlogs of materials delivered in-theater but not delivered to the requesting activity, (3) a discrepancy of \$1.2 billion between the amount of materiel shipped and that acknowledged by the activity as received, (4) cannibalization of

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<sup>8</sup> Pub. L. No. 104-208, div. A., § 101 (f), title VIII, 110 stat. 3009, 3009-389 (Sept. 30, 1996).

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vehicles, and (5) duplicate supply requisitions. ([GAO-04-305R](#), Dec. 18, 2003)

- Inadequate asset accountability also resulted in DOD's inability to locate and remove from its inventory over 250,000 defective chemical and biological protective garments known as Battle Dress Overgarments (BDOs)—the predecessor of the new Joint Service Lightweight Integrated Suit Technology (JSLIST). Subsequently, we found that DOD had sold many of these defective suits to the public, including 379 that we purchased in an undercover operation. In addition, DOD may have issued over 4,700 of the defective BDO suits to local law enforcement agencies. Although local law enforcement agencies are most likely to be the first responders to a terrorist attack, DOD failed to inform these agencies that using these BDO suits could result in death or serious injury. ([GAO-04-15NI](#), Nov. 19, 2003)
- Ineffective controls over Navy foreign military sales using blanket purchase orders placed classified and controlled spare parts at risk of being shipped to foreign countries that may not be eligible to receive them. For example, we identified instances in which Navy country managers (1) overrode the system to release classified parts under blanket purchase orders without filing required documentation justifying the release and (2) substituted classified parts for parts ordered under blanket purchase orders, bypassing the control-edit function of the system designed to check a country's eligibility to receive the parts. ([GAO-04-507](#), June 25, 2004)
- DOD and congressional decision makers lack reliable data upon which to base sourcing decisions due to recurring weaknesses in DOD data-gathering, reporting, and financial systems. As in the past, we have identified significant errors and omissions in the data submitted to Congress on the amount of each military service's depot maintenance work outsourced or performed in-house. As a result, both DOD and Congress lack assurances that the dollar amounts of public-private sector workloads reported by the military services are reliable. ([GAO-04-871](#), Sept. 29, 2004)
- Ineffective controls over DOD's centrally billed travel accounts led to millions of dollars wasted on unused airline tickets, reimbursements to travelers for improper and potentially fraudulent airline ticket claims, and issuance of airline tickets based on invalid travel orders. For example, we identified 58,000 airline tickets—primarily purchased in

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fiscal years 2001 and 2002—with a residual value of more than \$21 million that were unused and not refunded as of October 2003. On the basis of limited airline data, we determined that since 1997, the potential magnitude of DOD’s unused tickets could be at least \$115 million. ([GAO-04-825T](#), June 9, 2004 and [GAO-04-398](#), Mar. 31, 2004)

- The Navy’s lack of detailed cost information hinders its ability to monitor programs and analyze the cost of its activities. For example, we found that the Navy lacked the detailed cost and inventory data needed to assess its needs, evaluate spending patterns, and leverage its telecommunications buying power. As a result, we found that at the sites reviewed, the Navy paid for telecommunications services it no longer required, paid too much for services it used, and paid for potentially fraudulent or abusive long-distance charges. For instance, we found that DOD paid over \$5,000 in charges for one card that was used to place 189 calls in one 24-hour period from 12 different cities to 12 different countries. ([GAO-04-671](#), June 14, 2004)
- DOD continues to use overly optimistic planning assumptions to estimate its annual budget request. These assumptions are reflected in its Future Years Defense Program (FYDP), which reports projected spending for the current budget year and at least 4 succeeding years. Such overly optimistic assumptions limit the visibility of costs projected throughout the FYDP period and beyond. As a result, DOD has too many programs for the available dollars, which often leads to program instability, costly program stretch-outs, and program termination. For example, in January 2003, we reported that the estimated costs of developing eight major weapons systems had increased from about \$47 billion in fiscal year 1998 to about \$72 billion by fiscal year 2003. In addition, in September 2004 the Congressional Budget Office projected that if the costs of weapons programs and certain other activities continued to grow as they have historically rather than as DOD currently projects, executing today’s defense plans would require spending an average of \$498 billion a year through 2009. Without realistic projections, Congress and DOD will not have visibility over the full range of budget options available to achieve defense goals. ([GAO-03-98](#), Jan. 2003 and [GAO-04-514](#), May 7, 2004)
- DOD did not know the size of its security clearance backlog at the end of September 2003 and had not estimated this backlog since January 2000. Using September 2003 data, we estimated that DOD had a backlog of roughly 360,000 investigative and adjudicative cases, but the actual

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backlog size is uncertain. DOD's failure to eliminate and accurately assess the size of its backlog may have adverse affects. For example, delays in updating overdue clearances for personnel doing classified work may increase national security risks and slowness in issuing new clearances can increase the costs of doing classified government work. ([GAO-04-344](#), Feb. 9, 2004)

These examples clearly demonstrate not only the severity of DOD's current problems, but also the importance of reforming the department's business operations to more effectively support DOD's core mission, to improve the economy and efficiency of its operations, and to provide for transparency and accountability to Congress and American taxpayers.

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## Underlying Causes of Financial and Related Business Process Transformation Challenges

The underlying causes of DOD's financial management and related business process and system weaknesses are generally the same ones I have outlined in my prior testimonies before this Subcommittee over the last 3 years. Unfortunately, DOD has made little progress in addressing these fundamental issues and thus is at high risk that its current major reform initiatives will fail. For each of the problems I cited previously, we found that one or more of these long-standing causes were contributing factors. Over the years, the department has undertaken many well-intended initiatives to transform business operations departmentwide and improve the reliability of information for decision making and reporting. However, many of these efforts resulted in costly failures because the department did not fully address the following four underlying causes of transformation challenges.

