



DOD BUSINESS TRANSFORMATION

Sustained Leadership Needed to Address Long-standing Financial and Business Management Problems

Highlights of [GAO-05-723T](#), testimony before the Subcommittee on Government Management, Finance, and Accountability, Committee on Government Reform, House of Representatives

Why GAO Did This Study

In July 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. The report released today highlights that DOD still does not have management controls to ensure that its business systems investments are directed towards integrated corporate system solutions. 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 accountability across all major business areas. Over the years, DOD leaders attempted 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 information on the (1) pervasive long-standing financial and business management weaknesses that affect DOD's efficiency, (2) cost of and control over the department's business systems investments, and (3) legislative actions needed to enhance the success of DOD's business transformation efforts.

www.gao.gov/cgi-bin/getrpt?GAO-05-723T.

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.

What GAO Found

Overhauling the financial management and business operations of one of the largest and most complex organizations in the world represents a daunting challenge. Eight DOD program areas, representing key business functions, are on GAO's high-risk list, and the department shares responsibility for six other governmentwide high-risk areas, meaning that DOD is fully or partially responsible for 14 of the 25 high-risk areas in the federal government. DOD's substantial financial and business management weaknesses adversely affect not only its ability to produce auditable financial information, but also to provide accurate, complete, and timely information for management and Congress to use in making informed decisions. Further, the lack of adequate accountability across all of DOD's major business areas results in billions of dollars in annual wasted resources in a time of increasing fiscal constraint and has a negative impact on mission performance.

Impact of Weaknesses in Human Capital Management, Internal Control, and Systems

Business	
Business area affected	Problem identified
Military pay	Injured and ill reserve component soldiers—who are entitled to extend their active duty service to receive medical treatment—have been inappropriately removed from active duty status causing significant gaps in their pay and medical benefits. The current stovepiped, nonintegrated personnel and pay systems are labor intensive and require extensive error-prone manual entry and reentry of data.
Logistics	DOD does not have the ability to provide timely, complete, or accurate information on the location, movement, status, or identity of its supplies, even though total asset visibility has been a departmentwide goal for over 30 years.
Systems	DOD lacks the management structure to effectively control billions of dollars being spent each year to operate, maintain, and modernize its reported 4,150 duplicative, nonintegrated business systems.

Source: GAO.

The department has recently taken several steps to address provisions of the fiscal year 2005 defense authorization act which are aimed at improving DOD's business systems management practices. For example, DOD has established the Defense Business Systems Management Committee to oversee its business systems modernization efforts. However, DOD's overall transformation efforts have not adequately addressed the key causes of past reform failures. Lessons learned from these previous reform attempts include the need for sustained leadership at the highest level and a strategic and integrated plan. The seriousness of DOD's weaknesses underscores the importance of no longer condoning the "status quo."

To improve the likelihood that DOD's transformation efforts will succeed, GAO proposes that business systems funding be appropriated to the approval authorities responsible for business systems investments. Additionally, GAO suggests that a senior management position be established to provide sustained leadership for DOD's overall business transformation. Absent this unified responsibility, authority, accountability, and control of funding, DOD's transformation efforts are likely to fail.