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### Lack of Sustained Leadership and Management Accountability

DOD has not routinely assigned accountability for performance to specific organizations or individuals who have sufficient authority, resource control, and continuity in their position to accomplish desired goals. In addition, top management has not had a proactive, consistent, and continuing role in integrating daily operations with business transformation-related performance goals. It is imperative that major improvement initiatives have the direct, active support and involvement of the Secretary and Deputy Secretary of Defense to ensure that daily activities throughout the department remain focused on achieving shared, agencywide outcomes and success. However, sustaining top management continuity and commitment to performance goals, long-term planning, and follow-through that will necessarily span several years is particularly

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challenging for DOD. For example, in fiscal year 2004, DOD's Comptroller, Deputy Under Secretary of Defense for Management Reform, and Deputy Chief Financial Officer—to whom the Secretary delegated the leadership role for key transformation initiatives—all resigned from the department within a 5-month period. Moreover, the department's primary transformation program—BMMP—has had three different directors responsible for leading the program since Secretary Rumsfeld initiated it a little over 3 years ago. Given the importance of DOD's business transformation effort, it is imperative that it receives sustained, focused departmentwide leadership needed to improve the economy, efficiency, and effectiveness of DOD's business operations. As I will discuss in more detail later, we continue to advocate the establishment of a new executive position to provide strong and sustained leadership to the entire spectrum of DOD business transformation initiatives.

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## Cultural Resistance and Parochialism

The department has acknowledged that it confronts decades-old problems deeply grounded in the bureaucratic history and operating practices of a complex, multifaceted organization. Many of DOD's current operating practices and systems were developed piecemeal to accommodate different organizations, each with its own policies and procedures. As we have reported over the last 3 years,<sup>9</sup> DOD has continued to use a stovepiped approach to develop and fund its business system investments. The existing systems environment evolved over time as DOD components—each receives its own system funding and follows decentralized acquisition and investment practices—developed narrowly focused parochial solutions to their business problems. While the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005<sup>10</sup> more clearly defines the roles and responsibilities of business system investment approval authorities, control over the budgeting for and execution of funding for system investment activities remains at the component level. As I will discuss later, unless business systems modernization money is appropriated to those who are responsible and accountable for reform, DOD is at risk for continuing its current stovepiped approach to developing and funding system investments and failing to fundamentally improve its

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<sup>9</sup> [GAO-01-681T](#), [GAO-04-551T](#), [GAO-03-1018](#), and GAO, *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).

<sup>10</sup>Pub. L. No. 108-375, §332.

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business operations. DOD's ability to address its current "business-as-usual" approach to business system investments is further hampered by its lack of an effective methodology and process for obtaining a complete picture of its current business systems environment—a condition we first highlighted in 1997.<sup>11</sup> In September 2004, DOD reported that the department had identified over 4,000 business systems—up from the 1,731 the department reported in October 2002. Unfortunately, due to its lack of an effective methodology and process for identifying business systems, including a clear definition of what constitutes a business system, DOD continues to lack assurance that its systems inventory is reliable. This lack of visibility over business systems in use throughout the department hinders DOD's ability to identify and eliminate duplicate and nonintegrated systems and transition to an integrated systems environment.

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## Lack of Results-Oriented Goals and Performance Measures

At a programmatic level, the lack of clear, comprehensive, and integrated performance goals and measures has handicapped DOD's past reform efforts. As a result, DOD managers lacked straightforward roadmaps 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 had formulated departmentwide performance goals and measures and continues to refine and align them with the outcomes described in its strategic plan—the September 2001 Quadrennial Defense Review (QDR). The QDR outlined a new risk management framework consisting of four dimensions of risk—force management, operational, future challenges, and institutional—to use in considering trade-offs among defense objectives and resource constraints. According to DOD's Fiscal Year 2003 Annual Report to the President and the Congress, these risk areas are to form the basis for DOD's annual performance goals. They will be used to track performance results and will be linked to planning and resource decisions. As of October 2004, the department was still in the process of implementing this approach departmentwide. However, it remains unclear how DOD will use this approach to measure progress in achieving business reform.

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<sup>11</sup> GAO, *Financial Management: DOD Inventory of Financial Management Systems is Incomplete*, [GAO/AIMD-97-29](#) (Washington, D.C.: Jan. 31, 1997).

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As we reported in May 2004, DOD had yet to establish measurable, results-oriented goals for BMMP.<sup>12</sup> BMMP is the department's major business transformation initiative encompassing defense policies, processes, people, and systems that guide, perform, or support all aspects of business management, including development and implementation of the BEA. A key element of any major program is its ability to establish clearly defined goals and performance measures to monitor and report its progress to management. The lack of BMMP performance measures has made it difficult to evaluate and track specific program progress, outcomes, and results, such as explicitly defined performance measures to evaluate the architecture's quality, content, and utility of subsequent major updates. Given that DOD had reported total obligations for BMMP of over \$203 million since architecture development began 3 years ago, with little tangible improvements in DOD operations, this is a serious performance management weakness.

Further, DOD has not established measurable criteria that decision makers must consider for its revised weapons system acquisition policy, issued in May 2003.<sup>13</sup> The revisions make major improvements to DOD acquisition policy by adopting knowledge-based, evolutionary practices used by successful commercial companies. However, DOD has not provided the necessary controls to ensure such an approach is followed. For example, the policy does not establish measures to gauge design and manufacturing knowledge at critical junctures in the product development process, allowing significant unknowns to be judged as acceptable risks. Without controls in the form of measurable criteria that decision makers must consider, DOD runs the risk of making decisions based on overly optimistic assumptions.

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## Lack of Incentives for Change

The final underlying cause of the department's long-standing inability to carry out needed fundamental reform has been the lack of a clear linkage of institutional, unit, and individual results-oriented goals, performance measures, and reward mechanisms for making more than incremental changes to existing "business-as-usual" operations, systems, and organizational structures. Traditionally, DOD has focused on justifying its

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<sup>12</sup> [GAO-04-731R](#).

<sup>13</sup> GAO, *Defense Acquisitions: DOD's Revised Policy Emphasizes Best Practices, but More Controls Are Needed*, [GAO-04-53](#) (Washington, D.C.: Nov. 10, 2003).

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need for more funding 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 lack of incentives to change is evident in the business systems modernization area. We have identified numerous business system modernization efforts that were not economically justified on the basis of cost, benefits, and risk; took years longer than planned; and fell far short of delivering planned or needed capabilities. Despite this track record, DOD continues to invest billions in business systems while at the same time it lacks the effective management and oversight needed to achieve real results. Without appropriate incentives and accountability mechanisms, as well as more centralized control of systems modernization funding, DOD components will continue to develop duplicative and nonintegrated systems that are inconsistent with the Secretary's vision for reform. To effect real change, actions are needed to (1) develop a well-defined blueprint for change, such as an enterprise architecture, that provides a common framework of reference for making informed system investment decisions, (2) adopt an investment decision-making model that uses the architecture to break down parochialism and reward behaviors that meet DOD-wide goals, (3) establish incentives that motivate decision makers to initiate and implement efforts that are consistent with better architecture and program outcomes, including saying "no" or pulling the plug early on a system or program that is failing, (4) address human capital issues, such as the adequacy of staffing level, skills, and experience available to achieve the institutional, unit, and individual objectives and expectations, and (5) facilitate a congressional focus on results-oriented management, particularly with respect to resource allocation decisions.

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## Keys to Successful Reform and Current Status of Reform Efforts

The success of DOD's current broad-based business reform initiatives is threatened, as prior initiatives were, by DOD's continued failure to incorporate key elements that are critical to achieve successful reform. Any efforts at reform must include (1) a comprehensive, integrated business transformation plan, (2) personnel with the necessary skills, experience, responsibility, and authority to implement the plan, (3) effective processes and related tools, such as a BEA and business system investment decision making controls, and (4) results-oriented performance measures that link institutional, unit, and individual personnel goals, measures, and expectations. Today, I would like to discuss three of

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those broad-based initiatives. In addition, I will briefly highlight some of the several smaller, more narrowly focused initiatives DOD has started in recent years that, through incorporation of many of the key elements, have been successful in making tangible improvements in DOD operations. Furthermore, I would like to reiterate two suggestions for legislative consideration that I believe are essential in order for DOD to be successful in its overall business transformation effort.

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## Keys to Successful Reform

As I have previously testified,<sup>14</sup> and as illustrated by the success of the more narrowly defined DOD initiatives I will discuss later, there are several key elements that collectively would

- enable the department to effectively address the underlying causes of its inability to resolve its
- long-standing business management problems. These elements, which we believe are key to any
- successful approach to transforming the department's business operations, include
- addressing the department's financial management and related business operational challenges as part of a comprehensive, integrated, DOD-wide strategic plan for business reform;
- providing for sustained, committed, and focused leadership by top management, including but not limited to the Secretary of Defense;
- establishing resource control over business systems investments;
- establishing clear lines of responsibility, authority, and accountability;
- incorporating results-oriented performance measures that link key institutional, unit, and individual personnel transformation objectives and expectations, and monitoring progress;

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<sup>14</sup> [GAO-04-551T](#) and [GAO-02-497T](#).

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- addressing human capital issues, such as the adequacy of staff levels, skills, and experience available to achieve the institutional, unit, and individual personnel performance goals and expectations;
  - providing appropriate incentives or consequences for action or inaction;
  - establishing an enterprise architecture to guide and direct business systems modernization investments; and
  - ensuring effective oversight and monitoring.

These elements, which should not be viewed as independent actions but rather as a set of interrelated and interdependent actions, are reflected in the recommendations we have made to DOD over the last 3 years and are consistent with those actions discussed in the department's April 2001 financial management transformation report.<sup>15</sup> The degree to which DOD incorporates them into its current reform efforts—both long and short term—will be a deciding factor in whether these efforts are successful. Thus far, the department's progress in implementing our recommendations pertaining to its broad-based initiatives has been slow. Further, while the new legislation<sup>16</sup> on business systems oversight directs DOD to take action on some of these elements, we have not yet seen a comprehensive, cohesive, and integrated strategy that details how some of the ongoing efforts are being integrated. For example, we have not seen how the department plans to integrate its objective of obtaining an unqualified audit opinion in fiscal year 2007 with the BMMP.<sup>17</sup> It appears as if these two efforts are being conducted without the degree of coordination that would generally be expected between efforts that share similar objectives.

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## Human Capital Initiative

The first broad-based administrative initiative is effective implementation of the National Security Personnel System (NSPS). In November 2003, Congress authorized the Secretary of Defense to establish a new human

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<sup>15</sup> Department of Defense, *Transforming Department of Defense Financial Management: A Strategy for Change*, (Washington, D.C.: Apr. 13, 2001).

<sup>16</sup> Pub. L. No. 108-375, §332.

<sup>17</sup> GAO, *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).

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capital management system—NSPS—for its civilian employees, which is modern, flexible, and consistent with the merit principles outlined by the act.<sup>18</sup> This legislation requires DOD to develop a personnel system that is consistent with many of the practices that we have identified as elements of an effective human capital management system, including a modern and results-oriented performance management system. For several years, we have reported<sup>19</sup> that many of DOD’s business process and control weaknesses were attributable in part to human capital issues. For example, GAO audits of DOD’s Army Reserve and National Guard payroll and the centrally billed travel card programs<sup>20</sup> further highlight the adverse impact that outdated and inadequate human capital practices, such as insufficient staffing, training, and monitoring of performance, continue to have on DOD business operations. If properly developed and implemented, NSPS could result in significant improvements to DOD’s business operations.

I strongly support the need for modernizing federal human capital policies both within DOD and for the entire federal government. Since April 2003 I have testified on four different occasions, including before this Subcommittee, on NSPS and related DOD human capital issues.<sup>21</sup> In the near future, we will issue a summary of the forum GAO and the National Commission on the Public Service Implementation Initiative cohosted to advance the discussion of how human capital reform should proceed. Participants discussed whether there should be an overall governmentwide

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<sup>18</sup> National Defense Authorization Act for Fiscal Year 2004, Pub. L. No. 108-136, § 1101, 117 Stat. 1392, 1621 (Nov. 24, 2003) (amending subpart I of part III of title 5, United States Code).

<sup>19</sup> GAO, *Major Management Challenges and Program Risks: Department of Defense*, [GAO-01-244](#) (Washington, D.C.: Jan. 1, 2001).

<sup>20</sup> GAO, *Military Pay: Army Reserve Soldiers Mobilized to Active Duty Experienced Significant Pay Problems*, [GAO-04-911](#), (Washington, D.C.: Aug. 20, 2004), *Military Pay: Army National Guard Personnel Mobilized to Active Duty Experienced Significant Pay Problems*, [GAO-04-89](#), (Washington, D.C.: Nov. 13, 2003), and *DOD Travel Cards: Control Weaknesses Led to Millions in Fraud, Waste, and Improper Payments*, [GAO-04-825T](#), (Washington, D.C.: June 9, 2004).

<sup>21</sup> GAO, *Defense Transformation: Preliminary Observations on DOD’s Proposed Civilian Personnel Reforms*, [GAO-03-717T](#) (Washington, D.C.: April 29, 2003); *Defense Transformation: DOD’s Proposed Civilian Personnel System and Governmentwide Human Capital Reform*, [GAO-03-741T](#) (Washington, D.C.: May 1, 2003); *Human Capital: DOD’s Civilian Personnel Strategic Management and the Proposed National Security Personnel System*, [GAO-03-493T](#) (Washington, D.C.: May 12, 2003); *Building on DOD’s Reform Effort to Foster Governmentwide Improvements*, [GAO-03-851T](#) (Washington, D.C.: June 4, 2003).

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framework for human capital reform and, if yes, what such a framework should include. While the forum neither sought nor achieved consensus on all of the issues identified in the discussion, there was broad agreement that there should be a governmentwide framework to guide human capital reform built on a set of timeless beliefs and boundaries. Beliefs entail the fundamental principles that should govern all approaches to human capital reform and should not be altered or waived by agencies seeking human capital authorities. Boundaries include the criteria and processes that establish the checks and limitations when agencies seek and implement human capital authorities.

A modern, effective, credible, and integrated performance management system can help improve DOD's business operations. Specifically, such a performance management system aligns individual performance expectations with organizational goals and thus defines responsibility and assures accountability for achieving them.<sup>22</sup> In addition, a performance management system can help manage and direct a transformation process by linking performance expectations to an employee's role in the process. Individual performance and contributions are evaluated on competencies such as change management. Leaders, managers, and employees who demonstrate these competencies are rewarded for their success in contributing to the achievement of the transformation process.

There are significant opportunities to use the performance management system to explicitly link senior executive expectations for performance to results-oriented goals. There is a need to hold senior executives accountable for demonstrating competencies in leading and facilitating change and fostering collaboration both within and across organizational boundaries to achieve results. Setting and meeting expectations such as these will be critical to achieving needed transformation changes. Recently, Congress established a new performance-based pay system for members of the Senior Executive Service (SES) that is designed to provide a clear and direct link between SES performance and pay. An agency can raise the pay cap for its senior executives if the agency's performance management system makes meaningful distinctions based on relative

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<sup>22</sup> GAO, *Results-Oriented Cultures: Creating a Clear Linkage Between Individual Performance and Organizational Success*, GAO-03-488 (Washington, D.C.: Mar. 14, 2003).

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performance.<sup>23</sup> This visible step in linking pay to the achievement of measurable performance goals within a context of a credible human capital system that includes adequate safeguards is helpful in constructing a results-oriented culture.

In my March 2004 testimony on DOD's financial management and related business management transformation efforts,<sup>24</sup> I stated that as DOD develops regulations to implement its new human capital management system, the department needs to do the following:

- Ensure the active involvement of the Office of Personnel Management in the development process, given the significant implications that changes in DOD regulations may have on governmentwide human capital policies.<sup>25</sup> In this regard, the Office of Personnel Management has assigned a senior representative to support and advise DOD on the development of jointly prescribed NSPS regulations and the implementation of NSPS.
- Ensure the involvement of civilian employees and unions in the design and development of a new personnel system. The law calls for DOD to involve employees, especially in the design of its new performance management system. Involving employees in planning helps to develop agency goals and objectives that incorporate insights about operations from a front-line perspective. It can also serve to increase employees' understanding and acceptance of organizational goals and improve motivation and morale. In this regard, DOD has launched a new Web site to educate its employees about the new National Security Personnel System. In addition, DOD leadership has indicated that it has sought input from civilian employees through town hall meetings, focus groups, and discussions with union leaders.
- Use a phased approach to implement the system, recognizing that different parts of the organization will have different levels of readiness and different capabilities to implement new authorities. A phased

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<sup>23</sup> GAO, *Human Capital: Senior Executive Performance Management Can Be Significantly Strengthened to Achieve Results*, [GAO-04-614](#) (Washington, D.C.: May 26, 2004).

<sup>24</sup> [GAO-04-551T](#).

<sup>25</sup> [GAO-03-717T](#).

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approach allows for learning so that appropriate adjustments and midcourse corrections can be made before the regulations are fully implemented departmentwide. In this regard, DOD had initially indicated that it planned to implement its new human capital system for 300,000 civilian employees by October 1, 2004. DOD has since indicated that it has adjusted its timelines to reflect a more cautious, deliberative approach involving more stakeholders. DOD has now indicated that it plans to phase in its new human capital system beginning in July 2005.

We are currently evaluating DOD's NSPS design process and look forward to sharing our findings with Congress upon completion of our review.

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## Business Management Modernization Program

While BMMP<sup>26</sup> is vital to the department's efforts to transform its business operations, DOD has not effectively addressed many of the impediments to successful reform that I mentioned earlier, including (1) a lack of sustained, effective, and focused leadership, (2) a lack of results-oriented goals and performance measures, and (3) long-standing cultural resistance and parochialism. As a result, the program has yielded very little, if any, tangible improvements in DOD's business operations. We have made numerous recommendations to DOD that center on the need to incorporate the key elements to successful reform, which I discussed previously, into the program. In May 2004 we reported<sup>27</sup> that no significant changes had been made to the architecture since the initial version was released. Further, we reported that DOD had not yet adopted key architecture management best practices, such as assigning accountability and responsibility for directing, overseeing, and approving the architecture and explicitly defining performance metrics to evaluate the architecture's quality, content, and utility. For these and other reasons, DOD's verification and validation contractor concluded that this latest version of the architecture retained most of the critical problems of the initial version, such as how the

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<sup>26</sup> Originally named the Financial Management Modernization Program, BMMP was chartered in July 2001 to oversee the development of the financial management enterprise architecture. Such an architecture was required by 10 U.S.C. §185 (b) (4) and by section 1004 of the Bob Stump National Defense Authorization Act for Fiscal Year 2003. Pub. L. No. 107-314, §116, Stat 2458, 2629 (Dec. 2, 2002). The Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 now requires DOD (through the Defense Business Systems Management Committee) to develop a business enterprise architecture and a transition plan by September 2005, covering all defense business systems. *See* 10 U.S.C. § 2222 (c).

<sup>27</sup> [GAO-04-731R](#).

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architecture should be used by the military services and other DOD components in making acquisition and portfolio investment decisions. I will now expand on the problems facing BMMP.

The purpose of BMMP is to provide world-class mission support to the war fighter through transformation of DOD's business processes and systems. A key element of BMMP is the development and implementation of a well-defined BEA. Properly developed and implemented, a BEA can provide assurance that the department invests in integrated enterprisewide business solutions and, along with effective project management and resource controls, it can be instrumental in developing corporatwide solutions and moving resources away from nonintegrated business system development efforts. As we reported in July 2003,<sup>28</sup> DOD had developed an initial version of BEA and had expended tremendous effort and resources in doing so. However, we also reported that substantial work remains before the architecture would be sufficiently defined to have a tangible impact on improving DOD's overall business operations. In May 2004, we reported<sup>29</sup> that after about 3 years of effort and over \$203 million in reported obligations for BMMP operations, BEA's content and DOD's approach to investing billions of dollars annually in existing and new systems had not changed significantly. Under a provision in the recently enacted Ronald W. Reagan National Defense Authorization Act for fiscal year 2005,<sup>30</sup> 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 corporatwide solution and is consistent with the policies and procedures established by the Office of Management and Budget. Further, the act requires the development of a transition plan that includes not only an acquisition strategy for new systems, but also a listing of the termination dates of current legacy systems that will not be part of the corporatwide solution, as well as a listing of legacy systems that will be modified to become part of the corporatwide solution for addressing DOD's business management deficiencies. Transforming DOD's business operations and making them more efficient through the elimination of

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<sup>28</sup> GAO, *Business Systems Modernization: Summary of GAO's Assessment of the Department of Defense's Initial Business Enterprise Architecture*, [GAO-03-877R](#) (Washington, D.C.: July 7, 2003).

<sup>29</sup> [GAO-04-731R](#).

<sup>30</sup> *Codified at* 10 U.S.C. §2222 (c)-(e).

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nonintegrated and noncompliant legacy systems would free up resources that could be used to support the department's core mission, enhance readiness, and improve the quality of life for our troops and their families.

I cannot overemphasize the degree of difficulty DOD faces in developing and implementing a well-defined architecture to provide the foundation that will guide its overall business transformation. The department's business transformation depends on its ability to develop and implement business systems that provide corporate solutions. Successful implementation of corporate solutions through adherence to a well-defined enterprise architecture and effective project management and fund control would go a long way toward precluding the continued proliferation of duplicative, stovepiped systems and reduce spending on multiple systems that are supposed to perform the same function. Without these things, we have continued to see<sup>31</sup> that DOD is still developing systems that are not designed to solve corporatewide problems.

For example, the Defense Logistics Agency's (DLA) Business Systems Modernization (BSM) and the Army's Logistics Modernization Program (LMP), both of which were initiated prior to commencement of the BEA effort, were not directed towards a corporate solution to the department's long-standing weaknesses in inventory and logistics management, such as the lack of total asset visibility. Rather, both projects focused on their respective entity's inventory and logistics management operations. As a result, neither project will provide asset visibility beyond the stovepiped operation for which they were designed. For example, BSM is only designed to provide visibility over the items within the DLA environment—something DLA has stated already exists within its current system environment. As a result, DOD continues to lack the capability to identify the exact location of items, such as defective chemical and biological protective suits, that were distributed to end-users, such as the military services, or sold to the public. The department would have to resort to inefficient and ineffective data calls, as it has done in the past, to identify and withdraw defective items from use.<sup>32</sup>

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<sup>31</sup> [GAO-04-615](#).

<sup>32</sup> GAO, *Chemical and Biological Defense: Improved Risk Assessment and Inventory Management Are Needed*, [GAO-01-667](#) (Washington, D.C.: Sept. 28, 2001).

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Another major impediment to the successful transformation of DOD's business systems is funds control. DOD invests billions of dollars annually to operate, maintain, and modernize its business systems. For fiscal year 2004, the department requested approximately \$28 billion in IT funding to support a wide range of military operations as well as DOD business systems operations, of which DOD reported that approximately \$18.8 billion<sup>33</sup>—\$5.8 billion for business systems and \$13 billion for business systems infrastructure—relates to the operation, maintenance, and modernization of the department's reported thousands of business systems. The \$18.8 billion is spread across the military services and defense agencies, with each receiving and controlling its own funding for IT investments. Although the recently enacted Ronald W. Reagan National Defense Authorization Act for fiscal year 2005 more clearly defines the roles and responsibilities of business system investment approval authorities, control over the budgeting for and execution of funding for system investment activities remains at the component level. Under a provision in the act,<sup>34</sup> effective October 1, 2005, DOD must identify each defense system for which funding is proposed in its budget, including the identification of all funds, by appropriation, for current services (to operate and maintain the system) and modernization. Further, DOD may not obligate funds for a defense business system modernization that will have a total cost in excess of \$1 million unless specific conditions called for in the act are met.<sup>35</sup> The Defense Business Systems Management Committee, also required by the act to be established, must then approve the designated

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<sup>33</sup> The remaining \$9 billion is for national security systems. These systems are intelligence systems, cryptologic activities related to national security, military command and control systems, and equipment that is an integral part of a weapon or weapons system or is critical to the direct fulfillment of military or intelligence missions.

<sup>34</sup> *Codified at* 10 U.S.C. §2222 (a).

<sup>35</sup> A key condition identified in the act includes certification by designated approval authorities that the defense business system modernization is (1) in compliance with the enterprise architecture, (2) necessary to achieve critical national security capability or address a critical requirement in an area such as safety or security or (3) necessary to prevent a significant adverse effect on a project that is needed to achieve an essential capability, taking into consideration the alternative solutions for preventing such an adverse effect.

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approval authorities<sup>36</sup> certification before funds can be obligated. Further, obligation of funds for modernization programs without certification and approval by the Defense Business Systems Management Committee is deemed a violation of the Anti-Deficiency Act.<sup>37</sup> Although proper implementation of this legislation should strengthen oversight of DOD's systems modernization efforts, it is questionable whether DOD has developed or improved its processes and procedures to identify and control system investments occurring at the component level. Unless DOD establishes effective processes and controls to identify and control system investments occurring within DOD components and overcome parochial interests when corporatewide solutions are more appropriate, it will lack the ability to ensure compliance with the act.

We fully recognize that developing and implementing an enterprise architecture for an organization as large and complex as DOD is a formidable challenge. Nevertheless, a well-defined architecture is essential to enabling some of the elements for successful reform that I discussed earlier. Accordingly, we remain supportive of the need for BMMP, but are deeply concerned about the program's lack of meaningful progress and inability to address management challenges. Accordingly, we plan to continue working constructively with the department to strengthen the program and will report to this Subcommittee on DOD's progress and challenges in the spring of 2005.

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## Financial Improvement Initiative

While DOD's former Comptroller started the financial improvement initiative with the goal of obtaining an unqualified audit opinion for fiscal year 2007 on its departmentwide financial statements, we found that the initiative was simply a goal that lacked a clearly defined, well-documented, and realistic plan to make the stated goal a reality.

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<sup>36</sup> Approval authorities, including the Under Secretary of Defense for Acquisition, Technology, and Logistics; the Under Secretary of Defense (Comptroller); the Assistant Secretary of Defense for Networks and Information Integration and the Chief Information Officer of the Department of Defense, and the Deputy Secretary of Defense or Under Secretary of Defense, as designated by the Secretary of Defense, are responsible for the review, approval, and oversight of business systems and must establish investment review processes for systems under their cognizance.

<sup>37</sup> 31 U.S.C. §1341(a)(1)(A); *see* 10 U.S.C § 2222(b).

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In September 2004 we reported<sup>38</sup> that DOD's financial improvement initiative lacked several of the key elements critical to success, including (1) a comprehensive, integrated plan, (2) results-oriented goals and performance measures, and (3) effective oversight and monitoring. Specifically, we found that DOD had not established a framework to integrate the improvement efforts planned by DOD components with broad-based DOD initiatives such as human capital and BMMP. Rather, DOD intended to rely upon the collective efforts of DOD components, as shown in their discrete plans, to address its financial management deficiencies while at the same time continuing its broad-based initiatives. However, the component plans we reviewed did not consistently identify whether a proposed corrective action included a manual work-around or business system enhancement or replacement. Further, the component plans lacked sufficient information regarding human capital needs, such as the staffing level and skills required to implement and sustain the plans. In addition, as we have previously reported,<sup>39</sup> the department currently lacks a mechanism to effectively identify, monitor, and oversee business system investments, including enhancements, occurring within the department. Because of this lack of visibility over how DOD components plan to advance their financial management functionality, the DOD Comptroller and BMMP may not have sufficient information to assess the feasibility of a work-around or to review and approve all modifications to existing legacy business systems to ensure that they (1) are sound investments, (2) optimize mission performance and accountability, and (3) are consistent with applicable requirements and key architectural elements in DOD's business enterprise architecture.

In addition, our review of key individual component plans revealed that the plans varied in levels of detail, completeness, and scope, such that it will be difficult for DOD Comptroller staff to use the departmental database of component plans it was developing to oversee and monitor component efforts. We found that the component plans did not consistently identify how staff (human capital), processes, or business systems would be changed to implement corrective actions. Such changes are key elements in assessing the adequacy of a component's plan and in monitoring progress and sustainability.

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<sup>38</sup> [GAO-04-910R](#).

<sup>39</sup> [GAO-04-615](#).

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Further, DOD lacked effective oversight and accountability mechanisms to ensure that the plans are implemented and corrective actions are sustainable. The database the department is currently using was not integrated electronically with subordinate component plans and the milestone dates identified in the component plans were generally based on assertion dates prescribed by the DOD Comptroller and not on actual estimates of effort required. Furthermore, task dependencies were not clearly identified, including critical corrective tasks that would need to be completed in order for the fiscal year 2007 audit opinion to be achieved.

On the positive side, DOD had developed business rules,<sup>40</sup> which if implemented as planned, should clearly establish a process for ensuring that corrective actions, as described in the component plans, are implemented and validated in order to minimize the department's risk of unsupported claims by DOD components that reported financial information is auditable. Further, the business rules clearly recognize that management, not the auditor, is responsible for documenting business processes, systems, and internal control for collecting and maintaining transaction data. In addition, DOD's involvement of its components in developing and implementing solutions to long-standing deficiencies in their business operations under this initiative is a critical and positive step toward obtaining the commitment and buy-in that has not been readily apparent in BMMP. Further, the recently enacted Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005<sup>41</sup> has placed a limitation on continued preparation or implementation of DOD's financial improvement initiative pending a report to congressional defense committees containing the following: (1) a determination that BEA and the transition plan have been developed, as required by section 332 of the act, (2) an explanation of the manner in which fiscal year 2005 operation and maintenance funds will be used by DOD components to prepare or implement the midrange financial improvement plan, and (3) an estimate of future year costs for each DOD component to implement the plan. DOD Comptroller staff acknowledged that their goal was ambitious, but believed that they were in the process of laying a framework, which they believe would address our issues, to facilitate movement towards sustainable

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<sup>40</sup> Business rules are statements of fact, policy, law, regulation, or a combination of these that drive business activities.

<sup>41</sup> Pub. L. No. 108-375, §352.

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financial management improvements and eventually obtain an unqualified audit opinion.

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## Interim Initiatives

In contrast to its broad-based initiatives, DOD has incorporated many of the key elements for successful reform in its interim initiatives. As the following examples demonstrate, leadership, real incentives, accountability, and oversight and monitoring were clearly key elements in DOD's efforts to improve its operations. For example, the former DOD Comptroller developed a Financial Management Balanced Scorecard that is intended to align the financial community's strategy, goals, objectives, and related performance measures with the departmentwide risk management framework established as part of DOD's Quadrennial Defense Review, and with the President's Management Agenda. To effectively implement the balanced scorecard, the DOD Comptroller has cascaded the performance measures down to the military services and defense agency financial communities, along with certain specific reporting requirements. At the departmentwide level, certain financial metrics are selected, consolidated, and reported to the top levels of DOD management for evaluation and comparison. These "dashboard" metrics are intended to provide key decision makers, including Congress, with critical performance information at a glance, in a consistent and easily understandable format.

DFAS has been reporting the metrics cited below for several years, which under the leadership of DFAS's Director and DOD's Comptroller, have reported improvements including the following.

- From April 2001 to September 2004, DOD reduced its commercial pay backlogs (payment delinquencies) by 72 percent.
- From March 2001 to September 2004, DOD reduced its payment recording errors by 77 percent.
- From September 2001 to September 2004, DOD reduced its delinquency rate for individually billed travel cards from 9.4 percent to 4.3 percent.

Using DFAS's metrics, management can quickly see when and where problems are arising and can focus additional attention on those areas. While these metrics show significant improvements from 2001 to today, our

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report last year on DOD's metrics program<sup>42</sup> included a caution that, without modern integrated systems and the streamlined processes they engender, reported progress may not be sustainable if workload is increased.

DOD and the military services have also acted to improve their oversight and monitoring of the department's purchase card program and have taken actions, that when fully implemented, should effectively address all of our 109 recommendations. For example, they issued policy guidance on monitoring charge card activity and disciplinary actions that will be taken against civilian or military employees who engage in improper, fraudulent, abusive, or negligent use of a government charge card. In addition, they substantially reduced the number of purchase cards issued. According to the General Services Administration records, DOD had reduced the total number of purchase cards from about 239,000 in March 2001 to about 131,875 in June 2004. These reductions have the potential to significantly improve the management of this program.

Further, the DOD IG and the Navy have prototyped and are now expanding a data-mining capability to screen for and identify high-risk transactions (such as potentially fraudulent, improper, and abusive use of purchase cards) for subsequent investigation. On April 28, 2004, the DOD IG testified<sup>43</sup> on ways the department could save money through the prudent use of government purchase cards. The testimony highlighted improvements made in the management of the department's purchase card program and areas for which additional improvements are needed. Specifically, the testimony identified actions the DOD IG had taken to partner with the DOD purchase card program management offices so that DOD could more proactively identify and prevent potential fraud, waste, and mismanagement. However, more still needs to be done because the testimony also discussed more than \$12 million in fraudulent, wasteful, or abusive purchases identified by the DOD IG.

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<sup>42</sup> GAO, *Financial Management: DOD's Metrics Program Provides Focus for Improving Performance*, [GAO-03-457](#), (Washington, D.C.: Mar. 28, 2003).

<sup>43</sup> Department of Defense, Office of the Inspector General, *Statement of David K. Steensma, Assistant Inspector General, Contract Management, COL William J. Kelley, Program Director, Data Mining Division, Office of the Inspector General of the Department of Defense to the Senate Committee Governmental Affairs on How to Save the Taxpayers Money Through Prudent Use of the Purchase Card*, D-2004-076-T (Arlington, VA: Apr. 28, 2004).

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In addition to the oversight and monitoring performed by DOD over these business areas, we believe that consistent congressional oversight played a major role in bringing about these improvements in DOD's purchase and travel card programs. From 2001 through 2004, 10 separate congressional hearings were held on DOD's purchase and travel card programs. Numerous legislative initiatives aimed at improving DOD's management and oversight of these programs also had a positive impact. Most recently, the fiscal year 2005 Defense Appropriations Act<sup>44</sup> reduced DOD's appropriation by \$100 million to "limit excessive growth" in DOD's travel expenses.

Another important initiative under way at the department pertains to the quarterly financial statement review sessions held by the DOD Comptroller, which have led to the discovery and correction of numerous recording and reporting errors. Under the leadership of DOD's former Comptroller, and continuing under its new leadership, DOD is working to instill discipline into its financial reporting processes to improve the reliability of the department's financial data. Specifically, the DOD Comptroller requires DOD's major components to prepare quarterly financial statements along with extensive footnotes that explain any improper balances or significant variances from previous year quarterly statements. All of the statements and footnotes are analyzed by Comptroller office staff and reviewed by the Comptroller. In addition, the midyear and end-of-year financial statements must be briefed to the DOD Comptroller by the military service Assistant Secretary for Financial Management or the head of the defense agency. Under DOD's former Comptroller, GAO and the DOD IG were invited to observe several of these briefings and noted that the practice of preparing and explaining interim financial statements has improved the reliability of reported information through more timely discovery and correction of numerous recording and reporting errors. Although these meetings are continuing under the current Comptroller, GAO and the DOD IG have not been invited to attend.

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## Suggestions for Legislative Consideration

I would like to reiterate two suggestions for legislative consideration that I discussed in my testimony last March, which I believe could further improve the likelihood of successful business transformation at DOD. Most of the key elements necessary for successful transformation could be

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<sup>44</sup> Department of Defense Appropriations Act, 2005, Pub. L. No. 108-287, §8141, 118, Stat. 951, 1003 (Aug. 5, 2004).

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achieved under the current legislative framework; however, addressing sustained and focused leadership for DOD business transformation and funding control will require additional legislation. These suggestions include the creation of a chief management official and the appropriation of business system investment funding to the approval authorities responsible and accountable for business system investments under provisions enacted by the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005.<sup>45</sup>

## Chief Operating Officer/Chief Management Official

While the Secretary and other key DOD leaders have demonstrated their commitment to the current business transformation efforts, in our view, the complexity and long-term nature of these efforts requires the development of an executive position capable of providing strong and sustained executive leadership—over a number of years and various administrations. The day-to-day demands placed on the Secretary, the Deputy Secretary, and others make it difficult for these leaders to maintain the oversight, focus, and momentum needed to resolve the weaknesses in DOD’s overall business operations. This is particularly evident given the demands that the Iraq and Afghanistan postwar reconstruction activities and the continuing war on terrorism have placed on current leaders. Likewise, the breadth and complexity of the problems 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.

While sound strategic planning is the foundation upon which to build, sustained and focused leadership is needed for reform to succeed. One way to ensure sustained leadership over DOD’s business transformation efforts would be to create a full-time executive-level II position for a chief operating officer or chief management official (COO/CMO), who would serve as the Principal Under Secretary of Defense for Management.<sup>46</sup> This position would elevate, integrate, and institutionalize the attention

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<sup>45</sup> Pub. L. No. 108-375, §332.

<sup>46</sup>On September 9, 2002, GAO convened a roundtable of government leaders and management experts to discuss the chief operating officer concept. For more information see GAO, *Highlights of a GAO Roundtable: The Chief Operating Officer Concept: A Potential Strategy to Address Federal Governance Challenges*, [GAO-03-192SP](#) (Washington, D.C.: Oct. 4, 2002) and *The Chief Operating Officer Concept and its Potential Use as a Strategy to Improve Management at the Department of Homeland Security*, [GAO-04-876R](#) (Washington, D.C.: June 28, 2004).

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essential for addressing key stewardship responsibilities, such as strategic planning, human capital management, performance and financial management, acquisition and contract management, and business systems modernization, while facilitating the overall business transformation operations within DOD.

The COO/CMO concept is consistent with the commonly agreed-upon governance principle that there needs to be a single point within agencies with the perspective and responsibility—as well as authority—to ensure the successful implementation of functional management and transformation efforts. Governments around the world, such as the United Kingdom and Ireland, have established term appointed positions, similar to the COO/CMO concept we propose, that are responsible for advancing and continuously improving agency operations.

The DOD COO/CMO position could be filled by an individual, appointed by the President and confirmed by the Senate, for a set term of 7 years with the potential for reappointment. Articulating the roles and responsibilities of the position in statute helps to create unambiguous expectations and underscores Congress' desire to follow a professional, nonpartisan approach to the position. In that regard, such an individual 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 the department and serve as an integrator for the needed business transformation efforts. In addition, this individual 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 towards achieving agreed-upon goals would be a basis for determining the level of compensation earned, including any related bonus. In addition, this individual's achievements and compensation would be reported to Congress each year.

## Funding Control over System Investments

DOD's current 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 intended to improve the management oversight and control of its business systems modernization investments. However, as previously mentioned, progress in achieving this

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control has been slow. Recent legislation,<sup>47</sup> consistent with the suggestion I made in my prior testimony, established specific management oversight and accountability with the “owners” of the various functional areas or domains. The 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 domains 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.

The legislation also requires that the responsible approval authorities establish a hierarchy of investment review boards 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 BEA.

Although the new legislation clearly assigns responsibility and accountability for system modernization to designated approval authorities, control over system investment funding 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 funds for DOD business systems be appropriated to those responsible and accountable for business system improvements. However, implementation may require review of the various statutory authorities for the military services and other DOD components. Control over the funds would improve the capacity of DOD’s designated approval authorities to fulfill their responsibilities and 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 system modernization efforts with the chief management official who

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<sup>47</sup> Pub. L. No. 108-375, §332.

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would chair the Defense Business Systems Management Committee. Cognizant business area approval authorities would also be required to report to Congress through the chief management official and the Secretary of Defense on applicable business systems that are not compliant with review requirements and to include a summary justification for noncompliance.

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## Conclusion

The United States is facing large and growing long-term fiscal pressures created by the impending retirement of the baby boom generation, rising health care costs, increased homeland security and defense commitments, and a reduction in federal revenues. These pressures not only sharpen the need to look at competing claims on existing federal budgetary resources and emerging new priorities, they underscore the need for transparent and reliable information upon which to base decisions at all levels within the federal government. This includes timely, useful, and reliable financial and management information that demonstrates what results are being achieved and what risks are being incurred by various government programs, functions, and activities. As I have discussed, DOD lacks the efficient and effective financial management and related business operations, including processes and systems, to support the war fighter, DOD management, and Congress. With a large and growing fiscal imbalance facing our nation, achieving tens of billions of dollars of annual savings through successful DOD transformation is increasingly important. DOD's senior leaders have demonstrated a commitment to transforming the department and improving its business operations. Recent legislation pertaining to defense business systems, enterprise architecture, accountability, and modernization, if properly implemented, should improve oversight and control over DOD's significant system investment activities. However, DOD's transformation efforts and legislation to date have not adequately addressed key underlying causes of past reform failures. Successful transformation will require an effective transformation plan; adequate human capital; effective processes and transformation tools, such as a BEA; and results-oriented performance measures that link institutional, unit, and individual personnel goals and expectations. Reforming DOD's business operations is a monumental challenge and many well-intentioned efforts have failed over the last several decades. Lessons learned from these previous reform attempts include the need for sustained and focused leadership at the highest level, with appropriate authority over all of DOD's business operations, as well as centralized control of all business transformation-related funding with the designated approval authorities assigned responsibility for transformation activities within their

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specific business process areas. This leadership could be provided through the establishment of a Chief Operating Officer/Chief Management Official. Absent this leadership, authority, and control of funding, the current transformation efforts are likely to fail.

I commend the Subcommittee for holding this hearing and I encourage you to use this vehicle, on an annual basis, as a catalyst for long overdue business transformation at DOD.

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Mr. Chairman, this concludes my statement. I would be pleased to answer any questions you or other members of the Subcommittee may have at this time.

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## Contacts and Acknowledgments

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